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Margin or mainstream: the impact of the financial inclusion policy context on the development of credit unions in Wales

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Abstract

This paper is based on empirical research focusing on the financial and operational performance of the credit union movement in Wales. The backdrop to the research includes Welsh Assembly and UK government financial support and the impact of the financial inclusion agenda on the social and economic space occupied by credit unions. This paper draws on one specific aspect of the research – interviews with key stakeholders, policy-makers and politicians. The nascent credit union movement in Wales has developed under the auspices of a supportive devolved Assembly government. However, the researchers note that dealing with a financial inclusion agenda while struggling to become self-sustaining co-operative financial institutions puts strain not only on the financial and operational performance of credit unions, but also presents particular challenges in terms of strategic direction, management and governance for fledgling organisations. As such, the paper presents a significant piece of the jigsaw in the particular development of credit unions in Great Britain.

1. Introduction

In a sophisticated and complex society, not having a bank account or access to mainstream financial services that many of us take for granted can lead to a variety of social and economic exclusions that has become, over the past decade, a focus of increasing policy attention. Under the broad policy umbrella of ‘financial inclusion’, there is a push to enable individuals and communities – mostly those on low incomes who are seen to be ‘financially excluded’ – to access financial services through promotion of a range of community-based options, such as credit unions and community development financial institutionsⁱ. There is also concerted effort to increase individual capacity through developing financial capability through personal finance education, where information about, and understanding of, credit is seen as ‘imperative in today’s economy’ (Birkenmaier and Curley, 2009: 251).

This focus on such individual behaviour change (Dixon, 2006) has also given rise to what Leyshon *et al* (2004: 625) refer to as an alternative ‘ecology of retail financial services’. These financial alternatives, such as home credit providers, pay-day advance outlets, pawn shops and mail order catalogues, tend to operate to the detriment of those who are already underprivileged, given the high rates of interest they charged. What is of interest here is the persistence of such alternatives in relation to borrowing behaviour of individuals. Home credit, in particular, has been seen as an indicator of financial exclusion for those choosing (or having no option, but to choose) this form of credit. Yet, as Byrne *et al* (2007:45) conclude from their research, ‘[t]he borrower and money lender relationship is complex and is not centred on access alone’. They found that individuals borrowing from home credit providers also had other sources of credit including borrowing from banks, building societies and credit unions and using credit cards ‘to widen their credit choice and not purely because they experienced financial exclusion’ (Byrne *et al*, 2007:47).

While the growth of community-based financial services such as credit unions has been slow in comparison with other countries (Chambers and Ryder, 2008), they have nevertheless become central to the outgoing and incoming UK Government's agenda to tackle financial exclusion. In addition, the Association of British Credit Unions Limited (ABCUL) promotes credit unions as one of the best means of addressing financial exclusion (see www.abcul.org/page/about/financialexclusion.cfm).

In this paper, we seek to address how the involvement of the credit unions in the government's financial inclusion agenda has impacted on credit union growth and development. In particular, we explore the perceptions of some of those who are implementing policies to tackle finance inclusion in Wales based on empirical research undertaken in 2009. The following section sets the scene by providing an account of the recent history of the financial inclusion policy in Britain and the role of credit unions as part of that policy agenda. Section 3 then describes the study that was undertaken by the authors, along with colleagues, some of whose results are reported here. Section 4 presents the results of a series of interviews undertaken with key stakeholders in the Welsh policy community. Their perceptions of the credit unions they work with are presented across a range of topics, arranged around the central theme of margin or mainstream. Finally, in Section 5, we present our conclusions

2. The credit union movement and the financial inclusion policy

Credit unions are a part of the mutual finance sector, along with co-operative banks and building societies. A credit union is a financial co-operative owned and controlled by its members who save and borrow each other's money. They do not have external shareholders who determine the activities of the business and profit from it and, as with the other mutual financial organisations, credit unions subscribe to 'a doctrine that stresses mutual

interdependence as the means of promoting collective well-being' (Marshall *et al.*, 2003: X). Furthermore, credit unions are required, by law, to establish that they have a 'common bond' which defines the nature of the community within which these transactions take place. The scope of a common bond is usually denoted in terms of members living and working within a defined geographical area, or specific communities of interest such as employee- or association-based credit unions. In this way, credit unions have been seen as closely embedded in their local communities. However, recent calls for legislative reform for British credit unions will see a relaxation in restrictions to operate within specified geographical common bond areas in order to allow growth and expansion into areas with no or limited credit union coverage and to encourage partnerships with other organisations (e.g. registered social landlords). In addition, membership is to be widened to corporate and unincorporated organisations in certain circumstances (HM Treasury, 2007a). These planned freedoms and flexibilities could have a direct impact on the growth and membership profile for credit unions in Wales.

In the main, credit unions have been established in various parts of the world as a response to an identified need to support excluded or underserved individuals, groups and communities (see for example Chaves *et al.*, 2008; Côté, 2001; Thomas *et al.*, 2008) and this, along with broader co-operative principles and values, contributes to the perception that credit unions are a 'natural' part of a movement tackling social injustice, exclusion and anti-poverty initiatives. However, the close connection in some countries with a social welfare and political agenda has also given rise to some criticisms and concerns in terms of the potential of the credit union movement. For example, Thomas *et al.* (2008: 107) suggest that in contrast to Irish credit unions, British credit unions have been tasked by the UK government with 'tackling social exclusion before becoming sufficiently developed and entrenched in their local communities' and that, furthermore, while having a significant role to play, credit unions

cannot be seen to be a ‘solution to financial exclusion nor do they seem to be the appropriate mechanism for reaching those who are most in need’ (Thomas *et al* 2008:111). This critique highlights one of a number of tensions identified in academic study of British credit unions tracking their development from fairly marginal community-based organisations to more professional co-operative businesses employing staff and offering a wider range of services (Jones, 2006). Here, we see the tension between a social welfare and community capacity building role (responding to government agenda on social and financial inclusion, building community networks and social capital) and that of becoming self-sustaining financial enterprises with capacity to provide financial services and compliance under FSA regulation. This also brings to the fore the tension between providing services only for marginalised and poor individuals and communities (contributing to the image and perception of credit unions as ‘the poor persons’ bank’) and providing services for all within a geographical community or community of interest whereby meeting the needs of low-income families and the ‘working poor’ is part of a broader focus on ‘community’ rather than specifically those who are economically excluded (McKillop *et al*, 2007).

With growth and closer scrutiny as part of a series of government interventions to support credit unions, comes what seems to be the inevitable tension between remaining small, local and predominantly grass-roots and volunteer-based, and becoming larger institutions, more professionalised and with paid staff. For some credit unions, for example in North Wales, this process of professionalisation seems to be part of a development or ‘mainstreaming’ progression, made possible in part by mergers and acquisition of other smaller credit unions, to be able to offer a wider range of services, including a current account, ATM services and debit card (Llandudno Credit Union, 2009). For others, this shift is a step too far in the direction of becoming too similar to more mainstream high street financial services providers.

We will return to these tensions at different times throughout the paper, but first it is useful to explore the concept of financial inclusion.

The phrase ‘financial inclusion’ has not yet faced much critical examination - such as an attempt to explore and question what people are being invited to be included in, and whether this might be in their best interests. Where this issue has been raised, for example in relation to people labelled as ‘voluntarily excluded’, that is those people who have access to financial services but who do not, for a variety of reasons, choose to make use of them, then the reasons for lack of take up are often explained in terms of services deficits: ‘services are unaffordable, unsuited to their needs, or because the potential users fear they will be rejected upon request’ (Kumar and Chidzero, 2005: 2). However, the difference between *access* and *usage* is a pertinent one in terms of credit union geographical coverage (for example the whole of Wales is covered by credit unions - *access*) and market penetration and inclusion of hard-to-reach groups (market penetration for most credit unions in Wales remains low - *usage*). Nevertheless, financial inclusion / exclusion has been largely characterised by the lack of, or inability to access, six key elements, which are deemed necessary for full financial participation, namely: lack of / inability to access a bank account (the ‘unbanked’); savings; assets; lack of or failure to access advice about money; inability to obtain insurance services; and lack of access to or inability to obtain reasonably priced credit facilities (HM Treasury, 2004).

The most recent annual survey undertaken for the Department of Work and Pensions (Sullivan *et al*, 2009 - figures from 2007-2008) shows that the percentage of households surveyed in the UK without any type of account (related to savings and assets, for example current account, savings, premium bonds, credit union account) is 3%, rising to 5% in Walesⁱⁱ. One per cent of households surveyed held credit union accounts in Wales. This figure equals that of England, but is less than Scotland (3%) and Ireland (10%). The highest

percentages of households with no account had a total weekly income of less than £300. Overall, these figures point to the halving of the number of adults living in households without access to a bank account since 2002/03 (890,000 compared to 2 million in 2002-2003). However, they also highlight the concentration of financial exclusion of individuals who are ‘unbanked’ within low-income households. This is shown more explicitly in the table below, which links access to bank accounts with income distribution.

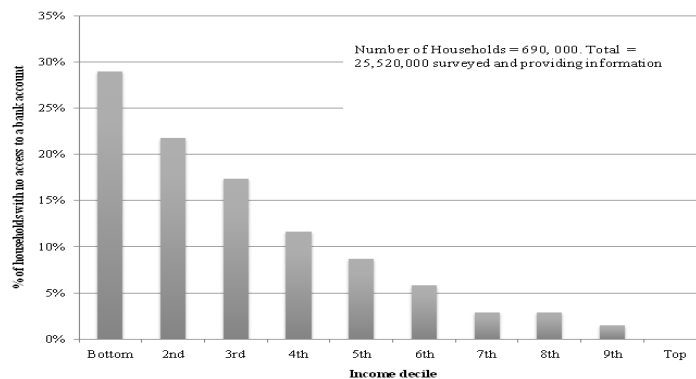


Figure 1: Percentage of ‘unbanked’ households by income distribution

Source: HM Treasury (2009)

Policy interest in financial inclusion is nested within the broader agenda of social and economic regeneration and we can extrapolate further to consider some of the current and historical discourse around finance and economic development, which also links with the development of other community-based financial institutions such as community development financial initiatives (CDFIs) and community loan fund initiatives to encourage community investment. In this sense, finance and financial services sectors work to contribute both to ‘growth’ and to ‘poverty reduction’ (Demirgüç-Kunt, 2008: 2). This

includes institutional growth, and wealth in terms of private or individual wealth. If we include poverty dimensions that link economic well-being of households not only to income, but also to levels of savings and debt, net property wealth, net financial wealth, physical wealth and private pension wealth, then we can start to see the distribution (and concentrations) of total net wealth that highlight further the inequalities and growing gaps between rich and poor. (Daffin, 2009). This distribution is shown in Fig. 1, below, where the least wealthy 10 per cent of households have negative values for both net financial wealth and net property wealth, but show some physical wealth (household contents, cars etc) and a small amount of private pension wealth.

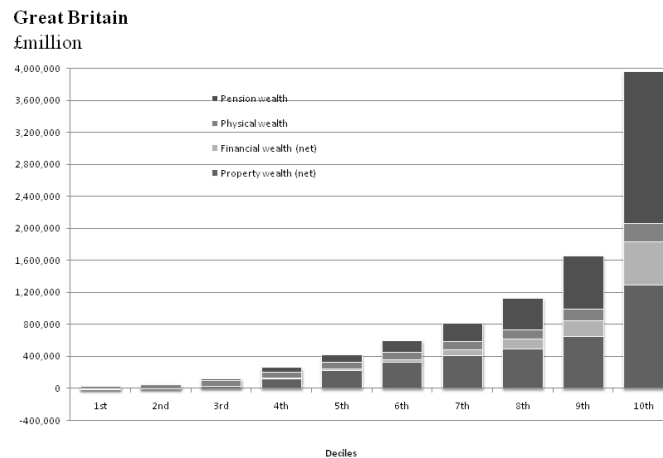


Figure 2: Breakdown of Aggregate Wealth by deciles and components

Source: Wealth and Assets Survey, Office of National Statistics (Daffin 2009: 9)

Credit and loans are also significant and in 2004, the UK government estimated that some 3 million adults were regular users of what is euphemistically known as the ‘alternative credit

market', renowned for charging high interest rates on loans¹ (Jones 2001). Figures from the Wealth and Assets Survey (WAS) 2006/08 (cited in Daffin, 2009: 69) show that the greatest sources of unsecured borrowing included credit and charge cards, overdrafts and store cards. These were favoured over sources that offered a regular, fixed sum repayment (for example loans, hire purchase and mail order). However, in a survey specifically looking at the use of mainstream and sub-prime credit products by people on low incomes and the feasibility of a not-for-profit commercial doorstep lending initiative, Kempson *et al* (2009) also reported on how people shop around for credit. In their sample of 1,107 people who had used home credit in the two years prior to the survey, most had accessed a range of other credit and loan products, including a repeat home credit loans, mail order and shopping vouchers, credit cards, hire purchase and pawnbrokers. Moreover, they identified that those individuals who did the most shopping around were more likely to have problems re-paying outstanding loans. Table 2, below, which is derived from the Survey of Low Income Families illustrates the high-proportion of such families who have difficulty in repaying the loans that they have taken on from a variety of sources.

Loan from	Home-owning couples	Tenant couples	Home-owning singles	Tenants singles	Total
Bank	2.34	12.22	5.26	8.99	5.27
Finance company	7.14	26.06	6.41	26.12	18.49
Tallyman	26.67	22.58	16.67	30.16	26.99
Friend or relative	26.38	24.18	24.58	22.57	24.70
Employer	7.69	--	--	7.69	4.55
At least one of the above	12.06	21.91	13.16	24.60	19.12

¹ Typical interest rate on a home credit loan for example is 272.2% APR. A loan £300, paid back in weekly instalments of £10.50 over 52 weeks costs £246 in interest charges. (<http://www.providentpersonalcredit.com/>)

Table 1. Percentage of households unable to make repayments on loans of various types
Source: Bridges and Disney, 2004: Table 5; based on data from 1999.

More recent figures from WAS 2006/08 (Daffin, 2009) also emphasise higher levels of arrears in households headed by someone who was unemployed – almost three times the overall average for households surveyed; lone-parent households; and those in rented accommodation. It is thus clear that the exclusion from banking services not only leaves the poorest outside the financial mainstream of society, but it also exacerbates the social and economic problems they are facing. This is clearly the main focus of the policy to achieve higher levels of financial inclusion and, underlying this, what Richardson (2000) refers to as ‘assimilation’: bringing the poor ‘into the mainstream economy by providing them with access to comparable financial products and services to those enjoyed by the majority of citizens’. Another subsidiary aim, which is not highlighted but is none the less a driver, is the increase in technology-led banking and other financial services (e-banking, phone banking) together with computerised access to benefits as part of an efficiency agenda. Since the poorest are most likely to claim benefits, bringing them into the fold of computerised banking services enables the government to abolish expensive systems of payment books and cards.

Those who are considered beyond the reach of mainstream financial institutions suffer a range of social limitations. In addition, being unable to access credit via mainstream financial institutions leaves many open to the excessive rates of interest charged by doorstep lenders (Kempson *et al.*, 2009) and other high-cost credit providers. Historically, credit unions have been seen by successive Labour governments since 1997 as a key tool in the attempt to make a range of financial services available to the poorest members of society (Chambers and Ryder, 2008). More recently, policy-makers have put considerable rhetorical and financial support behind the UK’s credit union movement (HM Treasury, 2004; 2007*b*; Welsh

Assembly Government Housing and Community, 2009; Scottish Affairs Committee, 2009, Department of Work and Pensions (DWP), 2010a).

The most recent policy initiative, an outcome of the UK Labour government's Financial Inclusion Taskforce, is the Growth Fund. In October 2005 the Treasury made available a fund worth £120 million, £36million of which was earmarked for credit unions and CDFIs. This Growth Fund was specifically designed to increase the extent of lending available to the very poor, enabling the financially excluded to shift their borrowing from the vagaries of the alternative credit market into the apparent safe haven of community-based financial institutions. A further £130 million has been made available to cover the period of the latest action plan, 2008-11 (Quinn, 2008). There are currently 87 organisations directly contracting with the Department for Work and Pensions for Growth Fund Contracts with a further 38 sub-contracted by main contractors. Over 80 per cent of these organisations are credit unions. Since the fund began, over 250,000 loans have been approved with an average loan of £433 and a total value of over £108 million. In addition, 43.1% of all loans made were to individuals who simultaneously opened a bank or savings account (DWP, 2010b).

The literature on credit unions in the UK highlights two possible trajectories for organisational development. One, which we are here terming a 'mainstream' trajectory, involves their development as co-operative financial institutions with the capacity to meet the needs of a broad range of members through the provision of a range of services, including those currently not able to access mainstream financial services.

An alternative trajectory is to maintain a role as provider of banking and credit services solely to those who are unable to use the services of the mainstream banking sector, most likely because of opportunity, education or culture, but sometimes for other reasons such as poor credit-worthiness, an absence of suitable documentation, no fixed place of residence, or an

ability to cope with complex forms and procedures. Along this trajectory, while credit unions might be successful co-operatives, supporting their communities and remaining both well capitalised and solvent, they would remain 'marginal' so far as the financial services sector as a whole is concerned. Jones (2008) for example, and indeed a number of credit union practitioners, develop this theme in a more sophisticated way, arguing that, in reality credit unions need to become mainstreamed in order to serve the interests of their marginalised and poorer members:

'The paradox for credit unions was that, if they were to prioritise serving the poor, they needed also to broaden their appeal to wider sections of the population. This is not just to generate income from larger savers and borrowers, but to ensure that the less well off are not left feeling stigmatised within what could be perceived as a social welfare organisation. The *poor persons' bank* appeals least to the poor themselves.' Jones, 2008: 2143)

It is clear that the financial inclusion policy agenda impacts heavily on this paradox. Crucially, it emphasises both the expansion of membership, and lending to the lower-income members of a common-bond area. This is the narrow line that credit unions have been walking: struggling, in some instances, to maintain their commitment to servicing a diverse community, while fulfilling the expectations of policy-makers and indeed of their own activists that they should be bringing poorer members into a range of financial services.

In the context of this struggle or balancing act, we need to ask how credit unions are perceived by policy makers. Is there evidence that they are taken seriously, as putative members of a mainstream financial service sector? Or, are they merely a means-end approach – a conduit to hard to reach communities - to meet government social and economic inclusion commitments and targets? We were able to explore these and other questions in the context

of the devolved territory of Wales as a result of a contract to evaluate the success of the Wales Assembly Government's funding of Welsh credit unions.

Credit unions have received wholehearted support from Welsh Assembly members and policy-makers, who have also been able to use European money through Objective 1 and Objective 3 funds to give financial assistance (Drakeford, 2002). A funding package of £3.8 million was made available in 2000 to support the development of credit unions, with the aim of achieving total coverage, so that every person in Wales fell within a common-bond area of at least one credit union, and of laying the foundations for sustainability without future government support ((Drakeford, 2002).

Over the past decade the total investment in credit unions has exceeded £8m. Our own research demonstrates that total coverage has been achieved, together with significant increases in membership levels: in 2009 total number of members in Wales stands at 43,000, more than fourfold increase during the decade. However, self-reliance still seems to be some way off and we need to consider, given the possible skewing of operational direction, performance and outcomes achieved by Welsh credit unions through significant external investment, how we can more accurately measure and account for success and achievement in the sector.

3. Methods and Data Collection

The results reported here are derived from a six-month survey carried out by the researchers on behalf of the Welsh Assembly Government. The aim of the survey was to assess the extent to which the considerable investment of public funds in credit unions has been effective in enabling them to consolidate their position and offer a range of financial services to those whose low incomes meant that previously they had been financially excluded. It was also motivated by a desire on the part of the Assembly Government to assess how close the credit

unions were to achieving economic viability without continuing public support. Additional objectives included a preliminary impact analysis of Growth Fund strategy and payments on the functioning of credit unions; how credit unions linked with and are supported by local authorities; the standard of performance of credit unions both in financial terms and in terms of the level of professionalism, and expertise of their staff.

The field work for the research was conducted between April and July of 2009 and relied on a mix of methods. In-depth face-to-face interviews were conducted with key personnel in all of Wales's 29 credit unions. These interviews were based around a lengthy semi-structured list of questions covering issues such as the size, penetration and growth rate of the credit union; the range of services it offered; the extent of activity in schools; the nature, age and level of experience of board members, volunteers and staff; the nature of assets, both financial and physical, held by the credit union. In the case of an additional two non-geographical credit unions, the same information was gathered by telephone interviewⁱⁱⁱ. In addition a series of focus groups were held to facilitate and record dialogue between directors, members and staff of a number of different credit unions allowing them to share experiences and explore issues of concern. A range of key stakeholders external to credit unions were interviewed including politicians and policy-makers within various departments of the Welsh Assembly Government; support staff at the Wales Co-operative Centre; and individuals who provide advice and support to the movement such as the trade association, the Association of British Credit Unions Ltd (ABCUL).

In addition, annual financial returns to the Financial Services Authority (CY1/AR20 forms) – provided by credit unions where available, were collected and the data processed by ABCUL using the World Council of Credit Unions' PEARLS financial management software. This allows a series of financial ratios to be calculated, and both performance and trends to be analysed in a format that can be compared with credit unions elsewhere in the UK and

internationally. PEARLS has become a standard analytical tool throughout the credit union movement, and is promoted worldwide by the World Council of Credit Unions and, in Britain, by the ABCUL.

To support the research undertaken within the individual credit unions across Wales, the research team also spoke to a number of key stakeholders from outside the movement but whose work intersects with that of credit unions, for example advice agencies offering debt advice and social housing organisations. All respondents comments are anonymised and speakers are referred to as 'she', whatever their actual gender.

4. Views from stakeholders

The Role of Credit Unions in Welsh Economic Life

Credit unions are in the very rare situation of being part of a co-operative movement that has support both across the spectrum of political parties and from non-elected officials in government. According to one policy-maker, Welsh credit unions give 'vital access to financial services for many of our most vulnerable citizens' and she expressed a desire to see the movement in Wales 'continuing to grow'. Another was more specific about their achievements:

'... credit unions [are] a success story. They have gone from 1990, when Port Talbot Credit Union (St. Teresa's) was the only one in Wales to the situation today when no part of Wales is uncovered. Their assets have increased from hundreds of pounds to millions of pounds.'

Another stakeholder gave figures for assets leaping from £4.5 million in 2000 to £20.75 million in 2009 and the Assembly Government's action plan for the development of credit unions over the next ten years anticipates the possibility of further growth up to £75 million

by 2020 (Sargeant, 2010 communication to the Communities and Culture Committee). As well as this target-driven support for credit unions (increasing market penetration; increasing public awareness through an all-Wales branding; increasing the number of active volunteers), there is also a more generalised support for credit unions. In relation to local politicians and dignitaries wanted to show allegiance to and be identified with credit unions, one policy maker explained:

‘What they [elected members] need is success stories . . . if they see that local organisations are making a difference to them and their constituents then they are much more likely to want to support them and be seen with them in a photo opportunity’.

In spite of what appeared to be near-universal support, there were attempts to temper this with a caveat that credit unions were not and could not be a panacea for poverty and financial exclusion in the region. In the words of one policy-maker, they are ‘not a magic wand’ and others felt that while the situation did not currently exist, it is ‘fundamentally important to have a clear and collective vision of the purpose and potential of credit unions within Wales’. The lack of a consistent and agreed role and purpose for credit unions was further highlighted in responses from four external stakeholders, for example:

There is obviously a tension between wanting them [credit unions] to be financially viable and wanting them to provide a service to the poorest people who may not be able to save enough to support it [financial viability].

When moderate and higher income members see credit unions as serving their own financial wants and needs, lower income groups will be best served in the longer term.

Generally 65-70% members are on low incomes. The remaining 35-30% of people don’t have to be members of the credit union but choose to be...Credit unions are for

everybody, but they do have a clear target market, which is different to the target market of banks and building societies

Credit unions really [are] quite a middle-class institution - I'm a member, and I could actually put my money where I actually earn some interest and a little more than a nil dividend! . . . You'll find an awful lot of people I talk to will say, I know it's not earning me any money but it's a co-operative and I have the majority of my savings in this savings account so I earn some money, but I put the other bit here, because it's almost like a charity they see it as that like some charitable gifting.

This latter comment may help to throw some light on why some people join credit unions and what they feel they are achieving through their membership and it presents an interesting linguistic turn from the image of 'poor people's bank' to 'middle-class institution' where membership is more of a philanthropic act rather than active participation. In this respect, it has a different emphasis than the second quote above, which looks at credit unions meeting the needs of all customer-members – a co-operative financial alternative for all. There are, however, echoes of solidarity; of being part of a movement in the final quote – 'but, it is a co-operative', but in economic terms this remains secondary to the 'real' bank account they hold elsewhere. In this instance, the transaction relationship with the credit union is in terms of saving (viz. 'charitable gifting'), but, as explained by one respondent, credit unions need 'people who are inclined to save, but also people who are more inclined to borrow, as this is the only way credit unions can generate income for their sustainability'. Underpinning these statements are the vexed questions of who should credit unions serve and what it means to be self-sustainable. In relation to the latter, is there a continued need for external subsidies / support either through individual 'charitable gifting' savings, as seen above, or through government grants and contracts linked to policy targets? Some respondents think this is the case:

So if you really wanted to target the most in need with this service you will have to support it to some extent.

We can only continue with this if we accept that there will always be public subsidy

However, if credit unions are successful in growing their membership and achieving greater market penetration in their common bond areas thereby attracting financially better-off members, this may also bring with it additional problems. One government respondent, for example, raised the issue of fairness in investing public money in credit unions if their members are people in the community who do not have particular financial difficulties themselves. This further raises the dilemma of whether building commercial viability through growth and modernisation, and meeting public policy agenda are mutually exclusive? An alternative view is to look at the interconnectedness of both aims.

Some respondents suggested that credit unions are one of a number of public or human service organisations (e.g. Citizens' Advice Bureaux, housing associations, local development agencies, housing and homelessness agencies) working to meet targets of a social and economic agenda. They recognised that, for the most part, this work is non-income generating. As such, it may be possible to account for this work separately (such as with activity-based costing and accounting) and this could then be a subsidised part of the overall credit union activities, separate from but complementary to the main business of being a viable financial co-operative. In this instance, in the context of the continuing development of contracted services by government to third sector organisations including co-operatives, the social and economic policy objectives are seen as part of a social programme contracted and invested in by government, rather than credit unions being seen to be subsidised in their day-to-day operations. The former requires a self-sustainable credit union movement, autonomous, financially viable and with the capacity to avoid mission-drift and skewing of

co-operative principles and values. Broadening the appeal of credit unions to wider sections of the public then becomes an enabling factor of meeting the needs of the poorer members of our communities. This resonates with Thomas's (2008) argument (see earlier) and is indicative of a wider debate that is not within the scope of this particular paper. However, in relation to this dilemma or strategic and operational paradox, we also need to consider the function and services provided by credit unions and the image and future development of credit unions in Wales.

Function and services

To some extent, the discussion about who should or needs to belong to a credit union, mirrors the disagreement over which services credit unions should offer. In many ways, the academic and practitioner discourse on modernisation of the movement in Great Britain and throughout the world has conflated the issues of financial and operational viability with meeting social needs agenda. In simple terms, the assumption that the development of professional, paid staff supported by trained volunteers, the introduction of a greater variety of services including banking platforms and ATM linking across credit unions, and larger, more accessible unions will be, de facto, more successful in meeting the social and economic agenda needs further examination. What we have seen, in some instances, is that several of the services that credit unions have been encouraged to take on, such as the DWP Financial Inclusion Growth Fund, have led to a decline in the viability of the member base.

In some instances, the Growth Fund was seen by respondents as a 'good thing' that has 'enabled some credit unions to go into lending to more risky clients'. However, more generally it has been seen as a demanding scheme for credit unions to operate, given their current organisational capacity, and has led to the increased accumulation of bad debts for

some credit unions. Some of the new members that the Financial Inclusion Growth Fund has brought to credit unions are not necessarily active members and tend to be less able to manage their money. This has had a perceived negative impact on the business in some cases. One respondent suggested that if ‘Growth Fund people’ became a ‘disproportionate large number within the membership then this would cause difficulties for any financial organisation’. It may also, in some cases, work against the co-operative principle of voluntary and open membership, where ‘Growth Fund people’ may be reluctant and instrumental members at best.

While not always ‘growth fund people’ per se, the socio-economic conditions of members can affect the viability of credit unions, and a balanced membership across all income groups is seen as a key dimension for an active membership and a sustainable credit union. Where common bonds cover large and well populated areas, this is seen as a positive development and current changes in legislation, as mentioned above, will support this development for credit unions in Wales. However, what was also noted in early accounts of Scottish experience is that the cluster effect, that is the close proximity of credit unions to each other, helped both with sharing of information but also in raising the profile of the organisations and was seen as a significant factor in determining growth and market penetration (Donnelly and Kahn, nd).

The view that credit unions need to be modern, professional, responsive to a changing market place, and operate to high standards of governance and management is strongly represented amongst policy-makers. It was notable that the credit unions that were considered by the stakeholders to be exemplars were those which were diversifying and offering a wider range of services. This was not always to their financial advantage, but it was definitely to their political advantage. One stakeholder identified one credit union as ‘outstandingly successful in developing a mixed basket of targeted services’ and having an ‘impressive sense of social

entrepreneurialism'. Another credit union was identified as a 'credit union with great confidence and a strong brand identity'. It was noted for having focused its energy on a smaller number of larger-scale initiatives, but it was also thought to be a successful example. Thus 'success' appeared to be associated—at least in the minds of policy-makers—with change and expansion, either in size or variety of services.

However, these assessments are not those of all stakeholders and do not necessarily tally with the views of the members and volunteers who work in Welsh credit unions (see their views in Cato *et al.*, 2009). Indeed the 'outstandingly successful' credit union indicated that its enthusiasm for expansion in all directions may not be ideal for its overall business practice. Furthermore, credit unions which had a deliberate policy of 'sticking to the knitting' and serving existing members competently using the save-and-borrow model, in which borrowers had to save a third of the requested loan value before it could be granted, were not so highly regarded, with one stakeholder suggesting that the need to save before you can borrow acted as a 'barrier' to the expansion of credit unions. This was a sentiment voiced in 2007 by the then Treasury minister in support of the Growth Fund's ability to make money available for instant access loans (HM Treasury 2007d).

Payroll deduction was one aspect of credit union development which was considered worthy of support and cases were cited where payroll deduction schemes had underpinned the growth and stability of the local credit union. Another respondent identified the synergies that could be gained from developing collaborative back-office services, since individual development could not, in her view, generate the economies of scale that would be necessary to ensure successful competition with mainstream providers of financial services. These could include administrative services, marketing, internal audit, treasury and liquidity management, current account and card management and even call centre support. A collaborative back office approach would have to rely on a central IT platform which itself

could be offered and maintained through a back-office facility. Collaboration is now accepted as a key factor in the future development of credit unions (and aligns with co-operative values and principles) and there are models in other countries such as Canada for the use of shared administrative back-office services (province-based credit union centrals) to deliver these functions.

The Image of Credit Unions

The tension between ‘bankers to the poor’ and ‘mainstream’ financial organisations was most clearly demonstrated by the different ways that credit unions present themselves to the public—at least as far as policy-makers and other key stakeholders are concerned. They were generally not positive about the image credit unions present. The question was raised repeatedly why someone would want to join a credit union who already had access to a high-street bank. Again, this highlights confusion about what credit unions are for and what services they offer. For example, one remark was that ‘they don’t generally look as if they are what our society used to think of as pukka whizzo banks’ to which some credit union members would soundly reply, ‘we’re not banks!’. This again points to the need for continued debate that highlights the role that credit unions can play as part of a range of financial services provision that includes ‘big-name’ high street banks, co-operative banks, and building societies. This involves credit unions being seen as serious contenders albeit as niche providers, rather than as a stop-gap intervention for more marginalised communities until something else comes along or until people have the financial capability to use mainstream institutions (in this case ‘the banks’) as the following quote might suggest:

We have got to be fairly robust in terms of recognising that most of our deprived communities have very few local resources whether it is in terms of financial institutions or anything else. We have to be mindful that if there is significant local resources in terms of private sector involvement we should not be undermining that...

but we must not ... ignore the reality that if we do invest in some of these communities and the institutions they need we are not really treading on anybody's toes or undermining anybody's right to make a living. What we are actually doing is filling huge gaping holes and only to a tiny degree. If that were to change in the future and we were in a situation where banks were to spring up along the High Street in Maerdy then fair enough. . .but until such time I don't think we should have too many fears about creating a very modest local infrastructure. And even if Barclays and Natwest decide that Maerdy is fertile ground for growth then I still think we should still take a robust [view] about the value of community-based and community-run organisations over against something that is designed to deliver profits to London-based institutions or even Cardiff-based institutions.

It is the final point raised in this quote that was often missing from discussion about the role of credit unions in Wales: credit unions as co-operative, member-based organisations offering an alternative for ordinary people (rather than a resource for 'alternative' people as hinted at in the earlier quote re credit unions as co-operatives).

Given the rapidly changing range of services that credit unions can offer and their attention from Welsh politicians, it is not surprising that there is some degree of confusion and disagreement between stakeholders. Several policy makers who contributed to the research had not heard of credit unions before working with them directly, indicating – despite a recent rise in prominence – a continuing low profile and image of a residual service operating on the margins of Welsh economic life. Yet, while locally-based and sensitive to local needs, credit unions are also part of a global movement (see www.woccu.org) a fact which can be lost in the micro-politics of local government and community agenda and inter-credit union rivalry. Nevertheless, one of the more practical issues to come from respondents on all sides was about raising the profile and of 'corporate' branding of Welsh credit unions.

Several of those who were interviewed identified the opportunity offered by the financial crisis for credit unions to move towards the mainstream. It was felt to be a good time to be promoting co-operative financial institutions: ‘this is the right time to be talking about how money works’, said one respondent, while another suggested that it is time for credit unions to come into their own now that other forms of capitalism have failed. One respondent saw a particular opportunity in the credit crunch:

[The financial crisis] should help. People are aware that the unrestrained credit that was available is part of the problem. We shouldn’t push the blame onto the ordinary citizen and suggest that they were responsible. A lot of that was stoked up by the lenders themselves and the fairly avaricious attitude towards maximising their opportunity through selling dodgy credit packages. It isn’t a coincidence that it is the mutual financial institutions that have survived better. . . There is an important message there.

Indeed, a recent UN Experts group looked specifically at the positive and negative effects on credit unions of recent market disruptions (Crear, 2009). In Great Britain and Ireland, there was generally a positive effect – ‘credit unions attract more savings as depositors look for safer locations for their money’ and ‘consumers also are spreading their deposits around multiple institutions to assure they are fully covered by the compensation scheme’ (Crear, 2009:4). However, although some credit unions reported increased loan demand, some credit unions were also under increased strain as numbers of loans dropped and reported incidences of delinquency increased in some instances. This reflects the experience of Welsh credit unions during this period, and Crear (2009:10) concludes:

In comparison to other financial institutions, credit unions and cooperative banks have performed exceptionally well during the current economic crisis notwithstanding the problems that have occurred. This is due in part to the relatively straight-forward

operations of most credit unions, their commitment to member service rather than short-term profit maximization, and reasonable executive pay packages and incentives structures that do not incent excess risk-taking similar to that offered by many commercial banks.

Looking forward

Given the rapid rate of change and the tension over the role and function of credit unions policy-makers, in spite of their best intentions, sometimes find it difficult to identify the appropriate policy or policies that would enable credit unions to bring some of Wales's most deprived citizens into financial services. Policy-makers are realistic about the extent to which credit unions can, or cannot, compete with commercial financial institutions.

So, what is the future for Welsh credit unions according to those who work with the people who are supposed to benefit from their services? The response from the key stakeholders who were interviewed suggests that there is no unified answer to this question, although there was significant pride in the development of the movement over the past decade and the role of Welsh Assembly Government in helping to achieve this. However, as credit unions are independent, member-driven organisations, there is a limited effect that policy can have on this path of development, except when that policy results in more favourable credit union legislation and regulation. We may see an era of competition, offering choice to members. This may lead further down the path of consolidation as envisioned by one stakeholder where only five or six credit unions remain across Wales, and where another saw coverage solely provided by a single, Wales-wide credit union. At the other end of the spectrum, a more community-focus was evident, with respondents arguing for a much more local level of provision, with potentially a credit union for every village in Wales.

The tension between margin and mainstream is also, to some extent, a tension between community embedding and professional distance. Credit unions will need to be able to balance the demands of serving a wider clientele while continuing to nurture the close relationships they currently have with members. This provides further challenges in terms of managing a growing member-based organisation, and maintaining a loyal and active cohort of members (Côté, 2005).

5. Conclusion

In spite of the move first to ‘new model’ and then to ‘quality’ credit unions, accompanied by an increasingly professional service and development of services, the ‘poor man’s bank’ image has been difficult to shake off. The findings of our research conducted with policy-makers indicate that this image persists for some, while others are keen that it should be superseded by a modern and inclusive image, especially so as to encourage a higher rate of membership and especially the participation of those who have more disposable income to deposit. However, the financial inclusion agenda may be impacting on this and some policies may inadvertently be reinforcing the image and role of credit unions as a marginal player and a residual social service.

Debate amongst academics and activists who concern themselves with credit unions has focused on conditions which enhance the viability of credit unions, the supports that help them to become economically stable and pay a role in the market place (Goth *et al*, 2006; Jones, 2001; McKillop *et al*, 2007; Ryder, 2005). We see examples of this across the world where credit unions are continuing in their role of providing affordable credit to the poor, expand levels of financial literacy, and helping some of the most disadvantaged in our society to emerge from the darker and more exploitative recesses of the financial services industry.

The tensions we have highlighted are resonant with other experiences in the movement and it is clear that not one size fits all. Credit union development is also interconnected with the context in which they inhabit. However, when identified as part of a larger, co-operative movement for financial alternatives then credit unions have a key role to play in developing access to alternatives to purely profit-oriented financial services – an ‘alternative mainstream’.

However, as identified earlier, intertwined and interconnected aims and ambitions for credit unions in Wales have the potential to undermine the growth and development of fledgling credit unions on the one-hand and, on the other, undermine efforts of policy-making and potential infrastructure supports if we try to pitch one against the other without recognising the driving forces and values that underpin both dominant views.

A persistent view of credit unions is as a community financial institution that is supported philanthropically by those with money (the savers) who lend this to those who are excluded from mainstream sources of credit (the borrowers). In this view, those who benefit from credit unions are the socially marginalised: the ‘financially excluded’. What’s often presented as the opposing view is of credit unions as credible financial market participants offering a similar range of services of services as banks and, in some instances, aspiring to be active competition to high street banks while still including the needs of financially excluded individuals and families. What is clear is that ‘[l]ike people of higher income levels, the poor need convenient access to an array of financial services beyond credit, such as savings, insurance, money transfers and card services’ (Crear, 2009: 8). Credit unions can and do provide these services. And, to answer our earlier question, both views are not mutually exclusive, but what is required from credit unions is strong strategic direction, governance and leadership

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ⁱ CDFI or community-development finance institutions are organisations set up to provide finance for projects aimed at the regeneration of disadvantaged communities. Since their establishment an increasing proportion of their capital has been made available as loans to individuals, thus increasingly drawing them into the territory of the credit union. In Wales eighteen local housing associations have worked with East Lancs Moneyline to provide five pilot loan shops in South Wales. The shops provide money advice and affordable loans (at relatively high interest rates) although much less than doorstep lenders) as well as opportunities to save with a

credit union while paying off the loan. In 2010 the initiative won an Inside Housing and Chartered Institute of Housing 'Housing Heroes' award for 'ground breaking service team of the year – see <http://www.insidehousing.co.uk/ihistory.aspx?storycode=6502658>

ii This figure is not totally reliable in this instance as it includes those households who refused to answer this question, or did not know the answers to questions relation to savings and assets.

iii These were employee-based credit unions with members in Wales.

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