



A review of the credit union movement in Wales

Executive Summary

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Introduction

The Welsh credit union movement has grown significantly over the past decade, in large part thanks to eight years of sustained investment by Welsh and European political authorities, totalling more than £8m. Credit unions now serve every town and village throughout Wales, and all Welsh citizens can join at least one credit union either within their community (geographic or community of interest) or place of work.

From 2000, membership of Welsh credit unions has grown on average by over 16% per year. From approximately 11,000 members in 2000, there are now over 43,000 adult members of Welsh credit unions. A further 7,682 young people save in credit unions

However, despite this membership growth, the percentage of the population of Wales who are members of credit unions remains low, as it does also in England and Scotland. In Wales 1.82% of the population are members of credit unions, in England this percentage is 0.94% and 5.58% of the Scottish population are credit union members.

Membership growth is a key factor in the future success and self-reliance of the Welsh credit union movement. The research study highlights the vital importance of credit unions recruiting a wide and economically diverse membership throughout Wales. They need to be regarded as co-operative financial institutions for all.

The report suggests a target for the credit union movement to count 6% of the Welsh population in its membership by 2020.

The past decade has also seen a consistent rise in the size of credit union assets. However, the proportion of these assets on loan to members has been subject to decline, with a large majority of credit unions lending at an insufficient level to guarantee their long-term financial sustainability. Credit unions need to develop flexible and responsible approaches to lending that enable members to access the loans they want and need at a price they can afford.

Extending Services

Positively, many Welsh credit unions have been progressively developing their portfolio of products and services in response to the needs of members and consumers at large. Many credit unions now offer multiple savings accounts, Child Trust Fund Accounts, 'instant affordable loans' and loans based on flexible rates of interest assessed to reflect the varying costs and risks associated with lending to different members. Other credit unions are also exploring the options of introducing The Credit Union Current Account and/or pre-paid debit cards.

Future development of the movement could benefit from an extension of services such as the 'Saving Gateway Account' and greater use of facilities to repay via electronic payment cards (such as Pay Point).

Overall, the research study confirmed the commitment of Welsh credit unions to serve low-income communities and tackle financial exclusion. Fourteen Welsh credit unions have delivered Financial Inclusion Growth Fund contracts for the Department for Work

and Pensions in order to support financially excluded people in their communities; the value of these contracts at June 2009 was £3,686,172.

Involvement with the Financial Inclusion Growth Fund, however, raises particular challenges for credit unions, with new management and administration demands, accommodating new systems and developing new skills in working with new members' requirements.

Working in schools has helped significantly in raising the profile of the credit union movement and is politically popular, although costly in terms of time.

Successful working partnerships with the Post Office, the Pay Point network, housing associations and schools are going to be crucial to the growth and mainstreaming of credit unions in the next decade.

Financial Health, Sound Governance and Effective Management

The two key dimensions, identified from UK and international experience, which contribute to the financial health of a credit union are sound governance and effective, strong management. These are the bedrock upon which is built financial discipline, operational efficiency, robust policies and procedures and business models that target sustainable growth.

At the time of the research study, all Welsh credit unions were solvent financial institutions and had positive net worth; a large majority had adequate or good provisions for potential bad debts (91%). However, many had high rates of loan delinquency and bad debts and these appeared to be increasing, possibly as a result of the current recession.

The credit unions analysed in the study had a good ratio of costs to income (68% had positive net income in 2007), but this was often the result of a high level of voluntary staff input, which may not be sustainable in the long term.

Some credit unions experience weakness at board level and amongst managers which may impede their ability to exercise 'due diligence' in carrying out their work. We have noted the need for the provision of high level training for directors and managers of credit unions to exercise their roles in strategic leadership and good governance most effectively.

Improving performance in this critical area is essential for the future sustainability and growth of the sector and will need to be achieved by a combination of improved training, recruiting new and more strategically minded individuals to key roles, and the use of expert advice on issues such as mergers.

Critical Success Factors

We found that credit unions are facing two tensions in terms of their future development and growth: a tension between their role as a co-operative business and their 'mission' of providing financial services to members of society excluded from mainstream banking and financial services; and the tension between the drive to modernise and professionalise and to ensure a personalised and community-based quality of service,

Our study identified the following key success factors for credit unions in Wales:

- High levels of trust between credit unions and their the local community;
- High level of membership relative to the size of the common bond;
- Focus on lending money as well as taking deposits;
- A strategic and goal focussed approach policy developments, for example SGEIs, that takes into account the business objectives of the credit union itself;
- Professional and entrepreneurial attitudes among credit union managers;
- Support from the local authority, where available, which could also help to underpin the credit union's success.

Efficiency could also be improved by the development of a fully functional and shared IT resource which would be affordable to all Welsh credit unions.

In fact, greater collaboration among credit unions emerged as a key factor in the future development of credit unions and indications are that to achieve economies of scale, many aspects of a credit union back-office may have to be organised collectively. Costs may determine that these back office services have to be organised on a Great Britain rather than a single country basis

We have noted the lack of a unified Welsh credit union identity, and suggested the development of an identifiable colour and logo, and a Wales-wide publicity campaign to publicise this new shared identity.

This is a report of research commissioned by the Welsh Assembly Government into the credit union movement in Wales. The objectives of the research were to investigate the profile, operation, governance, support structures, current performance and services, and future development and sustainability of credit unions in Wales. For copies of the full report or for queries relating to this research, please contact:

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