

Towards Financial Inclusion

The expansion of credit union financial services for low-income households in Northern Ireland



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This report was written by Paul A. Jones PhD of the Research Unit for Financial Inclusion (RUFi) at Liverpool John Moores University. RUFi undertakes independent research into issues central to the development of credit unions, cooperatives and social enterprise, and to the future of low and moderate-income consumer finance.

This research has been commissioned by Housing Rights Service. Housing Rights Service is the leading provider of specialist independent housing advice, training and information in Northern Ireland. The organisation works to achieve positive change by protecting and promoting the rights of people who are in housing need in Northern Ireland.

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Foreword

Debt, arrears and home repossession, are serious problems in Northern Ireland. In the last 5 years Housing Rights Service has witnessed a huge increase in demand for housing debt advice. People who have fallen behind with their mortgage or rent payments may come from different socio-economic backgrounds, but often experience similar difficulties trying to access credit at a reasonable rate of interest. Social rented sector tenants face particular challenges. As a higher proportion of social housing tenants have low incomes, they are less likely to have money set aside for emergencies, for example, to replace essential household items or to cope with an income shock. For these families affordable credit is a matter of necessity, not luxury. But the problem is a double one. Not only are low income households more likely to need credit for necessities, they are less likely to be able to obtain credit from mainstream financial providers. With fewer available options, more people are resorting to higher interest products from alternative credit lenders such as doorstep lenders, pay day loans and loan sharks.

Through our debt advice work, Housing Rights Service has become increasingly aware of the large extent of high-cost lending in Northern Ireland and of the disproportionate effects this can have on the financial stability households. Repeated use of these forms of credit can lead to vicious cycles of over-indebtedness. This can result in clients failing to repay priority debts of rent, mortgage and rates leaving many vulnerable to homelessness. This situation simply cannot be allowed to continue.

When considering the alternatives, we have looked towards the not for profit financial sector. Northern Ireland is very fortunate to have a strong, well established credit union movement committed to supporting local communities. Housing Rights Service believes there is scope for credit unions, working alongside other stakeholders, to play an enhanced role in serving low-income and financially excluded groups within these communities.

We hope this research will help to inform debate around promoting affordable credit options and to show how, by working together, Government and stakeholders can begin to tackle over-reliance on high cost credit and to support the financial stability of low-income households in Northern Ireland.



Janet Hunter

Director, Housing Rights Service

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This research study into credit union financial services for people on low-income in Northern Ireland was commissioned by the Housing Rights Service and supported by the Consumer Council for Northern Ireland and the Oak Foundation. It was undertaken by the Research Unit for Financial Inclusion (RUF) at Liverpool John Moores University and took place over a six month period to September 2012.

The author would like to thank Nicola McCrudden, Policy and Communications Manager at the Housing Rights Service, who originated this study, and Ruth Barry, Financial Inclusion Officer at the Housing Rights Service, who worked part-time on the project. Ruth collected data, undertook interviews, led focus groups, and organised seminars and consultation meetings. Without Ruth's committed support, this study would not have been possible.

The author would particularly like to thank the members of the research consultation group who offered constant support and guidance to the study. It was through this group that the active participation of the credit union sector was assured.

The research group members were:
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Maire Kerr, Northern Ireland Federation of Housing Associations

Yvonne Kealey, Northern Ireland Housing Executive

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Importantly, the author would like to thank all the credit union directors, staff members, volunteers, housing tenants and support workers who took part in the research interviews, focus groups and seminars. The reflections, ideas and strategic thoughts about the development of credit union financial services within low-income communities, as detailed in this report, owe everything to their willing participation in the study. Research interview and seminar participants can be found in Appendix I of the report.

The author would also like to thank Brian Holmes, Supporting Communities Ni Director for his help in facilitating the focus groups, and Tommy Carlin, then tenant involvement worker at Apex Housing Association who helped facilitate the focus group in Maghera.

This research report was written by Paul A. Jones, with the active engagement, involvement and support of Ruth Barry.

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 any participating credit union or agency or of the Housing Rights Service, the Consumer Council of Northern Ireland or of the Oak Foundation

Executive Summary

This research study explores how credit unions serve low-income communities in Northern Ireland (NI). It analyses the potential for product and service development in response to the needs of people who are marginalised from mainstream financial services.

The study was commissioned out of a concern for the detriment to the financial stability of low-income households caused by increasing levels of high-cost, sub-prime lending. It was conducted by Liverpool John Moores University and actively engaged 43 of the 176 NI credit unions in research discussions and via an online survey. It had the support of both the Irish League and the Ulster Federation of Credit Unions.

A commitment to low-income communities

The study highlighted the strong commitment of NI credit unions to local communities. The emphasis on serving the entire community has resulted in an inclusive approach to product and service delivery. However, a lack of market analysis and segmentation can result in little marketing activity directed specifically at low-income or financially excluded groups.

Nonetheless, most NI credit unions are embedded within low-income communities and have experience in providing financial services to people excluded from mainstream providers. Over 50 per cent of credit union survey respondents regarded high-cost, sub-prime credit providers as their main competitors. 13 per cent said these were illegal lenders/loan sharks.

Those served and unserved by credit unions

Credit unions serve around 34 per cent of the NI population in comparison to just 2 per cent

of the population in Britain. However, despite the wide reach of credit unions into local communities, the study found evidence to suggest that certain sections of NI society are not being reached by credit unions. For example, only 4 per cent of Housing Executive tenants are credit union members.

The demands of the low-income consumers

The study explored the financial needs of low-income consumers with tenants and residents on various social housing estates. Participants stressed the importance of having access to savings schemes and to affordable credit. Around 50 per cent of participants said they would like credit unions offer current accounts, for the receipt of wages and benefits, as well as bill payment and budgeting accounts to assist with money management.

Many participants stressed the importance standardising product and service delivery across all NI credit unions. Concerns were expressed that there was too wide a diversity between credit unions in respect of the services offered to members.

Credit unions were regarded by participants as community-based institutions that were approachable, friendly and designed for ordinary working people. However, they also identified a number of barriers that prevented some people on low-incomes accessing their services. These included practical issues such as having to be nominated for membership and having to save before borrowing.

Credit union services for people on low-incomes

70 per cent of credit union respondents said that the financial needs and wants of low income households were different to those on

moderate incomes or in less pressured financial circumstances.

All credit union interviewees regarded the promotion of saving as central to assisting low-income members achieve financial stability. They reported that people on low-incomes do save in credit unions, even though this may be a struggle. They also regarded the offer of low-value loans at 12.68 per cent APR as positive action in reaching out to these households.

Expanding the product and service offer

Over 50 per cent of respondents were keen to develop new products and services to assist low-income households. These included: money and debt advice; benefit direct accounts; budgeting and bill payment accounts; a current account with debit/ATM card; bulk buying schemes for home heating oil, loans not linked to savings balances and home contents insurance. They also strongly identified the development of electronic payment channels as central to their future development in the low-income market.

Credit unions felt that they were well placed to expand financial capability initiatives. Many stressed the importance of their work in schools.

Reaching the hard-to-reach

If credit unions are to reach out to financially excluded groups, a new strategic approach may be required. 68 per cent of survey respondents identified the importance of working through partner agencies in order to achieve this effectively.

However, apart from schools, there was little evidence of credit unions working strategically through other organisations to reach financially marginalised groups. 45 per cent of survey respondents mentioned the Housing

Executive and housing associations as potential partner agencies.

Limitations and constraints

Credit union participants were aware of the challenges of expanding services within a more deeply financially excluded and vulnerable market. The challenges identified were: legislative constraints; financial, operational and reputational risk; operational capacity; financial costs; and the lack of external financial support.

Conclusion

With their strong base in the community and their commitment to social justice, NI credit unions are in a strong position to further expand their product and service range to low-income and financially excluded communities. The study concludes, however, that credit unions need to think of this market within a strategic business perspective, rather than an element of a social mission that remains a continual cost to the credit union. Expansion in the low-income market merits a reconsideration of pricing for risk and cost.

The report concludes that credit unions have the potential to be a major strategic partner with the NI Executive and other stakeholders in the expansion of provision of financial services for low-income and financially excluded households. It offers 11 practical recommendations for credit unions and the NI Assembly aimed at supporting this expansion.

1. Introduction

In March 2011, the Housing Rights Service (HRS) organised a conference in Belfast on the theme ‘Why Affordable Credit Matters’. This formed part of HRS’s three year Preventing Possession Initiative (PPI) which, from 2009, had been exploring ways of tackling the growing issue of homelessness as a consequence of household over-indebtedness in Northern Ireland. The conference focused on the ways in which over-indebtedness arises, and in particular on the impact of high-cost sub-prime credit on household budgets.

Prior to PPI, but certainly through the development of the initiative, HRS had been become increasingly aware of the large extent of high-cost, sub-prime lending in Northern Ireland and of the disproportionate effects that recourse to such lending can have on the financial stability of low-income households. Repeated use of sub-prime credit can lead to vicious cycles of over-indebtedness in which borrowers then fail, because its high cost and unfavourable conditions, to meet the priority debts of rent, mortgage and rates.

People become trapped in cycles of over-indebtedness to high-cost credit providers for a range of reasons, many of which relate to an individual’s personal or family circumstances and background. Research (Jones 2001) has shown that people use high-cost credit because it is accessible, convenient and easy to understand, and importantly because it is available when other sources of more affordable credit are less easily accessible. When needs must, people borrow from whichever provider will grant them a loan, irrespective often of the costs involved. Excluded from other credit options, people often retain a strong attachment to high-cost providers and are reluctant to lose their services. It is a situation that is open to

manipulation and to the excessive imposition of loan interest and other charges.

In exploring the more affordable credit options open to people on low incomes, the HRS conference focused on the role of credit unions in Northern Irish society. Credit unions are not-for-profit, financial co-operatives that are owned and controlled by their members through the governance of a volunteer board of directors. First established in Northern Ireland in the 1960s, at the start of this research study there were 176 credit unions¹ serving members in cities, towns and villages throughout Northern Ireland. They ranged in size and capacity from professionally managed organisations with tens of thousands of members and millions of pounds of assets to those that served just a few hundred members, with assets counted in thousands rather than millions and which depended entirely on volunteer labour.

However, all credit unions irrespective of their size or capacity share a common commitment to serve their members with affordable financial services, including the provision of credit, appropriate to their needs. Unlike in GB where most of the credit unions that serve local communities were first established primarily for people on low incomes (Jones 1999), credit unions in Northern Ireland have from the outset served a more economically diverse membership (McKillop et al. 2006).

¹ Of the 176 credit unions, 103 were members of the Irish League of Credit Unions, 51 were members of the Ulster Federation of Credit Unions, 10 were members of the Tyrone Federation of Credit Unions, seven were members of UK Credit Unions Ltd and an additional five operated independently. This research endeavoured to engage with credit unions irrespective of trade association affiliation.

In July 2012 the number of credit unions reduced to 174 following two transfer of engagements

Nevertheless, because of the nature of the communities in which they are often based and/or their co-operative social responsibility, most credit unions serve many people on low incomes and/or who face exclusion from mainstream financial services and offer them a real alternative to the high-cost credit providers.

Subsequent to the Belfast conference and to the interest it generated in the Northern Irish credit union sector, HRS decided to sponsor this research study into the way in which credit unions currently serve low-income households in Northern Ireland, and into their potential to expand their outreach within the low-income market in the future.

It was recognised by HRS that credit unions cannot be seen as the sole solution to financial inclusion or poverty. Yet it was also recognised that as socially-driven organisations, Northern Ireland credit unions have a significant role to play in serving low income members and communities.

This research study, therefore, aimed to explore, with a range of participating credit unions, the extent of credit union involvement in low income communities. It also considered the potential for the further expansion of credit union products and services in order to respond directly to the needs of people on low-incomes and/or who are marginalised from mainstream financial services.

The importance of the study was seen as relating to

- the incidence of large number of people in low-income households in Northern Ireland who are still not reached by credit union services
- the continued financial exclusion of many vulnerable and hard-to-reach groups in Northern Ireland

- the increasing need of people on low and moderate incomes to access affordable and ethical financial services, given the impact of the current economic situation
- the possible and probable impact of welfare law reform in Northern Ireland, consequent to social legislative changes happening in GB.
- the needs of social housing providers and private landlords to support their tenants to achieve financial stability through accessing affordable financial services
- the possible opportunities for credit union expansion and product development arising from longer-term changes to credit union legislation if and when this is increasingly harmonised with current GB legislation.

2. Research aims and methods

The research was designed as a participative and action-oriented study and depended from the outset on the active engagement of credit unions in Northern Ireland and also of the trade associations to which they belong. The two major trade associations, the Ulster Federation of Credit Unions and the Irish League of Credit Unions, operating in Northern Ireland both committed to the study and took an active role in its development.

Research aim and questions

The study set out to explore a set of questions that arose from reflection on the primary research aim of investigating how credit unions currently serve low-income households in Northern Ireland and their appetite and potential for future expansion in the low-income market.

The research questions were:

- the extent and depth of credit union penetration of the low-income market in Northern Ireland
- the demand for credit union services among low-income and financially excluded households in Northern Ireland
- the current product and service offer of credit unions within the low-income market
- the impact of credit union and partner initiatives in the provision of affordable credit in Northern Ireland
- the potential for the greater development of credit union products and services designed for low-income and financially excluded households

- the potential for the greater development of credit union products and measures designed specifically to combat fuel poverty in low-income communities
- the barriers to credit union membership faced by low-income and financially excluded families and individuals
- the barriers faced by credit unions in reaching out further into the low-income market
- the potential and capacity for greater partnership working with credit unions among social housing providers, money advice agencies and agencies and organisations engaged in low-income communities
- the contribution credit unions make, and can make, to the development of the financial capability of people on low-income and facing financial inclusions

Research methods

The research study was based on engagement with the research consultation group; an online survey, a series of in-depth interviews with credit union managers and board members, focus groups with social housing tenants, and a research seminar. The research study was limited to the information, data and perspectives gathered through these research interventions. It was unable to gather detailed, sector-wide statistical data on the number of accounts opened and loans made within the low-income market.

The consultation group

It was through this group that the study was able to engage with the credit union sector and to ensure a participative, collaborative and action-oriented approach. The group involved representatives of the two major credit union trade associations operating in Northern Ireland as well as organisations with a stake in the development of the study (see the acknowledgements page for a list of consultation group members).

The online survey

The online survey was open to managers and board representatives of all credit unions in Northern Ireland. All credit unions in Northern Ireland were invited to participate in the online survey directly and through their respective trade associations.

48 respondents from 42 of the total 176 credit unions in Northern Ireland replied. This was a 24% return rate which is an acceptable and statistically relevant rate for a survey of this kind. There was a good spread of credit union respondents from credit unions with less than £500k to over £50m in assets'.

73% of respondents were from the Irish League of Credit Unions, 21% from the Ulster Federation of Credit Unions. 37% were board members, 44% paid managers, 10% volunteer managers, and 8% paid staff.

In-depth face-to-face interviews

These semi-structured interviews were undertaken with credit union managers and board members in nine credit unions. The credit unions that participated in the interviews were Newington Credit Union Ltd, Dundonald Credit Union Ltd, Slemish n tha Braid Credit Union Ltd, Ballyhackamore Credit Union Ltd, Enniskillen Credit Union Ltd, Newry Credit Union Ltd, Lurgan Credit Union Ltd, and Derry Credit Union Ltd.

These credit unions were chosen to reflect varying size and capacity, differing geographical location and a variety of trade association affiliation. Six of the credit unions were affiliated to the Irish League of Credit Unions and two to the Ulster Federation of Credit Unions.

Focus groups

Six hour-long focus groups of people living on social housing estates were organised, involving 61 participants in total. These groups were designed to engage participants in a reflective enquiry into access to credit, saving on a low income, and access and use of transaction banking. The groups explored the advantages and disadvantages of credit union membership; and contributed thoughts on what attracts people to join a credit union and also on the barriers to membership faced by some people.

Five focus groups were organised through the Housing Community Network, established through the Northern Ireland Housing Executive (NIHE) as a structure to ensure residents have meaningful involvement with NIHE at district, area and central levels throughout Northern Ireland. Participants were area representatives of around 400 community groups. They included social housing tenants (50%) private tenants (5%) home owners (35%) and community workers resident on estates (10%). The five groups were held in Newtownards (7 participants), Craigavon (15 participants), Ballymena (11 participants), Omagh (14 participants) and Belfast (7 participants).

The sixth group was held through Apex Housing Association's Tenant Involvement Forum. Through Supporting Communities NI connections with the Apex Housing Association, it was agreed that a focus group of social housing tenants could be held at a

tenant forum meeting in Maghera (7 participants).

Research seminar

A research seminar was held at the HRS offices in Belfast at the end of August 2012.

This seminar was designed to share the emerging findings of the study with credit union managers and with other key stakeholders. Newington, Slemish n tha Braid, Dundonald, WBR (Warrenpoint, Burren and Rostrevor) Credit Unions were represented, as well as officers from DETI.

3. Credit unions and a commitment to community

The research study confirmed that credit unions in Northern Ireland have a strong sense of commitment to the community or communities they serve. In the survey 66 per cent of credit union respondents said that the main purpose of their credit union was to serve the needs of the local community. In research interviews, participants often described how the credit unions had arisen out of the actions of socially-motivated volunteers concerned about the financial situation of people in their neighbourhood, village or town, and who came together to enable people in their locality to save and to access credit at affordable rates.

Credit unions arise out of social and community networks but, as participants in interviews often stressed, they are also often a catalyst in the building of community cohesion and in the strengthening of the social and economic fabric of society. Participants argued that credit unions were not banks, but people-oriented co-operatives that regard engagement in the local community as a priority of organisation and of operation.

A strong sense of localism

The commitment to community has resulted in a strong sense of localism within the Northern Irish credit union movement. 176 credit unions² serve a national population of just 1.8 million. In GB, the Prudential Regulation Authority (PRA)³ now allows any one credit union to serve a common bond population of up to 2 million people. In Liverpool, for example, Partners Credit Union serves the 1.3 million population of

Merseyside. In Northern Ireland, credit union engagement remains embedded in the locality. Few mergers have taken place and there are no moves, for example, to create one single credit union to serve the whole of the city of Belfast or to create a single credit union to serve an entire county.

Community engagement has, to date, served Northern Irish credit unions well and large numbers of people have been attracted into membership through the local links and networks of which they are a part. Credit unions in Northern Ireland have nearly 460,000 adult members and almost 90,000 junior savers, which means that around 34 per cent of the Northern Irish population are members of credit unions. Collectively NI credit unions hold £942m in savings and have made loans of £522m⁴.

Wide variety of credit unions

Of course, there is a wide variety of credit unions in terms of membership and asset size, organisational capacity and level of service delivery. Of the 42 credit unions replying to the survey, for example, ten had less than 1,000 members and four had over 10,000 members, seven had less than £0.5 million in assets and three had over £50 million. Such differences in membership and asset size mostly correspond with variation in organisational capacity. Smaller credit unions tend mostly to be dependent on volunteer support with larger credit unions employing management and operational staff teams. However, irrespective of size or of capacity, it was clear from interviews that a strong sense of community commitment and organisation permeates the credit union system throughout Northern Ireland.

² Note this reduced to 174 credit unions in July 2012.

³ With effect from 1 April 2013, the Financial Services Authority was abolished and its responsibilities divided between the Prudential Regulation Authority and the Financial Conduct Authority.

⁴ <http://www.bbc.co.uk/news/uk-northern-ireland-14737508>

It is this historic commitment to serving the financial needs of the entire community that differentiates the development of credit unions in Northern Ireland from that of many of the credit unions in mainland GB. In a recent survey of credit unions in the North East of England and Cumbria, 56 per cent of credit union board members and 41 per cent

of managers and staff stated that the primary purpose of their credit union was to serve the financially excluded and those on welfare benefits (Jones 2012). In the Northern Ireland survey, only 7 per cent of respondents replied in the same way to exactly the same question (see Table 1 below).

Table 1. Credit union purpose

Top number is the count of respondents selecting the option. Bottom % is percent of the total respondents selecting the option.	First importance	Second importance	Third importance	Fourth importance
To serve an economically diverse membership, drawn from all sections of society	11	19	2	12
	25%	43%	5%	27%
To serve moderate and lower income working people	2	9	25	8
	5%	20%	57%	18%
To serve members who are financially excluded or living on welfare benefits	3	7	14	20
	7%	16%	32%	45%
To serve the needs of your own local community	31	9	3	4
	66%	19%	6%	9%

Focus on serving the entire community

The emphasis on serving the financial needs of the entire community rather than focusing first on the needs of the financially excluded and those on welfare benefits has influenced the way in which credit unions in Northern Ireland approach service delivery to their members. In research interviews, participants were clear that credit unions should treat members equally. This statement was interpreted in most cases to mean that members, irrespective of their social and economic circumstances, should apply for membership in the same way and be offered

the same products and services with identical interest rates and terms and conditions.

This approach has resulted in a strong people-focused culture in credit unions and a strong sense of fairness in service delivery. However, it seems also to have resulted in little systematic strategic research and analysis of the needs of different segments of the membership and of the financial market. When it comes to understanding the needs of the low-income financial market, for example, many directors and staff members, particularly in credit unions that arose within low-income communities, often feel

intuitively aware of the needs of people on low incomes or who experience financial exclusion. This is often a result of their own history or experience or that of their families and friends in the communities they live. However, in some credit unions, the lack of a systematic analysis of the needs of low income and financially excluded groups can lead to the specific needs of these groups being lost within the overall objective to serve all members equally.

Market analysis and segmentation

There was little evidence in the interviews, in fact, that participants considered that rigorous market analysis and segmentation was a priority for credit unions. For the most part, there was a sense of participants not wanting to differentiate or segment the credit union product and service offer between different groups of members in the credit union. Segmenting the market, and offering different products with different terms and conditions to different groups of members, was seen as compromising the unique product and service offer to all.

The lack of market analysis and segmentation of different groups within the community also resulted in little targeted marketing activity directed specifically to low-income or financially excluded groups. Of course some marketing and promotional activity does take place, but in general, given the close community focus of most credit unions, the credit union message is mostly communicated through word of mouth through local social and community networks. In many communities, the credit union is so embedded with these local networks that new people come to the credit union mostly through the contacts, links and connections they have through the kinship, friendship and social groups of which they are already a part.

Credit unions as part of the community

The sense of being part of the community was reflected in comments of interview participants such as:

"Opposite of what is happening in the banks, people are not shying away from the credit union and it is very gratifying to see that people trust us. It is easier for them to get to see us and to know the directors as they can stop them on the street".

For many participants, making the credit union visible in the town highlighted and cemented its place and role in the community.

"It is an excellent location as it is on the main street. That was part of our rationale as we were coming out of the backstreet type thing and to move onto to a high street location"

Other credit unions chose to remain based within a local neighbourhood to be close to the membership and to avoid paying the rental prices of high street locations.

"You know, we could choose to be in the high street, and reinvest in nothing but some fat cat's [landlord's] pay, but you know, when we have an office in amongst the people, they can come in and see you"

Remaining close to the community through engagement in local social networks and through the visibility of offices in a convenient location ensured for many participants that the credit union was open and accessible to all.

"We have a very open membership. If you live in the area or you work in the area, you are entitled to join".

Indeed, for many people this was the case. Of the 42 credit unions that responded to the survey, 26 had a membership of over 2,500. Many credit unions are reaching out into their communities and attracting significant numbers of people into membership.

Some people remain unserved

However, despite credit unions reaching out into communities, there is evidence to suggest

that certain sections of Northern Irish society are not being reached by credit unions and failing to access their products and services.

The Continuous Tenants' Omnibus Survey (CTOS) (HE 2011) of Housing Executive tenants undertaken by the Northern Ireland Housing Executive found that of 3,400 tenants surveyed only around 4 per cent had a credit union account. This figure, however, is indicative only as many tenants may not have revealed to researchers the fact they possessed an account. However, it seems reasonable to conclude, that there is a lower percentage of members of credit unions among the Housing Executive tenant population than among the NI population as a whole. Around 34 per cent of the overall Northern Ireland population are members of credit unions.

For some reason, credit unions are not enabling a significant number of Housing

Executive tenants to engage with credit unions and access their services. The majority of these tenants would be on low incomes – in fact in the survey, only 8.7% of respondents were in full-time employment (including self-employment) and over 60 per cent of households had a gross household income of less than £15,600 (45 per cent had a gross income of less than £10,400). It is this problem of lack of credit union access among certain low-income communities in Northern Ireland this research study aims to address.

The fact that certain groups of people may not be reached by credit unions does not mean that credit unions do not serve low income communities. On the contrary, credit unions were mostly established within low-income communities and serving people on low to modest incomes is fundamental to their purpose and rationale, as is explored in the next chapter.

4. Credit unions and low-income households

Even though not established primarily for people on low incomes, many credit unions in Northern Ireland serve low-income communities and regard themselves as having an important role to play in providing financial services to people excluded from mainstream providers. This is the case in both traditional Catholic and Protestant communities.

Historic commitment to low-income communities

For many credit unions, the commitment to serve low-income and financially excluded households goes back to their foundation and history. Many of the communities within which credit unions arose experienced high levels of social and economic deprivation. People in these communities were often unable to save and found it difficult if not impossible to access affordable credit. Mainstream credit was often only available to homeowners, whilst tenants in private and social housing were left to borrow from a range of high-cost and often extortionate credit shops and moneylenders. It was this situation of economic disadvantage and exploitation that was the driver for socially-motivated volunteers to found credit unions. At the heart of their social mission was a desire to assist people in economically deprived communities to save and to access credit that was affordable and that would not lead them into over-indebtedness. Interview participants spoke about the origins of their credit unions in the following terms:

"And when you were saying about the lower incomes, this is why the credit union was started, about half a dozen individuals got together and they started in [the local] School, because the majority of people in and around this area didn't have a bank account, had no access to credit, except for the money lenders, provident cheques and standard cheques and all those there, so that's where it originally started, and that was in 1967"

"The experience of most people the 50's and early 60's was that of high unemployment. Banks and other financial institutions did not advance credit without substantial collateral or guarantees. Money lenders charge exorbitant rates of interest perpetuating the cycle of hardship. Consequently the ordinary working class people in the city had only very costly sources of credit available to them".

The reality of poverty and disadvantage persists

Much has changed since credit unions were first established in Northern Ireland, but the reality of poverty and economic disadvantage persists in many of the communities where credit unions are to be found. 42 credit unions, for example, are to be found operating in the 12 highest ranked wards in the Index of Multiple Deprivation for Northern Ireland (see Table 3). As in the past, credit unions today are still faced with the challenge of serving people on low-incomes and of offering people excluded from the financial mainstream a pathway into financial inclusion and stability. Credit unions regularly are encountering people with insufficient income to make ends meet, who are struggling to pay essential bills, and who have become victims of high-cost credit providers. As one manager reflected,

"Credit unions started so people wouldn't have to go to pawnbrokers, unfortunately pawnbrokers now have got more sophisticated and you now have these cash shops, which should be made illegal. You have credit cards and store cards and they are just more sophisticated forms of fleecing people"

Credit unions positioning in the low-income market

In the survey, participants were asked to reflect on which financial providers they regarded as the main competitors of the credit union in the financial market place (see Table 2). In order of importance, 42 per cent of respondents saw banks, and four per cent

regarded credit card companies, as the main competitors of the credit union. This indicates that many credit unions position themselves as important players within the financial market place in Northern Ireland, that are able to offer their members savings and loan accounts that match or surpass those on offer from the banks. In interviews, it was clear that the banking crisis has strengthened the role of credit unions as competitors to the banks. More and more people are disillusioned with the service they receive from banks and are turning to alternative providers such as credit unions.

However, 52 per cent of respondents saw high cost, sub-prime legal or illegal alternative lenders (catalogues, money shops, illegal money lenders and home credit combined) as their main competitors. This is a revealing response as it indicates that despite being financial institutions for the entire

community, many credit unions see themselves as operating strongly within the low income market and having a particular mission to provide an alternative to high-cost credit.

In this regard credit union managers reported in interview:

"That is one of the big things that we have to deal with, and that was one of the questions in that questionnaire, who are your competitors, and I'm thinking, that's who they are, because we're trying to get rid of those people. So it would be the doorstep lenders".

"You were talking about the money lenders and I suppose one of the things we are doing to try and meet the needs of people on low-incomes is to target those people who are borrowing from money lenders. So we would do ads in the paper to say, you know, if you borrow from a money lender, you are going to be paying £500 on a £1000 loan, as compared to the £50 you're going to pay the credit union"

Table 2. The main competitors of credit unions ranked in order of importance.

Top number is the count of respondents selecting the option. Bottom % is percent of the total respondents selecting the option.	First most important	Second most important	Third most important
Banks and building societies	20	3	3
	43%	7%	7%
Catalogues and pay weekly retail stores	2	3	15
	4%	7%	33%
Cheque cashers, money shops and pay day loan companies	5	10	7
	11%	22%	15%
Credit card companies	2	19	3
	4%	41%	7%
Home credit companies (doorstep lenders)	11	5	8
	24%	11%	17%
Pawn shops, sale and buy back stores	0	1	4
	0%	2%	9%
Illegal money lenders	6	5	6
	13%	11%	13%

Small savers and low loan-value borrowers

Evidence of credit unions serving the low-income market not only arose from participant perceptions of their competitors, but also from the saving and borrowing record of the members of credit unions. In many credit unions there are significant numbers of small savers and low loan value borrowers, a commonly accepted indicator of a credit union serving a low-income community. On one large city credit union, for example, 75 per cent of all loans in the financial year 2011-2012 were for less than £1,000, 59 per cent were under £500 and 24 per cent less than

£250. As a manager of another credit union in interview remarked:

"People would be applying for all sorts of small loans. Quite often we would have people applying for £50, as small as that. Last week we had £75.00, a couple of £45.00, small loans".

Anyone who comes to a credit union to borrow £50 is certainly struggling financially and most probably surviving on a low income.

Incidence of illegal lending

In the online survey, there was one set of responses that appeared as particularly significant. 13 per cent of respondents said that their main competitors were illegal

lenders or loan sharks. In the survey in the research study into credit unions in the North East of England and Cumbria (Jones 2012), no credit union reported illegal lending as a main competitor. The incidence of illegal lending and how this impacts on credit union services was also described by a number of credit union managers in interview:

"It is the worst [form of credit], because people who owe this money, they're afraid of the people that they've borrowed from, they will not give the names, they will not go to the police, because they're afraid in case any damage is done to them or their family..

"A girl came in here on a Friday and her nerves were shattered, she could hardly talk, an illegal lender had been banging at her door, and eventually when he went away she came and said, 'Is there any chance you can help me out?' Then she pulled out all these books; the Provident among them, but then she had other ones with just maybe a name, John, on it. We said we will get rid of the one that's hassling you at the minute, and then we will gradually work through the rest. So eventually she got rid of them. But a lot of people won't come in and tell us, because they're afraid of jeopardising their position in here. But she is one of our success stories, and we got her to start saving with the credit union".

"We provide loans to [pay off] the loan sharks, we can't totally leave behind the legacy of this country, and the fact that paramilitaries, especially coming to the end of The Troubles when they weren't needed to defend their communities, decided to abuse their communities by becoming loan sharks".

An inclusive approach to serving the financially excluded

Credit unions in Northern Ireland are clearly involved in serving the needs of people on low-incomes and/or who face financial exclusion. However, unlike credit unions in GB, which often have a high-profile role in tackling financial inclusion, but which sometimes also suffer from a reputation of being the poor persons bank, credit unions in Northern Ireland have been committed to serving low-income and financially excluded

individuals within the context of an inclusive co-operative and community financial institution. Positively, this relates well to Richardson's (2002) stress on the importance of assimilation in the development of credit union services for people on low incomes; credit unions should not offer people products and services that identify them as different but rather should do it a way that brings them into the mainstream. But as also noted in the previous chapter, it can also result in credit unions not developing specific strategic approaches to the low income market.

The engagement of credit unions in serving people on low incomes and facing financial exclusion is in fact recognised by the Northern Ireland Assembly and by a range of agencies and organisations in Northern Ireland. This is noted in the following report of the NIA:

"All key stakeholders in Northern Ireland are agreed on the invaluable work undertaken by credit unions in promoting financial well-being, particularly in isolated and disadvantaged communities" (Northern Ireland Assembly 2009)

"The Consumer Council sees credit unions in Northern Ireland as having a role to play in encouraging savings and providing an affordable alternative to 'doorstep credit for those who may otherwise be financially excluded. This is considered particularly important as more Northern Ireland households are financially excluded compared to G.B." (Northern Ireland Assembly 2009)

Of course credit unions are more or less engaged in the low-income market depending on their location and history. However, from participant research interviews, even those credit unions that had been formed in more economically stable communities, were finding that they were now increasingly having to reach out to people on low-incomes and/or who are financially struggling with the effects of the recession and the financial crisis. The concept of financial exclusion was widening to include low to moderate income working people who would have coped in the

past but are now feeling the financial strain. Many of these would have previously accessed credit from mainstream providers but now are turning to the credit union.

“We weren’t very long inside the business before we discovered who really needed the credit union. It wasn’t the group we came from. But it was working class people in need [and who were struggling financially]. Who needed us were the people who we’re now serving”

Table 3. Credit unions operating in the 12 highest ranked wards in the index of multiple deprivation for Northern Ireland

WARDS	CREDIT UNIONS IN DEPRIVATION AREA
North Belfast	Newington Credit Union Ltd. A-B-C Credit Union Ltd. Court Credit Union Ltd. Horseshoe Credit Union Ltd. Glenard Credit Union Ltd. North Belfast Credit Union Ltd. Loughside Credit Union Ltd.
West Belfast	Albert Credit Union Ltd. Avila Credit Union Ltd. Beechview Antigonish Credit Union Ltd. Clonard Credit Union Ltd. Divisview Antigonish Credit Union Ltd. Hannahstown Credit Union Ltd. Mutual Credit Union Ltd. S.A.G Credit Union Ltd.
Derry (Creggan, Shantallow, The Diamond, Culmore, Brandywell)	Derry Credit Union Ltd. Pennyburn Credit Union Ltd. Waterside Credit Union Ltd. Society Credit Union Ltd.
Strabane (Glenberg & Newtownstewart)	Strabane Credit Union Ltd. North Tyrone Credit Union Ltd.
Lisburn (Twinbrook, Colin Glen, Kilwee, Poleglass)	Ballymacash Credit Union Ltd. Poleglass Credit Union Ltd. Lisburn Credit Union Ltd.
Craigavon (Drumnamoe, Drumgask, Drumgor)	Lurgan Credit Union Ltd. Britannia Credit Union Ltd. Star Credit Union Ltd.
Limavady (Roeside)	Limavady Credit Union Ltd. Roe Valley Credit Union Ltd.
Coleraine (Cross Glebe)	Kilrea & District No. 5 Credit Union Ltd. Causeway Credit Union Ltd.
Newry & Mourne, (Crossmaglen)	Newry Credit Union Ltd. Frontier Credit Union Ltd.
Dungannon (Castlecaulfield & Coalisland)	Dungannon Credit Union Ltd. Benburb & Killyman Districts Credit Union Ltd. Ltd Skea Credit Union Ltd. Stewartstown & District Credit Union Ltd.
Fermanagh (Devenish)	Belleek Garrison Credit Union Ltd.
Carrickfergus (Northland)	Carrickfergus Credit Union Ltd.
Ballymena (Ballee)	Slemish n tha Braid Credit Union Ltd. Ballymena Credit Union Ltd.

5. Credit unions in practice

The following two case studies illustrate the context and challenges of two different credit unions working to serve low-income and financially strained communities. These two credit unions differ in size and organisational capacity and in the profile of the membership. One operates mostly in an urban context and the other in a small town and rural village. They also differ in their history and in their trade association affiliation. One is a member of the Irish League of Credit Unions and the other of the Ulster Federation of Credit Unions.

However, they both share a common commitment to serve low-income and financially strained working people and those on welfare benefits and who are often marginalised from the mainstream financial system. They are united in tackling poverty and financial exclusion in Northern Ireland.

5.1 Derry Credit Union

Derry Credit Union (DCU) serves 28,500 adult members and 5,000 young people in a large part of the City of Derry⁵. Since it was established in 1960, DCU has grown into the largest credit union in Northern Ireland with total assets of over £87 million.

Responding to the needs of a low-income community

Like many other credit unions, Derry Credit Union was created by a group of socially-committed volunteers to enable people in their community to save and to borrow at affordable rates of interest. In the late 1950s, Derry was a city of high unemployment and

low wages. Life was particularly hard in the neighbourhoods of Cityside and most families struggled to make ends meet. It was not easy to save and accessing credit was expensive.

However, life on a low-income meant that people often had a need for credit. The lack of savings and the constant struggle to balance a tight household budget resulted in people having to borrow to purchase household goods, clothing or other essential items. But with banks and other mainstream financial institutions not lending to people in social or rented accommodation, or to those unemployed or on a low-income, the majority of people were left with little option but to seek credit from high cost hire-purchase stores, home credit voucher companies, pawnshops or money lenders. In Derry in the 1950s over-indebtedness and financial strain due to high cost credit was endemic.

From the outset, DCU was regarded by its founders as a mutual self-help financial co-operative for the whole community. Anybody who was willing to engage with credit union philosophy, to save and to borrow responsibly was welcome to join. Nevertheless, given the economic situation of the city, DCU has always focused on serving the needs of people on low incomes, whether unemployed, on a low-wage or living on welfare benefits. Serving people marginalised from the mainstream has characterised DCU development.

Credit union principles of self-help, mutuality and community

However, the approach of DCU to serving people on a low-income was strongly influenced by the credit union principles of self-help, mutuality and community engagement. Entry into the credit union was

⁵ The common bond of Derry Credit Union includes the Cityside area of the city up to the Donegal border and a part of the Waterside area that was previously included in the old city boundaries.

never automatic. In the early days, as is still the case today, new members had to be proposed and seconded by existing members who would give their name to the suitability and good character of the applicant. Each new member would then attend a new members' meeting at which the ethos of the credit union would be explained.

It is an ethos that is based on mutual and personal responsibility, on the promotion of thrift and on the regular and timely repayment of loans. People accepted into membership were offered a pathway to financial stability and security, but in return they were asked for personal commitment to the other member-owners of the credit union. The credit union was not to be seen as just another financial institution, but rather as a locally owned co-operative. Loyalty to the credit union reflected loyalty to family, friends and to the community.

Serving people on low and moderate incomes

Even though DCU has a wide and economically diverse membership, it still predominantly serves people on low and moderate incomes. This is clearly reflected in the composition of its loan book. 75 per cent of all loans in the financial year 2011-2012 were for less than £1,000, 59 per cent were under £500 and 24 per cent less than £250. Of the 20,000 loans issued in this financial year at the time of research interview, only 22 were for over £10,000. The business of the credit union is primarily low-value loans to low and moderate income members.

DCU has not strategically and systematically segmented and targeted the low-income market. However, the fact that a large number of its members are on low incomes has resulted in DCU offering a range of products and services that are seen as supporting the particular financial needs of low-income

families. These include savings, loan, and insurance products as well as money management and budgeting support services.

Fostering a culture of saving

The fostering of a culture of saving is central to the purpose of DCU and underpins its approach to supporting its members on low incomes. This reflects the now widely recognised reality that the promotion of saving is the central constituent element of a pathway to financial inclusion and stability. Sherraden (1991) argued convincingly, for example, that savings, even small amounts, have a much greater significance than stored income alone; they give people confidence about the future and engender a feeling of empowerment and control over their lives. From the beginning, DCU has recognised the value of saving in enabling its members build financial and personal strength and security. It has promoted a culture of thrift and has encouraged all its members to save.

The credit union has a number of mechanisms that support a culture of saving in low-income households. First, members are aware that saving supports access to credit in the future. Even though the amount a member is eligible to borrow is no longer linked to a percentage of savings, decisions about loans and about a member's capacity to repay are made in the light of a member's ability to save. All members are also encouraged to save whilst repaying a loan, a discipline which builds savings and establishes a positive savings history which enables access to higher loans in the future.

Secondly, the retention of savings is encouraged through members not normally being able to withdraw savings from their savings account whilst they have an outstanding loan balance greater than their savings balance. This mechanism locks savings into the credit union whilst a loan is being

repaid, and if the member continues to save, it results in him or her having a greater savings balance at the end of the repayment period than at the beginning. This is often appreciated by low-income families, who know that if savings are withdrawable, under the pressure of a tight household budget they tend to get withdrawn. It is for this same reason that local Christmas clubs or hamper schemes, which lock savings away, are popular in low-income communities.

Thirdly, the retention of savings is encouraged also by all savings before a certain age being linked to free life insurance. This is particularly important in low-income communities where people often lack other life insurance provision or funeral plans.

Fourthly, the introduction of a new loan product in 2011 also supported members to retain their savings balance in the credit union. Rather than withdraw savings, members in good standing can now be offered a PluSS Loan if the value of the loan requested is entirely covered by a member's savings. These savings are then pledged against the loan for the full period of repayment. PluSS loans are offered at a lower rate of interest; 0.6 per cent per month rather than the standard one per cent per month. At first sight, a PluSS loan may seem to run counter to the financial interest of the member. It may appear that members are paying interest to borrow money that they already have in the credit union. However, for someone on a low-income, the retention of savings is very much in their long-term financial interest. Not only do those savings accrue free life insurance, the social and psychological value of a person knowing that he or she retains assets in the credit union far outweighs the small amount of interest payable on the loan. Moreover, the discipline of having to repay a loan is very different to a commitment to replace withdrawn savings. People on low-incomes know that with competing financial pressures

and struggling to make ends meet replacing savings is no easy matter. Psychologically it feels different to have to repay a loan, it inculcates a discipline which ensures that savings balances remain intact.

However, to assist borrowers to continue to amass withdrawable savings when their main savings account is frozen through a pledge against an outstanding loan, the credit union also offers a withdrawable Easyshare account. This can then be used for saving for specific purposes or for budgeting.

Savings schemes in schools

In order to support the development of a savings habit among future generations, the credit union has established savings schemes in a number of local primary schools. These engage children in saving but also enable the credit union to reach out to financially excluded households. The idea is that if families see their children saving in the credit union, they may be attracted to apply to join themselves. The DCU manager explained:

"We have been running a schools saving scheme for 4 years in the primary school. The children can save £1 a week to establish a savings habit; it is not about the amount, it is about the 'savings habit'. In one of the schools, children can save 50p a week, so all children [including children from financially excluded homes] can participate. Last year, children saved in the region of £17,500 in the local schools"

Access to affordable credit

As well as promoting saving, the mission of DCU is to enable its members to access credit. This is critically important for low-income families who often need to access affordable credit to fund major purchases and bridge cash flow gaps and to break free of the need to resort to high-cost credit providers that still operate strongly in the Derry City area. As a responsible lender, the credit union takes a measured and careful approach to the provision of credit.

New loan applicants are rigorously assessed as to their capacity to repay. There is no longer any prior set savings period before a person is eligible to apply for a loan, and neither is a loan linked to a percentage of an amount saved; two changes in credit union lending practice that have strengthened the credit union's ability to serve low-income members, many of whom may not have been able to save in the past. However, the credit union does require income documentation and bank statements and carries out an intensive income and expenditure analysis to assess a person's capacity to repay a loan. It tends also to undertake credit checks on all loans above savings balances as standard practice. However, once a member has a credit history in the credit union, and this is trouble free, future borrowings are not subject to the same intense inquiry and members can obtain a loan up to the agreed limit practically instantaneously. Of course, a significant increase in the value of a future loan requests does merit further assessment of capacity to repay.

Loans are made for any productive or provident purpose; and as noted above, DCU predominantly administers low-value loans. People borrow for holidays, clothes, household goods, oil and for special occasions such as Christmas; but also, as the recession takes hold, increasingly for such small items as electricity cards and food. The DCU manager noted in interview that sometimes people even come to the credit union to borrow as little as £10, so difficult is the current economic situation for many people. Access to loans for oil is often an issue, particularly for people living in rural areas. The credit union regularly makes loans for oil, but, at the time of the interview, was planning to link a pilot oil brokerage scheme which could save members around four to five pence on each litre of oil purchased.

Monitoring loan repayments

Loan repayments are carefully monitored and any sign of repayment default will result in the member being contacted by a member of the credit control team. However, DCU is very conscious of the need to support people who are struggling on a low income and, as the credit union notes in its literature, "members experiencing genuine financial difficulties can expect to receive a sympathetic ear and practical assistance". In cases of real difficulty, loans can be rescheduled to reduce payments. In some cases, the credit union would even consider suspending a portion of the loan, so that the member could repay a lesser amount on the remainder. Of course, people who can pay but will not pay are subject to full credit control procedures, including court action.

Money management support and building members' credit rating

To further support people who are struggling financially, the credit union also has two money management counsellors who are able to offer personal money management and budgeting advice to individual members. As yet the credit union does not offer a full bill-payment and budgeting account (a so-called "Jam Jar Account") but this may be considered in the future.

Credit repayments are also logged with the credit reference agency. This is seen by the credit union as an important financial inclusion issue. It means that members who are able to pay successfully are able to build up their credit rating. This will help them with any future dealings with other financial or mortgage providers.

The issue of transaction banking

DCU's product offer concentrates on savings and loan accounts, supported by loan and savings life insurance. It has not yet moved into transaction banking. At the time of the interview, DCU felt that the move to offer a

current account was a consideration for the future. At the moment, it felt that it would be too expensive an option and a distraction away from the core business of savings and loans.

However, the credit union is keen to introduce modernised electronic delivery channels. It has piloted a pre-paid debit card which facilitates the transmission of loans and savings withdrawals to the member. There is a plan to link the pre-paid debit card to the Easyshare account so that members would have access to their account 24/7. If this link can be established, the credit union could again consider offering members the option of having welfare benefits or wages paid into the credit union, something that is not promoted at the moment given the difficulties in currently offering immediate access to cash withdrawals. The pre-paid card would enable all members to make withdrawals in any ATM machine. In fact the credit union has installed a free ATM machine at its main office in order to enable members to withdraw from bank accounts without charge. However, as yet, ATM access to credit union account is not possible apart from the use of the pre-paid card.

The challenges of serving people on low incomes

DCU's success has been built on serving people on low and moderate incomes since its inception. The credit union has shown that people on low wages and/or on welfare benefits can save and borrow successfully. In fact, once established in the credit union, according to the DCU manager, people on benefits are often the most stable of members.

However, success in serving low-income members has depended on those members accepting and buying into the credit union principles of self-help, mutuality and

engagement. They have accepted a level of personal responsibility and commitment to the credit union and it is this that has supported their pathway into financial stability and inclusion.

The problem for DCU is that, without this acceptance of personal responsibility and commitment on the part of its members, serving low-income communities could be a risky and expensive undertaking. Of course, there are many people, struggling on a low income, living perhaps chaotic and difficult lives, often profoundly excluded from mainstream financial services, for whom this level of responsibility and commitment would be a difficult and demanding transformation.

Ellison and Davis (2008) have highlighted the challenges that third-sector lenders have if they endeavour to expand engagement with high-risk, financially excluded borrowers. They argue that credit unions would have to put in place ways of ensuring sustainable support and of effectively managing delinquency and default among a group of people for whom payment irregularity is the norm. They contend that in fact some high risk borrowers cannot be served within the constraints of a low cost of delivery, low APR model. In GB, some credit unions in order to serve higher risk groups increase interest rates on loans to cover costs of delivery and default. However, along with many credit unions in NI, DCU has no appetite to increase its interest rate⁶. Clearly this limits the level of risk and delivery costs that the credit union can bear. It is recognised that the traditional low-cost, low-APR credit union delivery model is intrinsically linked to members buying into principles of

⁶ Credit unions in Northern Ireland are limited by legislation to charging a maximum of one per cent per month (equivalent to APR 12.68 per cent). In Britain, credit unions can currently charge up to two per cent per month (equivalent to APR 26.8 per cent) and consultation is being undertaken to raise this to three per cent per month (equivalent to APR 42.6 per cent)

self-help and personal responsibility. Where this becomes more problematic, the low-cost model comes under strain.

A more immediate problem for DCU is the impact on its members of the current economic downturn. More and more people, many in work or recently made redundant, are finding it difficult to repay loans and loan write-offs in the credit union have been significant in recent years. The current challenge for DCU is to offer people appropriate money management advice and support through difficult times, whilst at the same time to protect the assets of the entire membership. A difficult decision for the credit union was not to accept the write-off of debt through IVA's or bankruptcy. For a member to re-establish a relationship with the credit union after an IVA or bankruptcy order, the member has to repay the debt in full. For DCU, personal responsibility entails not walking away from debt. However, that said, for people who default on loans not through an IVA or bankruptcy order, the credit union does have in place mechanisms to reinstate them over time.

Future support and investment

DCU is aware that it is operating in increasingly difficult times. Credit administration is increasingly complex as the credit union endeavours to compete with the changed credit expectations of a younger generation. People are not only seeking more immediate and online access to credit, they are often doing so that leads them in to easy over-indebtedness. As the DCU manager related,

"We see fairly often people coming in where they owe £400- £500 in bank charges on overdrafts because no one says and explains to them. There is a culture now of you can have it all now, as opposed to in the 70's and 80's were you saved for something"

At the same time as the credit union endeavours to manage its loan book and to support its members to borrow responsibly, it is also challenged by the increasing number of people who wish to save in the credit union. The manager explains,

"We have seen an increase in people moving to credit unions from the banks, especially on the share side it has been phenomenal, we don't need this! We have had to cap our shares (£30k is our current maximum). What we have seen is a complete lack of trust for the banks, especially after issue with Ulster Bank".

Increased savings deposits in the credit union, if these do not generate income through increased lending, reduce capital adequacy and the ability of the credit union to maintain reasonable dividends on savings.

DCU has developed as an autonomous, self-help, financial institution with no external financial support from either Government or other outside agencies. But given the needs of low and moderate income communities throughout NI, DCU recognises that there is a good case for Government investment in the credit union sector in order to expand service delivery. Support for modernised IT systems and for a common marketing campaign throughout NI would, for example, open up access to credit unions to a much larger sections of the population. Modernised IT systems are essential for the development of efficient delivery channels, a key challenge facing the sector as a whole.

On specifically reaching out to the financially excluded and low income families, the credit union sees an increasing role for partnership working and is now currently developing greater links with housing organisations, secondary schools and community groups.

One area of financial inclusion activity that would merit direct investment by Government would be support for credit unions to lend to small businesses and

entrepreneurs. Often it is they that face financial exclusion and lack of support from mainstream financial services. With some form of Government guarantee fund, credit unions could play a key role in expanding business and enterprise in low-income communities throughout NI.

5.2 Slemish n tha Braid Credit Union

Slemish n tha Braid Credit Union was established in 2007 through the coming together of Slemish Credit Union with the nearby Braid Credit Union, both of which were formed in the 1990s. Like its predecessors, Slemish n tha Braid Credit Union is a local, self-help community initiative created to enable its members to save and to access affordable credit.

It is organised by a small team of socially-motivated volunteers, who collectively take on responsibility for the governance and the management of the credit union. It has no paid manager or staff team, apart from three tellers employed part-time to operate collections.

The credit union serves Ballymena and its rural hinterlands. It is based in a community centre in the Harryville area of the town and operates seven collection points in community centres and Orange Halls throughout area. Most collection points are in areas of economic deprivation; however a few also serve relatively prosperous communities.

The credit union offers a traditional savings and loans service. It currently has 1,600 adult and 800 junior members and total assets of £1.6 million. Around £0.6 million is out on loan.

Commitment to community

Slemish n tha Braid Credit Union is strongly embedded in the local community. Most members, or their families, are known to the volunteers, and new members are recruited

mostly by word of mouth through local social and community networks.

New applicants are nominated for membership by existing members, and only those who show some commitment to the ideals and philosophy of the credit union, are admitted into membership. According to volunteers in interview, the success of the credit union depends on a high level of trust between the members and the volunteer organisers. It is important to establish that level of trust and acceptance from the outset.

The two original credit unions were established by people closely connected with the Orange Order and, in both cases, membership was limited to people associated with the local networks of Orange Halls. Membership was built on a common bond of mutual and shared identity, and only those able to share that identity would apply to join. This assisted stability, loyalty to the credit union, and its ability to control loan delinquency and bad debt.

With the formation of Slemish n tha Braid Credit Union, membership was opened to anyone, irrespective of religious or political affiliation, who lived or worked in the Ballymena area. Nevertheless, that same sense of mutual and shared identity persisted in the new organisation, and strong commitment to local communities permeates the organisation.

For Slemish n tha Braid Credit Union, the maintenance of a network of collection points in community centres is seen as enabling local access to the credit union. It is also seen as essential to keep the credit union close to the community and to its membership. As one volunteer explained, it is the community location that enables the credit union to offer an accessible and personal financial service:

"You get sat down and offered a cup of tea. We're genuinely saying to people, come in, and we'll treat you like a person".

The credit union also ensures that it pays rent for its collection points. This is regarded as practical support for local communities, many of which suffer economic disadvantage. The income generated through the credit union assisted, for example the community centre at Harryville to purchase computers to assist young people from low income and socially disadvantaged families develop IT skills. It has also assisted the centre to provide young people in the neighbourhood with free driving lessons.

The credit union cements its commitment to the community through its participation in local community initiatives and in its work in schools. In Harryville, for example, the credit union is an active participant in the Harryville Partnership Initiative, an umbrella organisation representing a number of community groups in the area.

Serving people excluded from the mainstream

For many years before the two original credit unions came together, most Slemish Credit Union members were on relatively moderate incomes. Even though it always served lower-income families, the credit union did not see its primary purpose in terms of serving the less well-off or those who were financially excluded. In those days, people joined the credit union to invest in their community, to receive a reasonable dividend rate on savings (often at 4 per cent) and to access affordable loans for cars, tractors, home improvements or holidays. Saving deposits of £10,000 were not uncommon and loans were often between £5,000 and £10,000.

However, significant changes have taken place since 2007 which have resulted in the credit union serving a much greater number on lower incomes and/or excluded from

mainstream financial services. These include people on low-wages and welfare benefits but also people on more moderate incomes but who are currently squeezed by the recession.

First, the credit union is now operating in some of the most economically disadvantaged neighbourhoods around Ballymena. Harryville, where the head office is based, is within the top 30 per cent of the most deprived wards in Northern Ireland. Ballee, where the credit union also operates, is in the top 10 per cent. Having the credit union located within some of the most disadvantaged neighbourhoods in the Ballymena area has resulted in a heightened demand by low-income and financially-excluded families for credit union services, particularly for affordable loans. Many members in these areas are in receipt of welfare benefits and often lack access to banking. A volunteer related one instance that highlighted the level of financial inclusion in the area and where the credit union could have intervened if it had been more aware of the situation of the member;

"A woman borrowed £200 and I wrote her a cheque, and, because she needed the money, she went up to one of those cheque casher shops to cash it because she had no bank account. If she'd have said, we would have been able to sort her out with cash. We do not have cash in the community centre but we'd have done something as we were going up to the high street on that Saturday afternoon"

Secondly, the credit union has seen a significant impact of the recession on moderate to lower-income working families. Many people who would once have gone to the bank for a loan are now being refused and are turning to the credit union. Squeezed incomes and rising costs have resulted in people struggling to make ends meet and seeking loans for things they would never have sought credit for in the past. Volunteers explained this in the following terms:

"So people who would normally have been financially included not that long ago, are now finding banks and mainstream financial institutions not favourable to them. So that's a change, because we have in our mind the traditional picture of who financially excluded folk are, but now it's much wider in terms of people in financial need and financial difficulty, who are now turning to credit unions"

"I never believed that I would see the day that somebody comes around the house and asks us can I have a loan for oil for heating"

"I would be seeing a group of people, when you talk about the financially excluded, that I'm meeting that are working. But they earn £16,000 a year, what's really, now, a lot of people, they are on earnings but it's difficult for them to pay all the major bills that they need to pay. If you have a car going that breaks down, and someone needs £600 to fix it, they will come to us".

Access to affordable credit

With an increasing number of people facing financial hardship, the credit union is recording a significant rise in demand for loans from members. In recent years the loan to savings ratio has risen from 30 per cent to 50 per cent, still relatively low but explained by the fact that many of the original members of the credit union were net savers rather than borrowers and the credit union's undoubtedly cautious approach to lending.

The credit union does make lower value loans (less than £500), but not as many as would be made by credit unions in city and urban areas. According to the volunteers, most loans now are between £500 and £1000. It is within this band that the credit union has seen a significant rise in loans made in recent years. With most people being careful about taking on credit in uncertain times, there has been a noticeable decline in higher-value loan applications, those for £5,000 and above.

However, it has been the change in the reasons and purposes for borrowing, that has been most noticeable to the volunteers. Rather than for tractors and cars, many hard

pressed working people need now to borrow for school uniforms, basic household goods and oil. As one volunteer noted:

"I've seen a guy who wanted to buy a dump truck. I've seen us finance the renovation of a Chinese restaurant. But that's all in the past. There are no Chinese restaurants today. It has gone from dump trucks, Chinese restaurants and tractors, to washing machines and oil".

"It used to be lend us £6,000 for a tractor, now it is lend us £500 for a tank of oil"

Loans for oil are particularly in demand, particularly as a tank of oil would now cost in the region of £500, whereas it would have cost significantly less four or five years ago.

The credit union adopts a cautious and rigorous approach to lending. Normally people have to be a member of the credit union for 13 weeks before they can apply to borrow. For all members, the first loan can only be twice the value of their savings; the value of second loan depends on how the member performed on the repayment of the first. The loan value of second and subsequent loans is roughly based on three times savings, but this is flexible as the credit union is able to respond to individual requests on a case by case basis. According to volunteers, this depends on a member's ability to repay the loan.

Loan applications are assessed through an income and expenditure analysis, supported by the relevant documentation. However, in Slemish n tha Braid Credit Union, great weight is given to personal knowledge of the member and of their history in the credit union and the community. In accessing credit, much depends on the personal relationship that the member has established with the credit union. As one volunteer explained:

"I know I sound a wee bit funny, it's [loan granting] about the honesty, integrity and transparency of our people. If you build that relationship with us, we'll go out of our way to help you".

"We know the majority of the members of our credit union, we're growing and there's some of the members that we don't know, but the majority of the members that join our credit union, we know them, and whenever you're lending them out money, that's a good part of why you lend somebody money, is that you do know them".

Another volunteer outlined how this relationship can be built up:

"You know, we need to be clear here, there is no advantage in throwing money at the financially excluded unless they have an understanding of a wee bit of savings, and a wee bit of loyalty, that I go down once a week to my credit union and I save my £5"

In the research study, there was no evidence of the credit union carrying out formal credit checks on applicants for loans.

In the interviews, it was clear that there was significant concern in the credit union not to inculcate a culture of borrowing among the membership, especially among people on low incomes, and not to lead people into taking out loans that could overstretch the household budget. There is a particular concern about top-up loans, and on ensuring that people do not become dependent on revolving credit. One volunteer explained

"This is about one member who works and who works at his loan. And he pays in a tanner a week. You see he's getting on top of it, and you see when he's down to about £300, there's another genuine reason why he has to come out, boys, and can you get me some more money. And we know he'll pay that £10.

Well, in the past we would never have had top-up loans. It was only when we moved into Harryville and Ballee where we found that's where people struggle, and, they get a loan, pay off so much, and maybe a third that's always carried on and carried on and carried on.

From a business sense, the credit union will get the little trickle of interest every week. From the wider community, it devastates me, because I don't know where our community's going. And all I see is that scenario getting worse".

The mission to serve low and moderate income members, particularly those who are

facing financial difficulty or effective exclusion from mainstream financial services, is now central to the policy and practice of the credit union. The volunteers spoke about, for example, how often they are on the coal face in communities endeavouring to counteract the activities of illegal loan sharks, whose activities seem to have escalated in recent years.

It is perhaps due to the strength of the social bonds upon which Slemish n tha Braid Credit Union is founded, that the volunteers did not report a significant problem with bad debt in the credit union. Bad debt does occur but has not risen beyond acceptable limits.

The promotion of savings

Slemish n tha Braid Credit Union, as its two predecessors, has traditionally attracted savers. In fact, many of the more moderate and higher income members have regarded the credit union as primarily a savings institution. They saved in the credit union to support its development in their community and as an investment attracting a dividend.

The credit union continues to attract such saving members, but the decline in the dividend rate payable on savings undoubtedly has had an impact on this. The credit union is no longer receiving attractive interest rates on its bank deposits and, as will be noted later, costs of running the credit union are rising. Both factors affect the dividend that can be paid on savings. The dividend paid on savings in the last financial year was 0.5 per cent on adult savings accounts and 2.5 per cent on junior savers accounts.

However, what is of concern in this report is not so much the situation vis-à-vis higher value savers but rather how the credit union actively supports its lower-income and financially struggling members to save.

For Slemish n the Braid Credit Union, saving is an intrinsic element in a pathway to financial stability and security. All members, including those on lower incomes and those struggling financially, are encouraged to save. Saving builds assets for the future, but it also builds a history in the credit union. For the credit union, saving demonstrates an active engagement in a mutual and co-operative society and a commitment to the membership and the community. Saving is seen to have multiple personal benefits for the member, over and above its value of stored income, including enhancing self-worth and confidence. Savers feel more a part of the credit union and of society and feel better about themselves.

In order to encourage members to save, the credit union automatically deducts one pound from all loan repayments and deposits this into the savings account. Members can increase this amount at will but all are subject to this basic default mechanism. For borrowers, savings cannot be withdrawn if they are less than the amount of the outstanding loan.

The credit union also offers a locked-in savings account. This is the Christmas club account. Members can save in this allocated account but cannot make a withdrawal until November. This is aimed a low-income savers who value the fact that they are prevented from withdrawing savings at times of pressure on the household budget.

The volunteers noted that the inclusion of the credit union in the Financial Services Compensation Scheme, following the move to regulation by the Financial Services Authority⁷ on the 31st March 2012, has been of critical

⁷ With effect from 1 April 2013, the Financial Services Authority (FSA) has been abolished and its responsibilities divided between the Prudential Regulation Authority and the Financial Conduct Authority.

importance in enabling the credit union to promote saving in low-income communities. Prior to inclusion in the FSCS all savings in the credit union were at risk. They are now covered up to a value of £85,000 per member.

Transaction services and budgeting accounts

The credit union does not offer a transaction account or any form of electronic deposit or withdrawal system. However, there is interest in the development of electronic delivery channels including electronic deposit cards (e.g. PayPoint) and pre-paid debit cards. However, the credit union currently lacks the organisational capacity to implement such developments.

Equally there is interest in the development of a budgeting and bill payment account (Jam Jar account). But organisational constraints make such a development difficult.

A focus on financial education

The volunteers were clear that at the heart of the credit union philosophy was the education of members in the right use of money. The concern to support members to develop awareness and knowledge in financial affairs and skills in money management, budgeting and financial decision making ran through the credit union's approach to supporting people to attain financial stability and security.

For the most part, financial education in the credit union was informal. It occurred through the range of conversations and dialogue between volunteers and members about saving and borrowing. The fact that it was informal did not make it any less real. In fact, members are often more receptive to considering financial issues and changing financial behaviour when discussing real live situations with volunteers who are able to ask the right questions and suggest effective courses of action.

Informal education is also learning through doing. By encouraging people to save and borrow responsibly, the credit union is aiming to build financial awareness, knowledge and capability.

"You're trying to educate people to save a little, borrow a little, and it works".

The credit union was concerned that all lending should engage members in a process of self-help and personal responsibility. There was scepticism in regard to any loan schemes that focused solely on the provision of credit without a rigorous programme aimed at educating people to borrow responsibly.

Work in primary schools

The credit union has taken a lead in the development of savings schemes in local primary schools. In the schools access to a junior savings account is linked to financial education and awareness. These interventions are seen as opportunities for children to learn through the action of saving in a community setting.

The work in primary schools has grown into an important commitment of the credit union. For not only is it an effective way of reaching children and young people, it firmly bases the credit union in the community. Parents and teachers are also able to save in the credit union through the school collection service points.

However, the volunteers were concerned that their work in local schools is resource intensive and a significant cost to the credit union. Without future financial support for such work, it may prove to be an unsustainable activity. However, the credit union is committed to continuing the school collection points as an ultimately worthwhile activity, and indeed wishes to expand in to the secondary schools.

Organisational and financial challenges

Slemish n tha Braid Credit Union is run by a small team of dedicated volunteers who are feeling the strain of developing an expanding financial institution. They are also responding to the increasingly complex financial needs of people on low incomes and/or facing financial difficulties.

In the past, when the credit union mostly served financially stable families with larger loans, running the credit union was always a challenge, but increasingly it is a much greater challenge as the profile and the needs of the membership changes. The growing number of smaller higher-risk loans adds to the volunteer workload and creates organisational strain. For volunteers there are also the new challenges of compliance with regulation under Financial Conduct Authority and the Prudential Regulation Authority.

Slemish n tha Braid Credit Union has demonstrated the real need and demand for a credit union in the communities it serves. However, if it is to assure long-term sustainability, it will need to develop the governance and the management structures of the organisation, seek paid managerial staff support. It will also need to boost the income of the business to cover increasing costs, develop modernised credit administration and control procedures and introduce modern and efficient IT systems and electronic product and service delivery channels.

The volunteers are conscious of the organisational and financial challenges the credit union faces. They are aware of what needs to be done, the how to do it is more problematic. The credit union must grow and it has the potential to grow, but lacks the organisational capacity and staffing to make growth happen. To make it happen, it requires investment in the business which it is difficult to generate itself without the requisite organisational capacity.

Support and investment

The volunteers were clear that if the credit union is to make significant advances in serving low-income and financially excluded people, it would require support and/or investment from Government or other external agencies.

There was a call, for example, for the development of some form of loan guarantee scheme to support lending in low-income communities (perhaps modelled on the DWP Financial Inclusion Growth Fund which was only available to credit unions in England, Scotland and Wales but which has made a significant impact on the development of the sector). Alternatively, or alongside, such a scheme, there is the need for an organisational strengthening and expansion programme to ensure that smaller credit unions with potential are able to serve their local communities effectively.

In order to assure such support of Government or other agencies, the volunteers were concerned that the work of credit unions in low-income communities, and in supporting people in financial difficulty, needs to be better known and appreciated in Northern Ireland. They felt that there is a tendency sometime for Government and others to

regard credit unions as just another set of financial institutions without recognising the work they do on the ground in hard-pressed communities.

Future development

The volunteers are committed to ensuring that the credit union continues to serve the people who need its services. In difficult economic times, this need is growing and volunteers spoke of the increasing number of people now coming to the credit union.

"There has been business in Harryville that we've never had before. Our standing orders have gone through the roof"

Among the volunteers there was a certain urgency about change. The need for a strategy for the sustainable development of the credit union and a succession plan to pass on the organisation to the next generation was becoming more and more pressing. It may be that greater consideration has to be given about future mergers, or to more collective approaches to development as outlined in the DWP Credit Union Expansion Programme. There was a strong feeling that the support given by the UK Government to credit unions in Britain through the Financial Inclusion Growth Fund and CUPE should be replicated in Northern Ireland.

6. The demands of the low-income financial market

Understanding the perspectives of low-income consumers on the financial needs and wants of low-income communities, was an important element of the research study. For it is only with a clear appreciation of the dynamics of the low-income financial market that credit unions can respond appropriately. Equally important was to gain an understanding of how credit union managers and board members currently understood and prioritised the needs and wants of low-income members.

6.1 The perspectives of low-income consumers

Research has often revealed the particular characteristics of the financial needs of people on low incomes in the areas of credit, saving and banking (Jones 2001, Collard and Kempson 2005; Kempson, McKay and Collard, 2005; Jones 2008; Ellison, Whyley and Forster, 2010; Ellison, Whyley, Forster and Jones, 2011). In order to explore perspectives on the demand for financial services among low-income consumers, six focus groups of people from social housing estates were held in a number of locations across Northern Ireland.

The make-up of these groups is outlined in the research methods section of Chapter 2. Participants were mostly tenant and resident area representatives within the NIHE's Housing Community Network accompanied, in some places, by a small number of community workers. All participants, both representatives and community workers, were resident on social housing estates in Northern Ireland. Even though participants were chosen at random, 34 (56 per cent) of the 61 participants were credit union members, an indication perhaps of the high number of credit union members in communities throughout Northern Ireland. However, it

ought to be noted that participants were all engaged within their local communities and would possibly have included a higher percentage of credit union members than normally found among Housing Executive and social housing tenants (cf. the finding that 4 per cent of Housing Executive tenants were credit union members – see Chapter 3).

These groups explored perspectives on access to credit, saving on a low income, and access and use of transaction banking. They also discussed the advantages and disadvantages of credit union membership, from the point of view of those who were already members of credit unions. Participants who were not members contributed thoughts on what would attract them to join a credit union and on possible barriers to membership.

Low-income credit use

Participants related that access to credit is an essential aspect of life on a low income. For many it is the only way of managing the ups and downs of the household budget and of funding major purchases. Few people, they argued, had access to sufficient savings in an emergency and, in times of need, they had little option but to borrow (cf. Ellison et al. 2011).

In the focus groups, participants spoke about their use of credit cards, banks and overdrafts, high cost credit providers such as home credit, payday loan companies, money shops and pawn shops, store cards, catalogues, borrowing from family and friends and social fund crisis loans. The use of illegal lenders was also raised by some people, particularly in relation to borrowing off people associated with paramilitaries, a reality often concentrated in areas of high social deprivation. Of course, given that a high percentage of people in the groups were credit

union members, people also spoke of borrowing from the credit union.

In the discussions it was noticeable how often people accessed credit from multiple sources and credit union members could even continue to borrow from high-cost and other providers. There was often simultaneous use of sub-prime and mainstream borrowing, with people having perhaps an overdraft, a credit card debt and a payday loan.

Participants identified the factors that they took into account when deciding to access credit. The primary factor was accessibility. It was which provider would grant a loan that mattered the most. This was particularly the case when people were desperate for credit. Other factors that influenced choice were the immediacy of access to a loan, the ease and flexibility of repayment, straightforward terms and conditions, convenience, and ease of application. The issue of ease of application featured highly in discussions as people seemed to find the completion of application forms difficult. The cost of the loan was important, but much more important was the amount payable per week or month. Affordability was judged not by the overall cost of the loan but by the level of the weekly or monthly payment and its impact on the household budget.

Participants also spoke about why they need to borrow, which was mostly to cope with unexpected expenditure and household goods. In several of the groups loans for oil was particularly mentioned. Given the rising costs of oil, this emerged as a key issue for many people on low to moderate incomes,

Saving on a low-income

The fact that a large proportion of the participants were credit union members meant that many people were familiar with the importance and value of saving. But participants stressed how difficult it was to

save on a low-income; when getting by each week often meant having to rob Peter to pay Paul. Credit union participants also said it was not easy to save a large amount. Currently, research tells us that only one in five people living in low-income households are actively 'saving-engaged' (Ellison 2011), a reality that was reflected for the most part in the focus groups particularly among non-credit union members.

Participants were asked about what helped them to save. Of course having disposable income was mentioned as a major factor. In addition, participants said that they were helped to save if they had access to a convenient and easy way to save, if they could save in small amounts, including in cash, and if they could save regularly, even if only a small amount. Many participants said that they were helped to save if they were saving for a specific purpose, rather than just saving generally or for a rainy day.

Christmas savings schemes were very popular in the focus groups. These schemes gave people a mechanism to save but which locked-in savings until November. This was seen as important as it assured constant saving even when struggling with the household budget. For similar reasons, credit union members valued the default saving mechanism through which people saved automatically into their share account whilst repaying a loan. In most credit unions, savings accrued whilst borrowing were also subject to restricted access if they remained less than the value of the loan outstanding. In practice, savings in a standard share account, when less than the loan balance, cannot be withdrawn until a loan is repaid.

But credit union members said that sometimes they also wanted access to their savings when they were needed. For this reason, they said that they valued the introduction of flexible savings accounts, in

addition to the share account linked to the loan balance, which allowed members to withdraw savings as and when required.

Interest on savings was noted in only two of the six groups as a help to saving. For some people it was clearly important but, for others, other considerations were more important when it came to deciding how, what and where to save.

Participants who were not credit union members said that they saved in the post office, in the bank, by buying savings stamps or just by keeping money in cash hidden at home. Some people saving in cash said that they did not need or trust financial institutions, and several quoted the case of the Presbyterian Mutual Society.

Participants were also asked what hindered them from saving. The two main issues that surfaced were first, and perhaps to be expected, the high cost of living and the difficulties of making ends meet on insufficient income. Secondly, participants particularly those who were not credit union members, argued that they lacked a savings culture. Saving was not part of their lifestyle nor was it especially encouraged and supported by family and friends. Other factors hindering saving included lack of access to a convenient savings facility, especially in rural areas, and the perception that they would not be able to open a savings account in a bank as they would not have the required ID or documentation.

Access to a greater range of financial services

In the focus groups, many participants said that they were seeking more from credit unions than just the traditional savings and loans accounts. In all six groups, there were a significant number of people who said that they would like to see credit unions offer a current account with debit card and ATM

access, online banking, and direct debit facilities. There was a marked interest in the development of bill payment and budgeting accounts (the so-called Jam Jar accounts) though which people could pay bills without fear of getting into debt through failed direct debits and standing orders. This was seen as being particularly important if social housing tenants had had to manage their own rent payment through the introduction of Universal Credit (see Chapter 10).

In two of the six groups participants said that they would like to see group membership facilities for community groups and charities. Participants were involved in a number of local organisations, and being able to deposit funds in a credit union rather than a bank, was seen not just to be convenient but a practical way of investing in the community.

A large number of participants stressed the importance of the standardisation of product and service delivery across credit unions throughout Northern Ireland. Concerns were expressed that there was too wide a diversity between credit unions in respect to the services they were able to offer their members. Larger staff-run credit unions with greater organisational capacity were able to offer a different level of service than smaller credit unions managed mostly by volunteers. Greater standardisation was important if everyone was to access to same level of service delivery.

Linked to greater standardisation, was the need, according to some participants, to modernise credit union services though the greater introduction of electronic payment methods and online access and through the development of a wider range of products and services on offer. Some participants called, for example, for the provision of home contents insurance, offered by some credit unions and not by others.

However, the importance of expanding the range of credit union products and services was not universally accepted by all participants in the groups. A significant number argued that credit unions would be better advised to retain their traditional savings and loans service, and not to venture into current accounts and other more sophisticated products. Some people felt that such a move would mean that credit unions would resemble banks and lose their engagement in the local community. Other people were concerned about costs of the development of new products and service and how these may be passed on to members.

On credit unions – views on advantages and drawbacks

34 of the 61 focus group participants were already credit union members. These participants were asked to identify what they saw as the main advantages and drawbacks of credit unions in relation to their ability to serve low income communities. In answering this question they were asked to reflect on their own experience as a credit union member.

For participants, the advantages were that credit unions were local community-based organisations that were approachable, friendly, flexible, and informal and designed for ordinary working people. They were often accessed through family networks and many people joined from an early age. People felt the fact that credit unions offered a face-to-face, personal service was of high importance in a low-income community.

In most groups there was a stress on the importance of credit unions promoting a savings culture and enabling people to save even small amounts. And of course the provision of affordable credit, without hidden costs or charges was seen a key advantage for all.

However, participants did recognise that there were also some drawbacks to credit unions engaging in low-income communities. The first, and the one mentioned the most, was the nomination process through which any new member has to be nominated and seconded by an existing member. This works well for people within the requisite social and family networks, but for people outside those networks, access to a credit union can be difficult. Some people in the groups described credit unions as “cliquey” for precisely this reason.

Other drawbacks mentioned included the necessity of people having to save before they could borrow, which is the practice in many but not all credit unions. This prevents a person on a low-income who has been unable to save, accessing a loan. Some participants also felt that some people, particularly in rural areas, were uncomfortable in having a loan application reviewed by a group of people from their own community. Poverty in rural areas is often hidden and people are often more reticent than people in urban areas to reveal their financial situation to neighbours and friends. Another point mentioned was the locking-in of savings whilst borrowing. Even though many saw this as helpful, others felt that it unnecessarily denied them access to their savings. It was noted that some credit unions do offer additional savings accounts for withdrawable savings.

The 16 non-credit union members were asked why they had not joined a credit union. Responses varied from lack of awareness of credit unions, and the fact that there was not a culture of credit union membership in the family to perceptions that credit unions “only serve one side of the community”. Lack of coverage in certain areas was mentioned by some. The final point mentioned by a few people was that they were satisfied with the financial services they currently use and did not feel they needed to join a credit union.

6.2 Credit union perspectives on serving low-income members

Credit union participants, both in the survey and interviewed, recognised the distinctive nature of the low-income financial market. 70 per cent of survey respondents said that the financial needs and wants of people on low incomes, or who experience financial exclusion, were different from those of people on moderate incomes and in less pressured financial circumstances. Serving low income members demands a tailored credit union approach.

It was recognised that the financial needs and wants of people on low incomes are driven by the reality of living on a very tight household budget. People have regularly to cope with a range of competing financial priorities, some of which cannot be met week by week. People have to rob Peter to pay Paul just to get by. Of course not everyone on a low income exhibits the same financial behaviour. Ellison et al. (2011), for example, have segmented low-income credit users into eight distinct categories. These include people who are cautious, who cope, who are deeply troubled, and who are pressured in one way or another. There are those that keep a strict control over expenditure and those who are more vulnerable to financial mismanagement or over-indebtedness. In credit unions, as managers noted, there are those who save and borrow successfully, and others who struggle and need particular support.

Products and services important for people on low-incomes

In the survey (see Table 4 on page 41), credit union participants were asked to identify the products and services that they considered, from their experience, were particularly important for people on low-incomes and/or facing financial exclusion. They were asked to identify products and services they thought were important irrespective of whether or not

they were currently offered by the credit union.

As can be seen in Table 4, there were some differences in the views of larger and smaller credit unions. This could have been a function of capacity or a perception of what members may seek from a small community organisation.

However, the most important products and services, identified by over 50 per cent of respondents were:-

1. Money and/or debt advice.

Credit union participants meet many people who have run up overdrafts and credit card balances that they now find difficult to pay down, and/or have taken out loans from high-cost alternative providers on which they have become dependent. Even after borrowing from a credit union, related credit union managers, the pressure of making ends meet can sometimes result in continued borrowing from high-cost providers. It is significant that the majority of survey respondents regarded money and/or debt advice as important for people on low-incomes.

2. Budgeting and bill payment accounts.

These accounts offer people the opportunity to have important bills paid without the fear of becoming overdrawn. The bills are paid first out of a wage or benefit deposit, with the remainder being available for the credit union member to use. These are sometimes called Jam-Jar accounts after the assumed traditional practice of people on low incomes of saving by setting aside money for different bills or calls on the household budget.

3. Loans for the purchase of oil.

Access to affordable credit is important

for people on low incomes. However, in the survey, respondents identified loans for the purchase of oil as of particular importance at the present time. This reflects both the rising price of oil and fuel poverty faced by many people, particularly in rural areas.

4. Bulk buying schemes for home heating oil.

These purchasing schemes aim to provide oil at lower prices for households. A loan can then be used to purchase the oil at the reduced rate

5. Christmas savings schemes.

Credit unions recognised that locked-in savings schemes can particularly help low income families save for Christmas. Not being able to raid the savings when the household budget is pressured is valued by many people on low incomes.

6. A savings account with an annual dividend.

Credit unions endeavour to prioritise a savings culture and enable people to save even if only small amounts.

7. Benefit direct accounts.

The identification of direct benefit payments into a credit union account is of particular importance. When linked to a budgeting and bill-payment account, this can assist people to better manage their money through the credit union.

The perceived importance of these seven products or services for low-income families will inform the approach of many credit unions to the strategic development of financial services for people on low incomes (see Chapter 8).

Serving squeezed moderate-income members

In interviews with credit union participants there was a stress on the impact of the current economic situation on people of more moderate incomes, and not just on people on welfare benefits or who traditionally may have been regarded as financially excluded. Many people in work, in low to moderate-income jobs, are now feeling the squeeze of the recession and are finding it difficult to balance the household budget. They are no longer being served in the same way by banks and mainstream financial providers, and many are finding access to affordable credit increasingly difficult.

This changing nature of financial exclusion has resulted, for example, in more low to moderate-income people coming to credit unions for loans for oil, something they would have not have done five or six years ago. Credit unions are also reporting that similarly they are coming seeking loans for clothes for the children and basic household or car repairs. As one manager said,

"People are looking to put clothes on their children for school, but don't go to your high street bank and ask for a loan to get your children school clothes. You come to us".

A manager in a different credit union explained:

"The white collar debt is very significant now; our money advice people would deal with people who are still in fairly decent jobs, but the squeeze has been on their disposable income. In previous years, they would have been comfortable but as the cost of everything has gone up, they find that wages are not keeping pace.

We would also find that a lot of people who would have been self-employed, they are the ones that seem to be hit the most, and especially construction and the ancillary sort of businesses to it are also struggling. They would be the ones that would be coming to us as the banks have really cut their overdraft and sliced

them in half. Those are the ones that are finding it really difficult”.

Many credit unions are finding that people on more moderate incomes are now coming to them for loans that they would have accessed elsewhere in the past

“And whilst maybe you’re [the interviewer] looking at addressing the needs of people who

are unemployed, people or who are on various sums of benefits, there’s also that group of people who are on earnings who find it difficult to pay all the major bills now that they need to pay. If you have a car going that breaks down, and somebody needs £600 to fix it. They need to now come to us”

Table 4. Products and services which credit union respondents considered particularly important for people on low-incomes and/or facing financial exclusion

	Very important n46	Very important n5 Over £50m assets	Very important n6 Under £0.5m assets
Money and/or debt advice	79%	100%	71%
Budgeting and bill payment accounts	67%	100%	29%
Loans for the purchase of oil	66%	100%	43%
Bulk buying schemes for home heating oil to provide lower prices for households	63%	100%	43%
Christmas savings schemes (with locked-in savings until before Christmas)	56%	60%	43%
A savings account with an annual dividend	54%	80%	57%
Benefit direct accounts (direct benefit payments into a credit union account)	52%	80%	43%
Funeral plans	47%	100%	29%
SMS alerts to members- reminders to repay loans etc.	43%	60%	29%
Pre-payment debit cards	40%	80%	0%
Home Contents Insurance	31%	80%	29%
Car insurance	31%	60%	50%
Loans not linked to savings balance (instant loans)	23%	40%	14%
A current account with debit or ATM card	16%	40%	29%
A range of loan products at varying interest rates	16%	40%	14%
Payment Protection Plan (insurance)	13%	0%	29%
Internet access to account manager for members	11%	20%	0%
Savings deposits with interest payable rather than a dividend (when legislation amended)	9%	20%	14%
Differentiated savings accounts with a range of interest rates	7%	0%	14%
Individual Savings Accounts (ISAs)	7%	0%	0%
Mortgages	7%	20%	0%

7. Current products and services for low-income households

Credit unions in Northern Ireland offer financial services to a wide and economically diverse membership. However, based as they often are, in low to moderate income communities, most credit unions offer products and services that respond to the needs and wants of people on low incomes or who are experiencing financial exclusion. Table 5 on page 53 lists the products and services currently offered by credit unions in Northern Ireland as applicable to low-income households.

Credit unions in Northern Ireland mostly concentrate on offering savings and loans. However, the study revealed how a number of credit unions are beginning to offer a wider range of services tailored to the needs of low-income and financially excluded members.

7.1 Promoting saving

All credit union participants interviewed regarded the promotion of saving as central to assisting low-income members to achieve financial stability. Even though only one in five adults aged 25 to 55 living in lower-income households in GB are able to save (Finney and Davies 2011), credit union participants said that people on low-incomes can and do save in credit unions, even though at times this may be a struggle. 78 per cent of credit union respondents to the survey said the ability to save was regarded very positively by their low income members, but they needed to be able to save small amounts, often in cash and, when budgets are tight, irregularly. As one manager put it,

"The savings would be smaller, it might be a pound or two a week, if they save at all, but sometimes between loans, if they're topping up regularly, they don't have the means to save".

Positive economic and psychological effects of saving

Credit union participants recognised that building savings can change the way people think about their own financial situation and, as argued by Sherraden (1991), can contribute to moving people out of poverty. He maintained that building even small savings balances, can result in a range of positive economic and psychological effects including planning for the future, health and well-being and increased participation in the community, a finding supported through research into Saving Gateway pilot programmes (Kempson et al 2005).

In Northern Ireland, all credit unions offer standard savings accounts, most also offer withdrawable savings accounts, about a quarter offer Christmas savings accounts and some offer specific savings plans for other designated purposes (see Table 5).

In most credit unions, standard savings accounts are linked to a member's eligibility to borrow. There are variations but members are often eligible to borrow two or three times their savings. Of course, entitlement to a loan is never automatic; credit unions operating the practice of linking loans to accrued savings still assess an applicant's ability to repay. Once the loan is granted, all savings below the outstanding loan balance are frozen until the loan is repaid. This traditional model, however, tended to encourage members to save primarily to borrow, which participants reported is still often the case among low-income borrowers.

To encourage more flexible and greater saving, some credit unions have introduced withdrawable savings accounts (sometimes called Easyshare accounts) to allow people to

withdraw savings whilst still having a loan outstanding. The savings balance in this account is not taken into account in assessing loan eligibility.

Deposit-side and withdrawal-side commitment mechanisms

In supporting a culture of saving, most credit unions adopt deposit-side or withdrawal-side commitment mechanisms to assist people to save regularly. On deposit side commitments, examples include default deposits into a standard savings account from a member's lodgement when repaying a loan, and in those credit unions with the facility, from a benefit direct account when a deposit is made. These mechanisms make saving a default option, which for many is a real help to save. As one manager said,

"We try to make every transaction have a portion of share input too. That is the first thing we'll say to a member. If they have a loan, they must pay at least a pound a week into shares".

On withdrawal-side commitments, some credit unions offer a Christmas savings account which enables members to save flexibly each month. Members can start or stop saving at any time, but money cannot be withdrawn from the account until November. Locked-in savings accounts are often popular with low-income members as they ensure that savings cannot be withdrawn under the pressure of the household budget.

Withdrawal-side mechanisms also include the linking of life insurance to savings balances, where the withdrawal of savings results in the loss of life insurance on the amount saved.

Another example of a locked-in savings facility offered by credit unions is the purchase of oil stamps. As one manager explained:

"One of the things we are doing is the oil savings stamps, and we are doing that with the City Council; we had debates about why people can't save for oil in their withdrawable savings

account, but it is better to buy the stamps as they cannot be spent on anything else"

Paying a dividend on savings was seen by participants as important in encouraging people to save. In Northern Ireland, the majority of credit unions pay a dividend on savings of at least one per cent, a rate which matches, or beats, interest currently paid on small savings in banks. The payment of a dividend is seen as good for the member but also good for the local economy. One credit union in the study reported that it paid out £500,000 in annual dividend last year, most of which would have been spent locally.

A current issue for many Northern Irish credit unions is that they are cash rich as they have more money in savings than they are able to lend out to members. This can place a strain on a credit union as it affects capital adequacy and their ability to generate sufficient income to pay a dividend on savings. Some credit unions are therefore prioritising increasing lending rather than attracting further saving deposits. However, this impacts little on a credit union's motivation to encourage small savers on low-incomes.

7.2 Access to credit

Among credit union participants, there was a strong appreciation that people on very low incomes need to borrow for essential items; to make ends meet or to smooth out the ups and downs of the household budget. They understood the challenge of operating in a market where people needed to borrow small amounts and where often they had regularly to juggle competing financial priorities. All those interviewed considered that serving people on low incomes, or who were facing financial exclusion, is an essential part of the business.

Overall, there was often a cautious approach to lending in the low-income market. As one manager argued, many low income members prioritise their credit union loan repayments

and would rarely default on a loan. However, others are higher risk and require greater monitoring and care. Loan application criteria, and rigorous credit assessment, can result in credit unions not always being able to serve actual or potential loan applicants with credit. Participants were conscious that credit unions can only lend to those with the capacity to repay and not all people who want, or consider they need credit, are best served with a loan.

Low-value loans

Credit unions regard their willingness and ability to offer low-value loans at a standard affordable rate of interest of 12.68 per cent APR as positive action in reaching out to low-income households. A comparable loan from a home credit company would typically be offered at 399.7 per cent APR⁸ or from a payday loan company at 4,214 per cent APR⁹. Very small loans are common in credit unions operating in low-income areas, as this manager explained;

"Quite often we would have people applying for £50, as small as that. Last week we had £75.00, a couple of £45.00, small loans like that are common".

In some credit unions, 25 per cent to 50 per cent of the business is for loans less than £500. This was seen in the case of Derry Credit Union, where nearly a quarter of all lending was for loans less than £250 (see Chapter 5). As was seen in Slemish n tha Braid Credit Union, a credit union that would have made mostly larger loans to farmers in the past, 40 per cent of its loans are now between £500 and £1000. There has been a marked move to provide lower value loans, a challenge for the credit union which still

⁸ Quoted on a £100 loan paid weekly over 32 weeks <http://www.providentpersonalcredit.com/home-credit/loan-calculator/> December 2012

⁹ Quoted as a representative rate on a £207 loan for 20 days <https://www.wonga.com/> December 2012

needs to make higher value loans to ensure the business is profitable.

Top-up loans

With the competing demands on the household budget, people on low-incomes often want to borrow smaller amounts but more often. The ability to offer regular top-up loans was regarded by credit union participants as positive support for low-income members. As this manager puts it;

"We have done top up loans, so people could maybe borrow five or six times in a year, and I suppose that's how we have responded to people's needs".

Participants, however, were careful to stress that credit unions did not want people to run up debts that they could never pay down. One credit union participant reported for example "that some members had had so many top up loans that they could not physically borrow any more money and ended up going back to high-cost providers". It was for this reason that some credit unions make sure members are encouraged to pay down top-up loans particularly if they relate to shorter-term financial needs. One manager explained:

"We have people who are constantly topping up and topping up and we are trying to say to them, you need to get into the habit of having money aside for things such as your oil, your food, presents etc, try and put something aside. So instead of allowing them to constantly top-up, say they are trying to get a loan out for holidays, we will say to them they need to pay it back within a year. If it is oil, you pay it back within 5 months".

Why people borrow

Participants considered that they knew that their credit unions were reaching out to people on low-incomes, or who were facing financial difficulties, because of the reasons people give for borrowing. People often borrowed for essential household goods, for school uniforms, car repairs, oil and utility

bills. People borrowed for basic items that financially included people may just have paid for in cash or on a credit card. Several participants noted that people were increasingly coming to credit unions to borrow for food. Managers said in interviews:

"What we are seeing increasingly is members borrowing for food"

"We've done £50 loans as well. And that's maybe someone who could come in here on a Friday and say that they haven't got any money, they need food for the weekend. Something like that. Or they need oil, just to keep them going".

Loans for oil were also on the increase as people on low and even moderate incomes found it difficult to cope with rising fuel costs. As one manager explained in relation to oil loan request from more moderate income working people:

"I never believed that I would see the day that somebody comes around the house and asks us can I have a loan for central heating oil. There's people coming in to us on a Saturday morning, and requesting can I get a loan to fill up my tank. We normally schedule loans over two years. And I know you don't get two years fill of heating oil out of your tank"

In response, some credit unions are now developing a loan product specifically for oil, at a reduced interest rate but which has to be paid back in a reduced period.

"We would be insisting that they have to repay in full before they ask for a top up for another oil loan. This is to try and get them into the discipline that if they want oil every three months, they would have to repay the loan in three months".

But this arrangement does not work in all cases; some people just cannot afford to pay for the oil in the period that it is being used, a reality that is resulting in increasing long term and problematic over-indebtedness. As one manager put it,

"Unfortunately we have had some people who have said I cannot afford to pay you any more than what I am paying you, So what they do is they take a loan on top of a loan and they know

it is never going to come to an end at least with their level of benefits at the moment".

Instant loans and the requirement to save

In most credit unions in Northern Ireland, new members are required to save for a period of around 13 weeks before they are entitled to apply for a loan. This is seen as an important requirement, as it enables the new member to demonstrate a sense of financial responsibility, and capability to build a relationship with the credit union. Once the member is known to the credit union as a regular saver, the credit union will then accept an application for a loan. But this, as already noted above, is often limited to a percentage of the amount saved.

On the one hand, the traditional practice offers new members the opportunity to establish a history in the credit union and to take positive steps towards financial stability. However, on the other hand, it results in other people not being able to take the step into credit union membership. People on low-incomes have not always the capacity to save but sometimes have an urgent need to borrow. With the ready availability of instant high-cost credit, it is easy to see how at times people can choose this option over the credit union.

Credit union participants argued that credit unions are required to protect their members' savings. This means they cannot respond immediately to a loan request from a stranger, whose history and background is unknown to them and who has no savings as collateral in the credit union. It is for this reason that very few credit unions in Northern Ireland offer instant access to credit to a new member of the credit union. The survey (see Table 5 page 53) only identified five per cent of credit union participants saying that their credit union offered instant access to credit to a new member. Of course, many credit unions offer forms of instant access to credit to

existing members who have been able to build up a track record of saving and borrowing in the credit union. But enabling a new member in need of a loan to obtain one without saving for a period of three months or so is quite another matter.

In GB, enabling credit unions to offer instant to credit has been seen as fundamental to reaching out to low-income and financially excluded groups and indeed, the offer of instant credit was a requirement of inclusion in the Financial Inclusion Growth Fund. By offering instant credit to new members, thousands of financially excluded people have been brought into credit union membership (Collard et al 2010). However, as credit union participants pointed out, in the case of the Growth Fund, the British Government took on the risk of lending to high-risk and vulnerable groups through the provision of capital to credit unions to support lending in the low-income market. For many Northern Ireland credit unions, using their members' funds to do the same would be imprudent.

However, there are exceptions and some, albeit a few, credit unions now offer instant credit to new members. Managers in these credit unions explained the position in these terms:

"On the 13 week rule, no we don't have it. When someone joins the credit union, they have to go to a new membership meeting; the application then goes to the Board meeting and the day after they can apply for a loan. Once they have membership, we will explain the longer they are in, the more credibility they will build up. But we have had people who have borrowed the day after they have been approved for membership".

"We haven't really promoted it that much, but what we're saying is if a new member joins and they need a loan, we would normally say, save for 13 weeks, but what we're saying now, if you're in real difficulties, talk to us and we will look at it, if it for a smaller loan up to £ 300. But if you build that relationship with us, we'll go out of our way to help you in the future".

Of course, instant loans cannot be linked to the value of accrued savings. Credit unions offering them have to break the link between savings and loans, at least in this case.

However, there are credit unions that are now breaking the link between savings and loans, both for new and for existing members. These are moving to the implementation of capacity-based lending. One participant described the situation in his credit union:

"A lot of credit unions will only give three times what you have saved; we don't operate on that rule. If they can afford it and it is a useful purpose and they are good members, why would you want that business to go elsewhere? There is no reason in the world why you would send a good member from your credit union to any other financial institution".

Membership and credit administration

There are two further aspects of the administration of the credit union that are designed to protect the assets of the credit union, but which may result in some financially excluded members finding it more difficult to access membership and obtain a loan.

Most credit unions require new members to be nominated and seconded by existing members. Sometimes, as noted in the previous quotation above, they require these applications to go to the Board for a decision on acceptance. For people who are outside the social networks and connections associated with the credit union, this may prove difficult.

The procedures for credit administration involve an interview, the production of documentation (including bank statements) and consideration by a credit committee. This process can in some cases take a while. For people used to instant credit on the doorstep, for example, participating in the credit union application process may appear daunting.

In fact, some credit union participants in interviews recognised that the credit administration process may not be as speedy and as straightforward for most people and members, not just those facing financial exclusion. Participants from one credit union, for example, reported that they have been working to streamline credit union administration procedures and drive down waiting times. This credit union did provide instant loans, but only for existing members, and reported that the maximum time a member would have to wait for a decision would now be two days.

Rebate on loans

In some credit unions, participants reported, an interest rebate on loans is offered at the end of the financial year and this can be important for people on low incomes as it can be withdrawn at Christmas. In one credit union, a 15 per cent rebate on loan interest was paid on top of a 2.2 per cent dividend on savings. This could be withdrawn at Christmas.

7.3 Transaction banking

In research discussions, credit union participants recognised that some of the people that they endeavoured to serve lacked access or had problems using transaction banking. One manager highlighted the issue in the case of one of the members who cashed a credit union loan cheque at a cheque casher's outlet at clearly considerable expense.

"I wrote a cheque to a woman, and she went up to one of them Cash Converter shops to cash it. You know, because she had no bank account".

Access to transaction banking has often been regarded as the gateway to financial inclusion. Not only is not having a bank account a barrier to employment, to taking on some tenancies, to accessing some products and services or to starting a business, it results in having to pay far higher charges for cashing

cheques and for paying utility bills. Lack of a bank account is often linked to wider social exclusion, with all the difficulties that this entails.

The Credit Union Current Account

It was this link between transaction banking and financial inclusion that resulted in the Association of British Credit Unions (ABCUL) partnering with The Co-operative Bank to enable credit unions to offer transactional banking, fully under credit union control. Since 2006, British credit unions have been able to offer a Credit Union Current Account, with Visa ATM and debit cards and functionality for direct debits, standing orders and money transfer.

Of course, the challenge for credit unions was to offer people the kind of current account that responded to their particular needs for access, control, transparency and certainty about charges (Jones 2008). Credit unions committed to charging substantially lower fees for unpaid transactions than those levied by the banks, even though this was often compensated for by a small weekly account charge to the member.

Only one credit union in Northern Ireland currently offers transaction banking. It offers the Credit Union Current Account as supplied through ABCUL. It regards transaction banking as important in promoting the financial inclusion of those who find accessing mainstream banking difficult, and in assisting its members in money management. In regard to the latter, the credit union has linked the current account with a basic budgeting and bill payment service. The manager explained:

"We would use this [the current account] quite often for our people who are in financial difficulty. The reason why we would encourage them to pay the £4 a month as this means we will take all their money in, and we will pay out to all their creditors. So instead of them having to pay those people themselves, £4 will cover

all their direct debits and standing orders. This streamlines the whole process, as it satisfies all the creditors, as they want it paid into an account, we can do that and also controls it."

The development of the current account, however, has been challenging for the credit union. First, it is expensive and has been a significant cost to the credit union. The credit union has not yet been able to open more than a few hundred accounts which has restricted the income potential of the service. Secondly, as the equivalent of a basic bank account, the Credit Union Current Account does not yet have the functionality to make it an attractive offer to the wider membership (even though this may change through the DWP Credit Union Expansion Project currently being rolled out in GB). Nevertheless, the credit union is committed to continuing to offer the current account as an important element in its approach to tackling financial exclusion. As one participant from the credit union noted:

"We have the current account for the socially excluded in this area, the people that they call the 'unbanked', to get them an account. These are the type of people we want to reach out to and these are the type of people that credit unions should be reaching out to"

The expectation is that the functionality of the account will improve in the future, thus driving down operating costs. However, there was some disappointment expressed that credit unions in GB were supported financially to set up the current account through the Financial Inclusion Growth Fund, an opportunity that was denied to credit unions in Northern Ireland.

Benefit direct accounts, electronic payment and pre-paid debit cards

Apart from the current account, some credit unions have ventured into other forms of electronic payment channels, but in general, these as yet have not been extensive. From the online survey returns, about 20 per cent of

credit unions offer a benefit direct account, 15 per cent offer pre-paid debit cards and a few offer electronic deposit card (such as PayPoint) (see Table 5 on page 46).

The introduction of benefit direct accounts, through which welfare benefits and pensions can be paid directly into credit unions, was delayed in Northern Ireland due to a lack of regulatory permission to receive Social Security Agency (SSA) benefit payments. Credit unions can now accept them on condition that they comply with certain procedures as detailed by the SSA Bank Liaison Section. However take-up has remained limited. Before transfer to the Financial Services Authority in March 2012, the ILCU had just six credit unions in Northern Ireland offering receipt of SSA benefits into member credit union accounts.

One reason that credit unions do not offer benefit direct accounts is they often lack the facilities or capacity to enable benefit and pension recipients to conveniently withdraw funds. If no current account is available, funds could be withdrawn through the use of a pre-paid debit card. However, take up of these has also been limited in Northern Ireland. Some credit unions, though, do use pre-paid debit cards both for withdrawals and loan disbursements, and as a facility for people to use as an electronic wallet. Some credit unions that offer pre-paid debit cards have found them to be a useful resource for members in the transmission of funds and in paying for goods and services. Others have had a more mixed reaction.

In order to assist members to repay loans and make share deposits in cash, credit unions can also use electronic deposit cards such as PayPoint. However, there has also been limited take-up of these by credit unions. One credit union that does use them, however, has also installed a PayPoint terminal, so that people can conveniently pay other bills in cash

in the credit union. This can be of direct assistance to low-income and financially excluded individuals who often prefer to deal in cash.

“We have the payment card is ideal for people who are on benefits that don’t have their benefits paid directly into ourselves as they can go to Post Office and they can pay it there or they can go to nearest garage forecourt and pay their account of there. It is very convenient for those people as it saves them, if they are outside of the town, having to get taxis”.

7.4 Budgeting and bill payment accounts

Effective practical support and assistance for low-income credit union members can include some form of budgeting and bill payment mechanism to ensure that members’ funds are put to one side to pay bills and repay loans. This can be of real help to a person on a low-income trying to juggle many competing financial commitments. It can ensure that essential bills are paid on time and can assist people, for example, to avoid debts on utilities bills and arrears on rental payment. Using a bill payment service, for example, for the payment of court fines can help people avoid all kinds of difficulties in the future.

In the last section, the example was given of a credit union operating a bill payment service in tandem with the Credit Union Current Account. However, other credit unions have developed similar services based on a standard savings account. In the survey, 23 per cent of respondents said that their credit union operated a form of budgeting and bill payment account service.

It was noticeable, though in the survey, that none of the smaller credit unions were able to offer such a service. In interviews, some credit unions said that they were interested in budgeting and bill payment accounts but did

not have the capacity or technology to develop them at the moment. As one manager noted in a conversation about bill payment accounts:

“Not at the moment. That’s just at an early stage; we’re only looking at doing it. The reason is that we don’t have full time workers, we’re only volunteers, and there’s only so much time you can put in. When you say you’re only a volunteer, well, you’re putting in 80 hours a week”.

7.5 Access to money and debt advice

Support offered to people seeking access to affordable credit often entails signposting to money and debt advice services. All credit union participants interviewed, regarded access to money and debt advice as an essential element of a successful pathway to financial security for people seeking loans who were already in financial difficulties.

However, the strength of the link between credit unions and money and debt advice agencies was variable. Some credit unions had strong working referral relationships with money and debt advice agencies, whilst others were limited to just having information leaflets available.

There was also some evidence of tensions, however, with independent money and debt advice agencies. A number of credit unions had not resolved the issue of credit union loans being de facto non-priority debts. In order to preserve the relationship between an over-indebted member and the credit union, credit unions tend to want their loans regarded as priority debts by debt advice agencies. Debt advisors take a contrary view and see credit union debts as non-priority debts and as equivalent to other non-priority debts to other creditors. Some credit unions, in the same vein, do not accept debt write off through IVA’s and bankruptcies and expect

members to repay such loans in order to regain good standing in the credit union.

A small number of credit unions offered an in-house money and debt advice, provided by advisers employed by the credit union or through the services of another agency. Those that used an outside agency said that they did so to retain adviser independence. When financial institutions employ their own money and debt advisers, they can so easily prioritise the repayment of loans to the institution over other creditors and promote or sell the take-up of the institutions products.

7.6 Financial education and capability

Credit unions are in a key position to provide the personal finance education necessary to empower members to make informed financial choices. In Northern Ireland, based often in the heart of local communities, credit unions are in close contact with people on low and moderate incomes and have the trust and the confidence of the membership. They are well placed to promote the financial education and capability of members, one of the fundamental objectives of the credit union movement. They are particularly well placed to participate with the Department of Enterprise, Trade and Investment in promoting the financial capability of the Northern Ireland population (DETI 2012).

As a key element of its educational programme, most credit unions hold information meetings for all new members at which the philosophy and principles of credit unions are explained in detail. It is at these meetings that new members are informed about how the credit union can assist them to achieve financial stability. As one manager explained:

"There is a presentation about products and services. We have found these meetings to be

good from an educational point of view as well as an opportunity to engage with members".

Some credit union participants felt that financial education in credit unions was not just promoted through meetings but through one to one dialogue with members particularly at times of stress in people's lives. The focus was often therefore informal; through raising issues and discussing the financial questions that arise immediately from members' own financial situations. This could take place, for example, through discussion on an income and expenditure statement when applying for a loan. Or it could occur when explaining why it is not a good idea for the member to take out a loan. It is in the context of these hot issue moments that learning and financial capability behaviour change often takes place. As one manager noted:

"Our loan refusal rate is quite high, and that is really trying to protect people, not just low income people it is everyone. We try to explain if you don't need it, don't borrow it, don't buy it but unfortunately most people want it yesterday".

This approach to education, of course, depends entirely on the skill, experience and sensitivity of the credit union officer. A loan refusal could either be perceived as negative or positive educational experience by the member depending on the skills of the person with whom they have engaged.

A key area for financial education by many Northern Ireland credit unions is their work in primary schools, and more rarely in secondary schools. This is perceived a key contribution to financial education in the community. This is supported by a recent Consumer Council research report (CCNI 2012) which indicated that consumers believed that Government could do more to incentivise people to plan ahead for their financial future through savings schemes as offered by credit unions in schools.

But offering such a service sometimes this comes at a considerable cost to the credit union, as the comment of this research participant indicates:

"But that [engagement in schools] comes at a cost, a cost to our credit union that nobody wants to support. We're sending our tellers to

primary schools in the lovely rural parts of the countryside to collect six books".

Credit unions involved in offering savings schemes in schools were of the strong opinion that Government should support such initiatives in the long term interests of the younger generation.

Table 5. Products and services currently offered by credit unions in Northern Ireland.

Percentage of the total respondents selecting the option n = number of respondents in the group	n42 All respondents	n5 Over £20m assets	n6 Under £0.5m assets
A savings account with an annual dividend	80%	80%	43%
Loans for the purchase of oil	48%	60%	33%
Funeral plans	28%	80%	0%
Christmas saving scheme (with locked-in savings until before Xmas)	24%	20%	29%
Budgeting and bill payment accounts (Jam Jar accounts)	23%	40%	0%
Benefit direct accounts (direct benefit payments into a credit union account)	20%	40%	0%
Internet access to account manager for members	18%	40%	0%
SMS alerts to members- reminders to repay loans etc.	18%	20%	14%
Money or debt advice	17%	40%	14%
Pre-paid debit cards	15%	40%	0%
International Money Transfer	13%	60%	0%
A current account with debit or ATM card	5%	20%	0%
Loans not linked to savings balances (instant loans)	5%	0%	0%
A range of loan products at varying interest rates	5%	40%	0%
Mortgages	2%	20%	0%
Bulk buying schemes for home heating oil to provide lower prices for households	2%	0%	0%
Differentiated savings accounts with a range of dividend rates	0%	0%	0%
Individual Savings Accounts (ISAs)	0%	0%	0%
Payment Protection Plan (insurance)	0%	0%	0%
Home Contents Insurance	0%	0%	0%
Car insurance	0%	0%	0%

8. Opportunities for expansion in the low-income market

There was evidence from both the survey and from interviews that many credit unions, but not all, wanted to expand their product and service offer within the low income financial market. These credit unions have an appetite for the modification of existing products and services and the introduction of new ones in response to the needs and wants of people on low incomes or facing financial exclusion (see Table 6 on page 58).

However, as yet, there was little evidence in the study of rigorous market research and analysis of the low-income market, and of strategic approaches to the development of products and services designed to meet the needs and wants of this segment of the market. Most developments were led and implemented by individual credit unions based on their knowledge of the membership. One exception could be the ILCU's development of the Credit Union Services Organisation for Payments (CUSOP)¹⁰ which will give access to all ILCU members to the banking clearing system and thus enable them to offer incoming and outgoing credit transfer EFT (Electronic funds transfer) services to their members. This will include electronic deposits, standing orders, direct debits and credit transfers to third parties.

8.1 Product and service development

¹⁰ "The CUSOP project was set up in 2010 following a business case commissioned by ILCU. The objective of this project will initially be to provide incoming and outgoing credit transfer EFT (Electronic funds transfer) services. These services will subsequently be expanded to include direct debits. The platform that is being put in place, as part of the CUSOP project, will allow for further expansion of EFT services including card solutions. A company called CUSOP (Payments) Limited will operate the service. This company will be governed by a Trust and service will be offered to ILCU affiliated credit unions" Irish League of Credit Unions statement to report author.

In the survey, credit union participants were asked about the products and services that credit unions plan, or would like to offer, in the future and which they did not currently offer to the membership. These are listed in Table 6 on page 58. It is important to compare this table with Table 4 (page 41) which indicates the products and services that credit union respondents considered important for people on low-incomes and/or facing financial exclusion. By comparing the two tables, the relationship between what products and services are seen as important for low-income people and what credit unions plan or want to develop becomes clear.

Overall there is high interest (by over 50% of the respondents to the online survey) in developing products and services in eleven key areas. These are ranked in order of the percentage of the total respondents selecting the option (see Table 6 on page 58). Money and debt advice is seen by the largest number of respondents as a key area for development.

- 1 Money and debt advice
- 2 Benefit direct accounts
- 3 A current account with debit or ATM card
- 4 SMS alerts to members- reminders to repay loans.
- 5 Budgeting and bill payment accounts
- 6 Pre-paid debit cards
- 7 Bulk buying schemes for home heating oil
- 8 Internet access to account manager for members

- 9 Christmas saving schemes (locked-in savings until before Xmas)
- 10 Loans not linked to savings balances (instant loans)
- 11 Home contents insurance

Five of these areas for development were identified in Table 4 (page 41) as especially important for people on low incomes and/or facing financial exclusion. These are:-.

- 1 Money and debt advice
- 2 Benefit direct accounts
- 3 Budgeting and bill payment accounts
- 4 Bulk buying schemes for home heating oil
- 5 Christmas saving schemes (locked-in savings until before Xmas)

These clearly are the areas for particular attention in any strategic expansion of product and service delivery within the low income market.

There are two items that appeared strongly in Table 4 but less so in Table 6. These were savings accounts with an annual dividend, and loans for oil. Both were seen as areas of importance to low-income families. The reason why they did not appear in Table 6 is that these products are already being offered by many credit unions so feature less in plans for new development.

Six items appear strongly in Table 6 and less strongly in Table 4. It should not be assumed that these are regarded of less importance for low-income and/or financially excluded people. On the contrary, four or the six items related to electronic payments and service delivery, the fifth is loans not linked to savings balances and the sixth home content insurance. These six areas for development relate to the needs and wants of the entire

membership, but clearly have significance for low income and financially excluded people.

Electronic payment and delivery channels

It was significant how strongly credit union respondents identified the development of electronic payment channels within the list of products and services that credit unions plan, or would like to offer in the future. These included a current account with debit or ATM card, SMS alerts to members, budgeting and bill payment accounts, pre-paid debit cards and internet access to account management.

In the interviews, interest in the development of a current account was high and seen as important if credit unions were to reach out to low-income households. Several credit unions said that the introduction of a current account was essential if young people were to be retained in the credit union. Achieving a current account, however, was seen to be constrained by capacity and cost. As one manager noted:

"We looked at it beforehand; it proved to be very costly. We looked at it with the Co-op Bank and the Bank of Ireland, and the two of them, it was very expensive. So, but we're hoping, that when we get this CUSOP, and we have our own sort code, we will be able to develop something like that. But we're two years away"

"Our target audience is young people, we have 2,000 juvenile members. For example young people going to university, parents can put money on their account here and they can access it overseas. People who joined in 1963 have completely different needs to that of people joining now. The young ones need help, especially ones going to university. Our thoughts are why they should pay any money into a bank or building society when they could be paying it into a current account here. Our opinion is we need to start targeting and this is one of the things we plan to do"

But not all credit unions wanted to implement a current account. One of the largest interviewed preferred to "stick to the knitting" and remain a savings and loans co-operative.

However most of those interviewed recognised that electronic payment and delivery channels are essential if the membership, including the low-income membership, is to be served effectively. Consideration of electronic delivery channels is a major area for development, not just in terms of a current account, but also in regard to payment and pre-paid debit cards, sms alerts and internet access. One credit union also spoke about the development of a credit union app.

Among ILCU members there was an expectation that the development of the Credit Union Services Organisation for Payments (CUSOP) project would assist their credit unions to provide a full range of electronic deposit and payment services to their members. CUSOP will give credit unions a full electronic banking service including the provision of current accounts with ATM and debit card, direct debit and standing order facilities. This will facilitate the payment of salary and/or welfare benefits into credit union accounts and enable members to transfer money into other third party accounts. It will also facilitate the wider use of pre-paid debit cards. CUSOP will therefore offer a modernised version of the Credit Union Current Account as currently available through ABCUL, with greater functionality and online access (as noted above however, the Credit Union Current Account is also to be modernised through the DWP Credit Union Expansion Project). One manager said of CUSOP:

"Hopefully, if the CUSOP does get off the ground and works, then we will be able to open up maybe one other, like with the current account, That's what we're hoping, that once that's up and running, that we will be able to offer the current account. I think we need, particularly for young people coming along as well, and we have to do more with Internet banking, I mean, that's the thing people want to be able to do".

Of course, as far as is understood, CUSOP will only be available to credit unions that are members of ILCU, which means that credit unions in other trade associations will not be able to provide the same level of service. It is interesting to note, however, that in GB, the Credit Union Current Account is and will be increasingly available to non- ABCUL credit union members through Government support through the Credit Union Expansion Project.

Appetite for the development of products and services for low-income households

The study revealed a commitment on the part of many credit unions in Northern Ireland to develop products and services to serve the needs, and wants, of people on low incomes or facing financial exclusion. Only five of the 48 respondents to the credit union survey were entirely satisfied with the current range of products and services that their credit union offered to low-income and financially excluded people. A large majority (25 people) were quite satisfied, but with reservations, which left 18 people either dissatisfied or unsure.

Overall, the particular way in which credit unions wanted to develop their product and service offer depended on the appetite and aspiration for change and on organisational capacity. The appetite of credit unions to expand product and services varied. Some felt that it was important to reach out within the low income market with new products and services, whilst others preferred to retain a traditional approach to the business. Appetite for change was not always a function of size. Four out of five of the larger credit unions (over £20m assets) wanted to introduce transaction banking, for example, whilst one did not. Two of the smaller credit unions (under £0.5m assets) also aspired to offering transaction banking. Four out of five (80 per cent) of larger credit unions for example, compared with one out of six (17 per cent) of

smaller credit unions wanted to introduce loans not linked to savings balances.

Some written comments in the survey indicating an appetite for development included:

"We need to educate ourselves and develop/provide/tailor make products and services".

"We aim to continuously improve services for all members including low-income families".

"We currently do not take benefits payments directly. This decision was made to protect the role of the local post offices in local communities. We may reverse this decision if we could have a suitable IT solution and ATM access".

"We would like to be able to receive benefit payments directly and assist members with their budgeting".

Table 6. Products and services that credit unions plan or would like to offer in the future

Percentage of the total respondents selecting the option.	n46 All respondents	n5 Over £20m assets	n6 Under £0.5m assets
Money or debt advice	72%	60%	57%
Benefit direct accounts (direct benefit payments into a credit union account)	70%	60%	34%
A current account with debit or ATM card	67%	80%	43%
SMS alerts to members- reminders to repay loans etc.	67%	80%	43%
Budgeting and bill payment accounts (Jam Jar accounts)	64%	60%	57%
Pre-paid debit cards	63%	50%	28%
Bulk buying schemes for home heating oil to provide lower prices for households	63%	80%	72%
Internet access to account manager for members	62%	50%	57%
Christmas saving scheme (with locked-in savings until before Xmas)	56%	40%	58%
Loans not linked to savings balances (instant loans)	51%	80%	17%
Home Contents Insurance	50%	80%	43%
A range of loan products at varying interest rates	49%	40%	17%
Car insurance	44%	80%	43%
Loans for the purchase of oil	43%	40%	33%
Funeral plans	41%	20%	33%
Individual Savings Accounts (ISAs)	38%	60%	33%
Differentiated savings accounts with a range of dividend rates	32%	40%	14%
Savings deposits with interest payable rather than a dividend (if legislation amended)	28%	100%	17%
International Money Transfer	24%	20%	17%
Mortgages	24%	60%	0%
Payment Protection Plan (insurance)	22%	0%	29%
A savings account with an annual dividend	13%	20%	43%

8.2 Ensuring access to credit union services

Credit unions in Northern Ireland are deeply embedded in local community, social and family networks and many people are brought into credit union membership through pre-existing family and friendship links and connections in the community. The large number of credit unions in Northern Ireland in relation to the population, highlights the extent of their community engagement and how they operate at a local grass-roots level.

In the survey, 74 per cent of respondents considered that the most important way that credit unions ensured that they are accessible to people on low-incomes was through word of mouth in the community. 12 per cent said that it was through local outreach service point, 9 per cent said it was through marketing and promotion in low-income neighbourhoods and 5 per cent said that it was primarily ensured through working in schools. But no respondent said that access was primarily ensured through working with partner agencies.

The strength of enabling access to credit unions through local community networks and connections is clearly demonstrated in the level of credit union membership penetration in Northern Ireland. 82 per cent of survey respondents said that credit unions offered a personal friendly personal service and it is this that attracts people into membership. Importantly, this personal friendly service, is communicated to new members mostly the face-to-face contacts within families and social groups in the community. This is a major strength of the credit union sector.

However, there are also clearly drawbacks. For people outside of those close family, social and community networks, access to a credit union can be problematic. This was stressed

by people in the focus groups when they spoke of the difficulties outsiders face in being nominated for credit union membership. Many credit unions require new applicants to be nominated and seconded by existing credit union members, often called sponsors, who are asked to vouchsafe for the suitability and good character of the applicant. This has contributed to credit unions developing a strong reliable membership, an important factor when assessing the risk involved in lending in the community. In the interviews, credit union managers expressed their views on the nomination process:

"With the new influx of people into the town, you can't be expected to know every single one of your members. So because it is a financial cooperative, they have to be signed in by another member, the nomination process. Some credit unions have waived this but our thoughts are we want to know who is recommending someone, like everything else we can't afford to be paying out loans to people who aren't going to repay us back".

"We make a big of the person that is signing the new member in, saying that without you, this person can't join. We build their esteem and give them an idea of why they should feel proud of their credit union. I think we have a fantastic success story, as all credit unions have, to be able to survive in this type of climate",

The problem is that when access is through word of mouth and a network of social links and connections, people outside the network may find that access to a credit union is out of reach. Community contacts and nomination processes undoubtedly strengthen credit unions, but they also create a barrier to entry for those outside the system. It was this that led some people in the focus groups to describe credit unions as cliquy and only interested in serving certain parts of the community.

If credit unions are to reach out further to low-income people outside of their immediate social and community networks, a new strategic approach may be required. For many

credit unions in GB, that strategic approach is based on partnership working.

8.3 Partnership working

In the survey, no respondent prioritised the fact that their credit union enables access for low-income people through partnership working. However, later in the survey, 68 per cent of respondents said that is important to work through partner agencies if people, marginalised from mainstream financial services, are to be reached effectively.

In fact, there is good evidence that partner organisations and agencies in Northern Ireland are interested and willing to work with credit unions to widen access to their services among low-income and financially excluded. This research study is supported both by Housing Rights Service and the Consumer Council of Northern Ireland. Both are concerned to support credit union development in low income communities. The 2009 NIA report on credit unions noted how key stakeholders look to credit unions to expand their products and services to widen their reach within low-income and marginalised communities:

"The broadening of the range of services offered by credit unions is supported by all key stakeholders to varying degrees and is encouraged or even considered essential by many. The FSA states that credit unions being able to offer a wider range of services would attract those sections of the population that do not normally interact with financial institutions and sees clear benefits for the consumer." (NIA 2009)

Partner agencies as intermediaries

In GB, partnership working is seen as a key strategy to engage with low-income and financially excluded groups. Partner agencies that have relationships with, and often the trust of low-income and financially excluded individuals and families, can act as intermediaries for credit unions and bring

their offer to people who would not normally interact or have contact with credit unions.

A recent report into the credit union sector in London (Jones and Ellison, 2011) showed how, credit unions were working in partnership with a wide range of statutory, voluntary and community organisations. Partnership working assisted credit unions in community outreach, enabled them to reach target groups, and strengthened their capacity to deliver affordable financial services to people who otherwise would not have encountered a credit union. Credit unions in London work regularly, therefore, with local authorities, social housing providers, money and debt advice agencies, Sure Start centres, Job Centre Plus, libraries, the Money Advice Service, employment and training agencies, schools, tenants and residents associations, community centres and local churches.

In Northern Ireland, this study has shown that there is less of an incidence of partnership working aimed at systematically and strategically reaching out to low-income and financially excluded groups. Yet, on the ground there is evidence of significant engagement with other agencies and organisations at a community level. As one manager noted:

"To be honest we have worked with practically everybody, if the St Vincent de Paul and the Salvation Army ask us, we sponsor these organisations. In addition you have got the Enterprise Agency; they have things for targeting young people. We also have three credit union primary schools which we have been heavily involved. We also sponsor a lot of local community associations, charity groups. It is all grass roots and it is people who have an affinity with us and it is members of those organisations who come and ask for sponsorship. It might only be £50, £100 or £200, it is just a huge amount of money but it is money they need"

This quotation highlights the significant involvement of the credit union in the community, but more as a sponsor of

community activity than in the promotion and delivery of credit union services through the intermediation of a partner agency. Except in the case of primary schools, where credit union participants saw engagement as offering a savings facility and financial education to children, but also in terms of reaching out to their parents and extended family through the school. Throughout Northern Ireland, there is significant involvement of credit unions in primary schools, which act as a conduit for financial services to people who would not normally contact the credit union. As one participant noted:

"We do a lot of work in the primary schools; we work in seven primary schools in the area. And through those primary schools we are getting to the parents as well"

Even though there was, apart from in schools, little evidence of credit unions working through other organisations to reach hard-to-reach low income individuals, the research study revealed a high interest in developing partnership working with other agencies. In the online survey, 68 per cent of respondents said partnership working was important in reaching out to hard to reach groups, and 25 per cent said it was very important.

The organisations that credit unions said they wanted to develop partnership working with are listed in Table 7. High on the list are debt and money advice agencies, which clearly have immediate contact with people in

financially stressed circumstances. Charities feature highly and a number of credit union participants said that it was important for them to develop stronger relationships with the Salvation Army and the Society of St Vincent de Paul, organisations that both have close contact with families and individuals in financial need. Both of these organisations are in a good position to signpost people to credit unions.

45 per cent of participants mentioned housing associations and the Northern Ireland Housing Executive as potential partner agencies. Credit unions in GB would regard this as particularly low number, as there housing associations are often a primary partner of credit unions (see Jones and Ellison 2011). But there are moves to develop better relationships as one credit union participant explained:

"We're going to work with the housing association; they're going to distribute our application forms and information about the credit union to their new tenants. The new tenants will come in, we will give them an information session on budgeting, and the housing association is going to try to do a matched savings scheme"

Although only mentioned by a few respondents, the reference to the probation service is important as people in the criminal justice system are often a highly financially excluded group of people. In GB, a number of prisons are pioneering work with prisons and probation services.

Table 7. Agencies with which credit unions want to develop partnership working

	Number of credit unions. n 47	% of total
Debt and money advice agencies	36	77%
Community centres and organisations	34	72%
Other voluntary organisations	28	60%
Charities	24	51%
Local councils	22	47%
Housing Associations and The Northern Ireland Housing Executive	21	45%
Churches	18	38%
Political organisations	5	11%
Statutory agencies (e.g. the probation service)	5	11%

9. Limitations and constraints

In the survey, participants were asked to identify the barriers that they faced in expanding the reach and service of credit unions to low-income and financially excluded consumers.

The barriers identified were legislative constraints, managing risk, staff time and resources, lack of flexibility in products and services, and lack of knowledge of the low-income market. The responses of credit unions are listed in Table 8 below.

There were some differences in response depending on the size of the credit union. Participants from smaller credit unions felt that their credit unions were restricted by a lack of staff time and resources followed by the risks involved and legislative constraints.

Participants from larger credit unions said that credit unions were restricted primarily by legislative constraints followed by risk and lack of flexibility on the product and service offer.

It is understandable that all credit unions are concerned about risk, but the variations in response are telling. Larger credit unions are concerned about legislation and the impact that this has on their ability to expand the range of products, services and delivery channels appropriate to the low income market. For smaller credit unions, the main issues are organisational capacity, and resources to manage the increasing demands of serving low-income members, and the perceived increased risk of operating in the low-income market.

Table 8. Barriers to developing products and services for low-income and financially excluded consumers

	Respondents with less than £5m in assets		Respondents from credit unions with over £5m in assets	
	n 24	n 24	n 22	n 22
Staff time and resources	17	71%	4	23%
Risk	14	58%	14	64%
Legislative constraints	11	46%	16	73%
Lack of flexibility on product and service offer	6	25%	13	59%
Cost of serving low- income and financially excluded households	5	21%	3	21%
Lack of knowledge of the low-income market	3	12.5%	7	32%

9.1 Legislation

For larger credit unions, the greatest barrier to the development of financial services for people on low incomes is the constraints that arise from inadequate legislation. Over the years, credit unions have been limited by both regulation and legislation, in expanding the range of products and services for the membership as a whole. Many of which would have particular relevance within the low income market. It is only relatively recently, for example, that credit unions have been able to offer benefit direct accounts. In interviews, credit union managers stressed the restrictions placed on credit union through inadequate legislation:

"There are a lot of things that credit unions in England were able to do which we were never able to do. So we are trying to get these things. All we were able to do before was actually take their money, and lend it out"

"Legislative constraints prevent credit unions expanding their services to low income households"

Throughout the study there was support expressed by credit union participants and other stakeholders for credit union legislative change¹¹ in Northern Ireland. It was strongly felt that legislation in Northern Ireland should at least be brought into line with that implemented in GB through legislative reform in 2012 (HMT 2011).

A process of consultation is now being initiated by DETI on the modernisation of credit union legislation in Northern Ireland and, on publication of the consultation paper in May 2013, views will be sought from within the sector.

In interview, credit union participants were generally seeking legislative change similar to

those introduced in GB, with one or two additions, in the following key areas:

- The common bond – credit unions define a common bond or field of membership but, as in the rest of GB, it is felt that they should no longer have to prove that all of the people able to join the credit union have something in common. This would allow credit unions to widen access to membership through adopting a more open and flexible approach. Credit unions could, for example, define multiple common bonds and be able to provide services to different groups of people within the one credit union. Credit unions, for example, could add a field of membership to serve all tenants in a housing association or who are within the criminal justice system.
- Corporate membership – credit unions participants felt that credit unions should no longer be limited to providing services just to individuals, but should be able to offer membership to unincorporated associations and corporate bodies such as companies, charities, churches, community groups, social enterprises and co-operatives. This would enable credit unions to increase services to local businesses and enterprises and to support local community development through the offering of services to local community organisations.
- Interest on savings deposits - as in GB, credit unions wish to be able to offer variable and guaranteed interest rates on savings deposits. This will be dependent on holding sufficient reserves and being able to demonstrate to the Prudential

¹¹ Even though credit union regulation is now undertaken by the Prudential Regulation Authority (PRA), credit union legislation remains the responsibility of the Northern Ireland Assembly.

Regulation Authority (PRA) the capacity to manage and control interest-bearing accounts. Also as in GB, individual credit unions could choose to continue to offer dividends on shares instead of interest, or they could choose to offer both dividend-bearing shares and interest-bearing deposits.

- Charging for ancillary services – this is a more contentious area among Northern Irish credit unions but, as in GB, many credit unions would like the option of charging market rates for ancillary services. This will enable credit unions to generate income to cover the costs of more expensive product and service delivery. In relation to this, and unlike in GB, credit unions had little appetite for raising the interest rate cap on loans (see subsequent section on Financial Costs).
- Non-qualifying members – these are members who were once part of the common bond but are so no longer (e.g. they have moved away from the area). It was felt that the number of non-qualifying members in a credit union should be left to the discretion of the individual credit union. This will prevent people from losing credit union membership when they change their job or home.
- Credit union service organisation (CUSO) – credit union participants said that new legislation should allow for the creation of credit union service organisations which would enable greater collaboration in the sector and the development of new credit union products and services at a reduced cost to the member.

- Investment – credit union participants said they sought permissions for the appropriate reinvestment of assets by credit unions into community development and community enterprises. This would stimulate the local economy, particularly in low-income areas.

9.2 Managing risk

Around two thirds of all credit union respondents identified risk as a barrier to reaching out to low-income and financially excluded groups. In interviews, this was expanded to include financial, operational and reputational risk. However, the primary concern of participants focused on financial risk. Credit unions are already reporting difficulties in controlling rising bad debt as a result of the current economic situation, and in general are risk averse to taking on additional activity that could lead to greater bad debt.

Current credit union operations and service delivery are adapted to a low-cost delivery model. To reduce costs and avoid bad debt, credit unions in Northern Ireland depend on recruiting a membership that is ready to accept a high level of personal responsibility, self-help and loyalty towards the credit union. Even in hard times, when people through job losses, and financial hardship cannot repay loans, the credit union depends on their good will and commitment to repay loans when times improve. A number of credit unions said, for example, that they will not accept the writing off of a debt through a debt relief order (DRO) or individual voluntary arrangement (IVA), and still consider that the member should repay the credit union when they are financially stable again. This manager

"The majority of ours [bad debtors] are 'can't' pay. We wrote off half a million last year and the vast majority of those people were genuinely good people. I know if circumstances change,

those will be people that come back in and pay it. We have had £40,000 back in bad debt recovery”.

Given this background and context, credit union participants were aware of the challenges of serving a more deeply financially excluded and financially vulnerable market. The further they reached into financially excluded communities, the more it was likely that people would come to the credit union with existing debts, with bank accounts closed for delinquency and with ongoing high cost credit relationships (cf. Ellison and Davis 2008).

Moreover, people could come to the credit union with an experience of borrowing that is more flexible than that found in the credit union and highly dependent on the close control of the loan provider. The culture of home credit borrowing is markedly different from the culture of personal responsibility that surrounds credit union borrowing. Good home credit customers, for example, pay three times in ten and consider that they are only liable to repay when the collector comes to the door (Kempson et al.2009)

As Ellison and Davis (2008) have shown transitioning high-cost credit users into a credit union culture of borrowing is not always easy. It demands strategies to manage risk, improved credit administration and credit control systems. The prompt and pro-active response to payment difficulties, appropriate delivery and payment channels and often the greater support and handholding of the borrower. It also involves strong links with money and debt advice agencies to which people in difficulty can easily be referred.

However credit unions have shown that they are able to reach out to and manage the risk of engaging with low-income and financially excluded groups. This has been shown for example by the success of the Financial Inclusion Growth Fund in GB (Collard et al.

2010). The Growth Fund enabled credit unions to make over 400,000 loans to a total value of £175m to people who had a history of borrowing from high-cost lenders. As may be expected on such a programme, bad debt was relatively significant; in London for example it was around 9 per cent (Jones et al. 2012). But given the market that was being served, that level of bad debt was regarded as well within acceptable limits, and much lower than registered by sub-prime lenders. Bad debt provision was allowed for within the business model.

Credit unions in Northern Ireland have demonstrated that they are able to serve many low-income and financially excluded members within their current low-cost delivery model. Whether or not they are able to reach out further into low-income and financially excluded communities, and reach people currently not being served by credit unions, will depend on their appetite for risk and their capacity to manage this risk strategically and effectively. Having the operational capacity to manage risk and a business model sufficient to cover any additional costs are of course important related issues as explored next in this section.

9.3 Operational capacity

The operational challenges of serving larger numbers of low-income financially excluded members were highlighted by participants in the research interviews. They were conscious of the fact that financially excluded members may require greater support as they struggle to make ends meet on low and often insufficient income. They would likely seek a higher level of staff time and resources with more frequent visits to the credit union office to top-up loans or to discuss missed payments. Managing a large number of low-value loans would take up much more staff time and resources than managing fewer higher-value loans.

Operational capacity to handle an increased number of financially excluded members was a particular issue for smaller credit unions, particularly those run entirely by volunteers. Participants explained how their credit unions were already showing signs of organisational strain and volunteers were finding it difficult to cope with the increased administration, particularly after the move to the Financial Services Authority¹². They felt that the additional challenge of reaching out to serve deeply financially excluded individuals may just be too much for some credit unions.

One volunteer described how his credit union was coping under the current and increasing pressure of serving more people with small loans:

"We are destroying two girls on a Saturday morning. It [the business] has mushroomed into an escapade on the Saturday morning. It [the collection point] is supposed to be inside one hour, but it sees 70 transactions. That's more than one transaction a minute. And it's only going one way. So we need somebody, we're struggling to keep control"

Added to this, he explained how often serving people with a quick loan often does not result in the financial stability they sought. His experience was that people borrowed from the credit union and returned, under the pressure of a tight budget, to the high-cost lender.

"Yes, sometimes [we have given a short-term loan to a person in financial difficulty], but the only problem with making one of these payday loans or something like that, is they go exactly back [to the payday loans company]. But as I said, yes we would give a loan to get them clear. You just have to take each person as an individual".

Operational capacity was not just an issue for smaller credit unions. Even though larger credit unions with greater staff and other resources were able to serve many more people, they too would need to build capacity if they were to expand the business to reach out to serve an increasing number of low-income and financially excluded individuals not currently served by credit unions.

In GB, the experience of credit unions delivering the Growth Fund has been that, if credit unions are to effectively expand the business within the low-income market, they need to radically improve organisational and operational systems to increase efficiencies and drive down costs. They have realised that need to streamline staff support for financially excluded members, improve credit administration and credit control systems and, importantly, to develop and upgrade electronic deposit and payment channels including the transaction accounts, electronic deposit and pre-paid debit cards and sms facilities.

Most credit unions, for example, offering Growth Fund loans now use benefit direct accounts from which savings and loans payments are automatically deducted. This has not only increased efficiency but driven down bad debt. Of course benefit direct account require either a current account facility or pre-paid debit card to facilitate withdrawals.

In a feasibility study on the future of support for credit unions post-Growth Fund (DWP 2011), Experian found that a significant market exists in GB amongst people on lower incomes for locally provided banking, savings deposit and loan services from trusted providers such as credit unions. Experian calculated this market as up to 7 million individuals, and more than 60 per cent of the over 4500 people consulted from within this market said they would use credit union

¹² Now the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA)

services if such were available. However, Experian also found that this market can only be served if credit unions radically modernise and upgrade their service delivery.

In June 2012, the UK Government announced that it would be investing up to £38 million over the next three years in credit unions to modernise and upscale operations and to expand credit union membership by a further one million. It is an investment that applies to credit unions in England, Scotland and Wales but not in Northern Ireland. It has resulted in the setting-up of the Credit Union Expansion Project (CUEP), to be led by ABCUL. CUEP will develop a central services organisation containing a core electronic banking platform, which will enable extensive collaboration on back office functions throughout the credit union sector. It will assist the modernisation of loan, savings and transaction accounts, including internet access and SMS messaging, and will enable the delivery of bill payment and budgeting accounts and pre-paid debit cards, both important within the low-income market.

CUEP will enable a link with the Post Office Horizon platform which will have major benefits for the credit union movement. It will assist many more people to access their accounts, including both deposits and withdrawals, without the need to visit a credit union branch.

In the study, there were examples of credit unions in Northern Ireland putting in place initiatives that would certainly support greater outreach to financially excluded groups. A few were introducing benefit direct accounts and pre-paid debit cards. One credit union was working with a university to develop interventions to support over-indebted members, including the development of automated benefit direct and budgeting and bill payment accounts and of more flexible approaches to the rescheduling

of loans. Other credit unions were concerned to develop stronger relationships with the money and debt advice sector.

However, if credit unions are to reach out further to populations unserved by credit unions, the need to develop greater capacity through the introduction of electronic deposit and payment systems is apparent. This has been recognised by those credit unions that are members of ILCU through support for the development of the ILCU's Credit Union Services Organisation for Payments (CUSOP). It is envisaged that this will give access to ILCU credit unions to the banking clearing system and thus enable them to offer their members incoming and outgoing credit transfer facilities, including access to a current account. However, as currently understood, this development will not be available to non-ILCU credit unions in Northern Ireland.

One or two credit unions expressed an interest in administering the new system for crisis loans. This would certainly demand increased organisational capacity and the introduction of electronic payment methods. In GB a number of credit unions have taken on the task of administering crisis loans but find that these demand enhanced operational systems.

9.4 Financial costs

Only 21 per cent of the credit union respondents identified the cost of serving low-income and financially excluded individuals as a barrier to development.

In GB, on the other hand, cost has been identified by credit unions as a major concern, and was directly referred to in the CUEP feasibility study (DWP 2011). High operating expense costs are endemic to serving high-maintenance, and often high-risk borrowers, with small value loans. Costs rise because of the amount of staff time involved in credit assessment; in supporting more vulnerable

members and in ensuring face-to-face service delivery, often valued by low-income members. Costs can also rise in making loan disbursements and collections in cash, as cash itself costs in the additional administration involved and in the secure delivery to a credit union from a bank. Costs also are incurred from the demands of credit control, of loan loss recovery and of provisioning for bad debt write-off.

In fact in Northern Ireland, the costs of serving the low-income market are increasingly recognised. Concerns were expressed by a number of credit unions, for example, about the costs of increased Prudential Regulation Authority (PRA) loan provisioning. Of course, infrequent and slow payers on loans will significantly increase costs for credit unions.

For now, however, most credit unions seem content to cover the costs of serving low income and financially excluded individuals out of current operating expenses.

"Yeah they [low value loans] are [more expensive to administer], but we don't worry about that. In monetary terms, it costs us a fortune to do that, but I don't think that is a good enough reason for credit unions to stop doing that, that is where the need is, that is where credit unions should be putting the resources",

"Despite the cost, you will still listen to somebody coming and asking for £100. A lot of people are coming in for £50 loan"

"This is another service (pre-paid debit card) and that's what we find, with an awful lot of the services you provide, it doesn't generate any income for the credit union, even PayPoint, we could have a member of staff on that all day nearly, and the return we get is minimal. But it's a service to the members and it's helping them to keep on top of their bills".

There was certainly a resistance in many credit unions to passing on the increased costs

of the service to the members. In GB, credit unions are now often charging two per cent per month on low-value loans, rather than the traditional one per cent per month. HM Treasury is currently consulting on raising this to three per cent a month in order to assist credit unions to cover costs in the low-income market. This was a specific recommendation of the Experian report (DWP 2011).

In general, most GB credit unions are open to charging higher rates on low-value loans on the grounds that the cost to the member is reasonable, but the income to the credit union can be significant if it makes a large number of low-value loans. Table 9 below illustrates the fact that a rise from one per cent to two per cent per month on a £400 loan only results in a weekly payment increase for the borrower of 50 pence.

However, most credit union participants in Northern Ireland were strongly resistant to the idea of raising interest rates on loans to cover the costs of operating in the low income market. There was a common commitment to cross-subsidising low-value loans within the current low-cost business model. There was also often a strong resistance to the charging of fees for services, even though the ability to charge fees was included in the wish list for legislative change on the grounds that it gave credit unions in Northern Ireland the same legislative scope as those in GB.

In the survey,

- 60% of respondents were opposed to the raising of the interest rate from the current one per cent per month on all loans.
- 65% of respondents were opposed to the charging of fees

Table 9 – Impact of different interest rates on a £400 loan repaid weekly

Monthly interest rate	APR	Loan amount	No. of payments	Paid	Each repayment	Total Amount repaid	Total Interest payable
1%	12.7%	£400.00	52	weekly	£8.17	£424.84	£24.84
2%	26.8%	£400.00	52	weekly	£8.67	£450.84	£50.84
3%	42.6%	£400.00	52	weekly	£9.18	£477.36	£77.36

However, despite the commitment to ensure service delivery according to the traditional low-cost model, little evidence of any rigorous analysis of the costs involved in product and service delivery in the low income market surfaced in the study. There was an appreciation of the higher costs, but what these were exactly was unknown.

Arguably, a major move into the low income market, and a significant expansion of services for financially excluded individuals, would be much more costly and even prohibitive for credit unions. That is unless they changed their approach to the charging of higher interest rates and fees. Even philosophically asking one section of the membership to bear the costs of serving another more vulnerable section, may not stack up if the costs of serving the financially excluded increased significantly.

Evidence from GB and other international credit union movements indicates cost is a major issue in the development of products for low income and financially excluded groups. Burger and Zellmer’s study (1995), emanating from the US, strongly recommends that credit unions price for cost and risk in serving the low income market, rather than entirely cross-subsiding within the membership.

9.5 External financial support

Credit unions in Northern Ireland value their historic independence from dependence on external subsidies and grants whether from Government or other agencies. Independence from grants they feel has stimulated an entrepreneurial approach to the business and has ensured that credit unions have remained autonomous from the agendas of outside agencies.

However, that said, an increasing realisation was detected in the study that an increasing number of credit unions consider that they could make much deeper inroads into the low-income and financially excluded market if, like credit unions in GB, they were supported through Government investment. In several credit unions there was a feeling of unfairness that credit unions in England, Scotland and Wales had received significant financial support from Government, but credit unions in Northern Ireland had been excluded from accessing similar investment. These were some of the typical comments from credit union participants.

“If Government wants credit unions to expand their services to low income households they need to help credit unions to facilitate this.

“If we had money from Government we could make the current account more widespread. If someone gave us a pool of money, we could target people better, the socially excluded in this area, the ‘unbanked’ and get them an account. These are the people we want to reach

out to and these are the type of people that the credit unions should be reaching out to”.

“There is absolutely no support whatsoever from the government for the work we do.

“We would need the equivalent of a Growth Fund from the NI Assembly or campaign that we could get access to monies from GB”.

“If the government are serious they need to give credit unions grants/money to carry out this type of work and to expand services to low income households”

Among some credit unions, the view was expressed that many people in the Northern Ireland Assembly, and Government agencies, misunderstand the purpose and nature of credit unions. Perhaps because some credit unions in Northern Ireland have grown into significant financial institutions, some people may have the impression that credit unions are so well established within the financial sector that not only do they not need investment, they do not want it given the historic commitment to autonomy and independence. This, it was felt by many

overlooks the reality on the ground, that not only are many credit unions under strain as they tackle the effects of the current economic downturn, others, even larger credit unions, are restricted in their response they can give given the lack of modernised electronic deposit and payment channels.

Recent NIA financial support for the sector through DETI to assist credit unions to prepare to meet new regulatory requirements was welcomed by all credit union participants. However, there were strong calls for the equivalent of GB’s Growth Fund and Credit Union Expansion Project (CUEP) to be implemented with NIA support in Northern Ireland. Credit unions are working in communities throughout Northern Ireland supporting thousands of people on low incomes to achieve financial stability. With Government support, or that of other agencies, much more could be done to reach out to those unserved or underserved by the credit union sector.

10. Conclusion

Credit unions have made impressive progress in serving communities in cities, towns and villages throughout Northern Ireland. Their growth and expansion is recognised throughout the UK and Ireland, and internationally. At the heart of their development as financial co-operatives for all, in whichever community they are found, from the outset there has been a concern and a mission to serve people on low-incomes and/or disadvantaged by or excluded from the mainstream financial system. But still challenges remain.

The challenge of meeting the needs of people unserved by credit unions

Even with around 30 per cent of the Northern Ireland population in credit union membership, there are still many people not served by the credit union system. Many of these would be on low-incomes, suffering financial exclusion and living in social housing.

It was indicative, for example, that the Northern Ireland Housing Executive found that among its 3,400 social housing tenants surveyed, only around 4 per cent had a credit union savings account, a prerequisite of membership (see Chapter 3). Admitted this figure may be an underestimation, given the fact that some people may not have made their credit union membership known, but nonetheless it offers reasonable grounds for believing that there is a significant population among the NIHE's 87,000 tenants that are outside the credit union system. The same survey found that around a third of all social housing tenants did not have a bank or building society account (HE,2012).

The fact that there are still people on low incomes and/or marginalised from the mainstream financial system who are outside of credit union membership presents a major

challenge to the socially-driven credit union movement. For there are still far too many people in low-income communities in Northern Ireland that are dependent on high-cost alternative credit providers such as pawnbrokers, door step lenders, pay day loan companies and even illegal money lenders ('loan sharks').

The latest report Annual Report and Threat Assessment of Northern Ireland's Organised Crime Task Force (OCTF 2012) underlined the impact of the economic downturn on the finances of people on low incomes and with "less than perfect" credit ratings. It pointed out how Northern Ireland has become a 'personal debt hotspot' somewhat due to the fact that it has the highest rate of economic inactivity in the UK. On the basis of analysis carried out by the Police Service of Northern Ireland in 2011, the OCTF report highlighted the increasing activity of loan sharks preying on victims most of whom are on benefits, suffering with problems of addiction or struggling to small businesses. A similar concern has resulted recently in the Northern Ireland Executive commissioning independent research in to the rise of high-cost and illegal lending in Northern Ireland (due to be published Spring 2013).

Credit unions as locally-based, community financial institutions are well-placed to respond to the problem of high-cost and illegal lending. The challenge is to reach out even more deeply into the low-income and financially excluded population of Northern Ireland.

The further challenge of welfare reform

The challenge of serving the unserved will be even greater with the introduction of welfare reform in Northern Ireland, which arguably

will be the biggest change to impact on the lives of low-income households in a generation.

Welfare reform will result in significant changes to the benefits system in Northern Ireland, which will increase the need of many people on low-incomes and in receipt of welfare benefits for accessible and affordable financial services. It will increase the need for fair and equitable payment systems, including budgeting or the so-called “Jam Jar” accounts (Social Finance 2011) and for financial education support in money management, budget control and the wise use of money.

In Britain, the Government and the social housing sector sees an important role for credit unions in supporting people to manage the introduction of universal credit, the new single payment for people who are looking for work or on a low income. The Government argues that universal credit will help claimants and their families to become more independent, but this will depend on their being able to manage and control effectively the one single universal credit payment. Social Finance (2011) has explored the contribution that Jam Jar accounts could make to the management of household finances by allowing account holders to split their account balance into “Jam Jars” for spending, saving and bill payment. It was argued that this would help people on low-incomes to improve their budgeting and bill payment behaviour. The need to assist claimants to manage universal credit convinced Government to support the development of such bill payment and budgeting accounts and the DWP called for their introduction and indicated that they would financially support their development¹³. However, the mainstream banking sector has rejected the idea of developing such

accounts¹⁴, which leaves just credit unions and alternative providers, such as pre-paid debit card companies, to fill the gap.

Expanding credit union financial services

This study has explored some of the barriers that may prevent people accessing credit union membership, as voiced by some participants in the research focus groups and reflected upon by credit union managers. If credit unions are to reach out to people currently unserved by their services, this study has highlighted the importance of their thinking strategically about the way in which they reach out within the low-income market and develop products and services, and delivery channels that meet the wants and needs of low-income and financially excluded groups.

The study has revealed the importance of:

- new approaches to recruitment and membership that reach beyond the credit unions existing social networks (this could be through the intermediary of partner agencies),
- simple and straightforward savings accounts, including locked-in savings accounts for specific purposes including Christmas, as well as flexible accounts for withdrawable savings.
- fast, flexible and affordable loans not tied to savings balances; and loans for specific purposes such as oil,
- transaction account services, including a current account that meets that many people on low incomes have for close account control and freedom from worry about high-cost penalty charges.

¹³ See <http://www.dwp.gov.uk/newsroom/press-releases/2012/sep-2012/dwp102-12.shtml>. Accessed 1st March 2013.

¹⁴ See The Times, Banking and Finance section, Monday April 15th.

There is also a greater need for the use of electronic payment and

- benefit direct accounts, which enable people to have their welfare benefits or wages paid directly into the credit union. This depends on the development of electronic transaction account services.
- bill payment and budgeting accounts, the Jam Jar accounts as noted above; and
- access to money and debt advice either in the credit union or in partnership with external money and debt advice agencies.

However, reaching out to low income and hard-to-reach financially excluded groups is not just a matter of the development of new products and services in isolation. It depends on a strategic and systematic approach to marketing research, analysis and segmentation. Products and services only respond to the needs of low income and financially excluded groups if they are designed in the clear knowledge of the needs and wants of those groups, and if they are delivered in ways appropriate to the persons concerned.

Perhaps one of the greatest challenges for Northern Ireland credit unions, is to think of the serving of low-income and financially excluded households within a strategic business perspective, rather than as an element of a social mission that remains a continual cost to the credit union. A marked expansion of services for financially excluded households will be a significant expense to the credit union, which perhaps should not be entirely borne by the rest of the membership. It would be advantageous for credit unions to reconsider approaches to pricing for risk and cost. This would ensure that further outreach

into financially excluded communities is cost effective, even if this means charging higher interest rates on lower-value loans¹⁵ and fees for certain member services.

Partnership with the Northern Ireland Executive

Credit unions have demonstrated their strong base in the community and their commitment to low-income communities. They have the potential to be a major strategic partner with the Northern Ireland Executive and other agencies and organisations in reaching out to low-income and financially-excluded households. Credit unions have the potential to be a lead partner in the provision of financial services for low-income and financially excluded households and in actions and initiatives aimed at strengthening the financial knowledge and capability of the population at large.

This study argues that credit unions in Northern Ireland, insofar as they reach out to low-income and financially excluded groups in the population, merit the support and investment from Government as enjoyed currently by credit unions in England, Scotland and Wales. In Britain, the Financial Inclusion Growth Fund enabled British unions to build infrastructure and to make loans to a value of £175m to financially excluded people most of whom had a history of dependence on high-cost credit. Further, and in addition, credit unions in Britain are currently set to benefit from a new £38 million Government investment in the Credit Union Expansion Project (CUEP) which will support credit unions to modernise loan, savings and transaction accounts, including internet access and SMS messaging, and will enable in the delivery of bill payment and budgeting

¹⁵ Currently credit unions in NI are limited to charging one per cent per month (equivalent to 12.68 per cent APR). However this will be subject to consultation in the near future.

accounts (“Jam Jar accounts”) and of pre-paid debit cards, both important within the low-income market. This report argues that it is

time for credit unions in Northern Ireland to be afforded a similar level of Government support.

Recommendations

The following recommendations arise out of the research interviews, surveys and seminars undertaken as part of this study. They are offered to credit unions and the Northern Ireland Assembly for consideration in the expansion of financial services for low-income and financially excluded individuals and households¹⁶.

Credit unions should:

- 1 Ensure that the credit union commitment to serve low-income and financially excluded individuals and households is clearly made visible in credit union statements of mission and purpose.**

Building awareness of the credit union mission to serve the less well-off in society does not undermine a commitment to serve an economically diverse membership, but rather enhances their position as socially responsible financial co-operative institutions.

- 2 Undertake market research within low-income communities and develop strategies based on an analysis of member/non-member needs and wants.**

Understanding the specific and particular financial service needs of different sections of the community will enable credit unions to develop more sharply-focused marketing strategies and tactics in reaching out to low-income and financially excluded groups.

- 3 Consider the barriers to credit union membership that exist for some people on low-incomes and endeavour to ensure that these can be overcome.**

Where initial access to credit unions is primarily through social and community networks, people outside of those networks can sometimes find it difficult to make a move into membership.

- 4 Prioritise the development of a wider range of financial products and services that meet the needs and wants of those on low incomes.**

Affordable transaction services (including cheque cashing services), instant credit facilities, locked-in savings accounts and budgeting and bill payment accounts are all possible products and services that could be designed specifically for people on low-incomes. Credit unions should endeavour to provide products and services that change financial behaviour.

- 5 Introduce and widen access to modern electronic delivery channels for credit union financial services in Northern Ireland.**

These could include internet access, SMS and mobile phone technology, payment cards, a credit union current account with ATM access and debit or cash card facilities, and pre-paid debit cards.

- 6 Consider the possible impact of the welfare reform agenda**

Credit unions need to consider the possibility of welfare reform in Northern Ireland. In particular, they should consider how they could develop products and services, in partnership with other agencies, to assist their members to

¹⁶ The reference to low-income in these recommendations includes both low-income working people and those on welfare benefits, and those on more moderate incomes but who are increasingly squeezed by current economic conditions

manage the changes contained under the welfare reform agenda and the introduction of Universal Credit.

7 Expand and develop partnership working with agencies and organisations that engage directly with low-income and financially excluded groups.

It is often through the intermediary of other agencies and organisations that credit unions can reach out to hard-to-reach individuals and groups and enable their access into credit union membership. Credit unions should seek out partnership arrangement with social housing providers and independent money and debt advice agencies.

8 Consider the cost implications of reaching out more deeply into the low-income market and how to meet these costs

Given the time and resources involved, serving low-income and financially excluded groups can be expensive. Long term it is recommended that credit unions do not expect the membership as a whole to solely bear the costs of widening access to low-income and financially excluded groups, but rather they should consider pricing of products and services to reflect costs and risks.

The Northern Ireland Assembly should

9 Increasingly engage with the credit union sector and regard credit unions as partners in revitalising and strengthening local communities.

It is recommended that the Northern Ireland Assembly assists in building greater awareness of the role credit unions can play in society and of how they are able to serve low-income and financially excluded groups.

10 Expedite the legislative reform of the credit union sector in Northern Ireland.

The Northern Ireland Assembly should ensure that credit unions have a legislative framework that enables them to expand the range of products and services on offer and that assists their long-term economic stability.

11 Take a long-term strategic approach to the development of the capacity of the credit union sector in Northern Ireland.

The Northern Ireland Assembly should explore the possibility of supporting the sector through capital investment and specific grant aid to enhance capacity in the sector. The Northern Ireland Assembly should regard credit unions as an important partner in supporting the financial stability of low-income working people, of those living on welfare benefits and of those marginalised by mainstream financial providers.

Credit unions should be regarded as an important contributor to the Northern Ireland Financial Capability Strategy.

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Appendix I Research interview and seminar participants

In-depth interview participants

Janet Booker, Manager, Ballyhackamore Credit Union Ltd

Naomi Hardon, Chair, Ballyhackamore Credit Union Ltd

Joan Gallagher, Manager, Derry Credit Union Ltd

Pat Stewart, Chair, Dundonald Credit Union Ltd

Patricia Kerr, Manager, Enniskillen Credit Union Ltd

Martin McAloon, Treasurer, Enniskillen Credit Union Ltd

Fiona Clarke, Manager, Lurgan Credit Union Ltd

Margaret Walsh, Director, Newington Credit Union Ltd

Rosaleen Bradley, Manager, Newington Credit Union Ltd

Brendan Jackson, Manager, Newry Credit Union Ltd

Robin Andrews, Director - Secretary, Slemish n tha Braid Credit Union Ltd

Colin Russell, Volunteer Loans Officer, Slemish n tha Braid Credit Union Ltd

William Millar, Director, Slemish n tha Braid Credit Union Ltd

Research seminar participants

Robin Andrews, Director - Secretary, Slemish n tha Braid Credit Union Ltd

Colin Russell, Volunteer Loans Officer, Slemish n tha Braid Credit Union Ltd

Yvonne White, W.B.R Credit Union Ltd

John Corrigan, W.B.R Credit Union Ltd

Alan McClelland, Principal Statistician, Department of Enterprise, Trade and Investment, Northern Ireland

Margaret Walsh, Director, Newington Credit Union Ltd

Marjorie Robinson, Dundonald Credit Union Ltd

John Rubery, Head of Branch, Financial Capability Unit, Department of Enterprise, Trade and Investment, Northern Ireland

Elaine Cassidy, Head of Credit Union and Industrial & Provident Societies Bill, Department of Enterprise, Trade and Investment, Northern Ireland

Appendix II – Credit unions participating in the online survey

Ballinascreen Credit Union Ltd. Ltd.	Lurgan Credit Union Ltd.
Ballinderry Credit Union Ltd.	Macnean Credit Union Ltd.
Ballycastle Credit Union Ltd.	Magherafelt & District No 3 Credit Union Ltd.
Ballyhackamore Credit Union Ltd.	Mallard Credit Union Ltd.
Ballymena Credit Union Ltd.	Moy Credit Union Ltd.
Ballymoney Credit Union Ltd.	Muckamore Credit Union Ltd.
Ballynahinch Credit Union Ltd.	Newington Credit Union Ltd.
Bangor Credit Union Ltd.	Newry Credit Union Ltd.
Bannvale Credit Union Ltd.	Oldpark Credit Union Ltd.
Camlin Credit Union Ltd.	Omagh Credit Union Ltd.
Cloughfern Credit Union Ltd.	Orchard Credit Union Ltd.
Coagh & District Credit Union Ltd.	Rowallane Credit Union Ltd.
Coalisland Credit Union Ltd.	Sion Mills Credit Union Ltd.
Derry Credit Union Ltd.	Sixmilecross & District Credit Union Ltd.
Downpatrick Credit Union Ltd.	Slemish n tha Braid Credit Union Ltd.
Enniskillen Credit Union Ltd.	Slieve Gullion Credit Union Ltd.
Fintona Credit Union Ltd.	Termonmaguirk Credit Union Ltd.
Greyabbey Credit Union Ltd.	Tullycarnet Credit Union Ltd.
Hollywood Credit Union Ltd.	Victoria Credit Union Ltd.
Irvinestown Credit Union Ltd.	W.B.R Credit Union Ltd.
Kilkeel Credit Union Ltd.	Waterside Credit Union Ltd.