Consultation on the Financial Education & Inclusion (Wales) Bill

Association of British Credit Unions Limited

Children, Young People & Education Committee – consultation on the Financial Education & Inclusion (Wales) Bill

Response from the Association of British Credit Unions Limited (ABCUL)

Introduction

We appreciate the opportunity to respond to this consultation. The Association of British Credit Unions Limited (ABCUL) is the main trade association for credit unions in England, Scotland and Wales. Out of the 338 credit unions which choose to be a member of a trade association, 70% choose to be a member of ABCUL. In Wales, ABCUL represents 59% of credit unions who, in turn, represent 80% of the Welsh sector by assets and membership.

Credit unions are not-for-profit, financial co-operatives owned and controlled by their members. They provide safe savings and affordable loans. Some credit unions offer more sophisticated products such as current accounts, ISAs and mortgages.

At 31 December 2013, credit unions in Great Britain were providing financial services to 1,122,461 people, including 126,217 junior savers. The sector held more than £1.1 billion in assets with more than £676 million out on loan to members and £949 million in deposits.[1]

Credit unions' work to provide inclusive financial services has been valued by successive UK Governments. Credit unions' participation in the DWP Growth Fund from 2006 – 2011 saw over 400,000 affordable loans made with funding from the Financial Inclusion Fund. The DWP has contracted ABCUL to lead a consortium of credit unions under the Credit Union Expansion Project, which will invest up to £38 million in the sector and aims to make significant steps towards sustainability. 6 credit unions in Wales are participating in the programme.

The Welsh Government has also consistently supported the Welsh credit union sector in order to ensure Welsh people are provided with inclusive and affordable financial products. Most recently the Welsh Government invested nearly £2 million in credit unions to expand and develop their services between July 2013 and March 2014 and a further £1.9 million award has been invested to support the sector over the next three years to March 2017 to move closer to sustainability and to continue to serve the financially excluded. We are extremely grateful for this support and the great benefits it has had for credit union development in Wales.

ABCUL response

ABCUL supports the purpose of the Bill. Financial education is important if Welsh citizens are to successfully navigate the increasingly financialised modern economy in which successful

[1] Figures from unaudited quarterly returns provided to the Prudential Regulation Authority

engagement with financial products and services is critical to all parts of life. For this reason, many credit unions in Wales are active in providing financial education and financial capability skills to their membership and wider communities in line with the objects of a credit union set down in the Credit Unions Act.

For instance, under the round of funding provided by the Welsh Government in 2013, Merthyr Tydfil Credit Union has been piloting a financial education programme in partnership with My Bnk which specialises in hands-on and engaging financial education sessions for youngsters at Key Stage 4 and 5 and in post-school education. Another example is LASA Credit Union in Swansea which actively provides financial education and runs collection points in primary schools across the city to support financial education. Many other credit unions do similar work in schools.

A key challenge for many credit unions in this respect, however, is successfully engaging with schools due to the pressures on their time and competing priorities. While in England the National Curriculum was recently changed to require financial education to be delivered in schools (both as Personal, Social and Health Education and within mathematics), this is not the case in Wales and so we would support the requirement contained in the Bill to do so. This should help agencies like credit unions and others to deliver vital financial education to school children.

One area in which the Bill's provisions might be strengthened, however, is around providing resources and guidance to schools in fulfilling their obligations to provide financial education under the Bill. If the Welsh Government were able to co-ordinate resources and partners who might be able to assist schools in meeting their financial education obligation this would assist schools in the delivery of the Bill's requirements.

In terms of the Bill's second provision, i.e. to require local authorities to implement financial inclusion strategies, ABCUL is also supportive. Many local authorities in Wales and across the UK are already active in this area and there is a great deal of evidence that there can be significant benefits to implementing a comprehensive, cross-cutting financial inclusion strategy in a local area.

An excellent example of a successful initiative in this respect is that pursued by Leeds City Council and evaluated by Salford University. Here it was found that for every pound spent on the strategy, there was a benefit of £8.40 for the regional economy in terms of saved interest, reduced evictions and other measures.[2] The same report found a ten-fold return on investment in the city's credit union in terms of forgone interest to high-interest lenders. The success of the scheme was rooted in its comprehensive, cross-cutting approach to financial inclusion which incorporated all aspects of the council's operations and much can be learned from this experience for financial inclusion strategies devised by Welsh local government.

Specifically in terms of credit unions, it is clear that there can be great benefits to extending and expanding credit union services in a local area in order to provide inclusive and affordable financial services for local communities. Through providing access to affordable and inclusive financial services, credit unions can support communities to maximise their limited financial resources and to become financially resilient. However, the key challenge here is to ensure that credit unions are supported to become self-sustaining organisations so that their services can be guaranteed for the long-term and do not remain reliant upon external support to be maintained. This is particularly the

[2] http://usir.salford.ac.uk/19122/1/ec_impact_report_final_web_version.pdf

case in the context of the Bill since local government currently faces an almost-unprecedented squeeze on budgets limiting their ability to support credit unions financially.

To this end, while the sector is extremely grateful for the support it has received from the Welsh Government and others for many years, the Welsh sector remains stubbornly dependent upon external support. While this is not exclusively a problem in Wales, it is more pronounced. The latest figures from the Prudential Regulation Authority, for instance, show that in the year to 30 September 2013, Welsh credit unions saw 27% of their total income come from grants while the same figure in England was 10% and in Scotland only 4%.[3] Of course government support has helped credit unions to provide services to the financially excluded and great strides have been made in this respect with all Wales coverage achieved and membership growing from around 11,000 in 2000 to nearly 70,000 in 2013 but it also creates challenges.

Where credit unions are most successful around the world the notion of grant support is anathema to the co-operative, self-help philosophy of the movement. While credit unions remain in receipt of such large amounts of support from external funders, they will remain vulnerable to its sudden withdrawal and their products and services will continue to lag behind their competitors in the financial services market. Furthermore, as already noted, while the Bill would require local government to incorporate credit unions into their financial inclusion strategies, the pressure on their budgets limits their ability to do so financially.

Our key message then in terms of incorporating credit unions into local authority financial inclusion strategies is to ensure that this is done in a way that does not precipitate grant dependency but instead encourages and helps credit unions to engage with a broad range of people, not simply those that are facing exclusion, in order to support their sustainability. For instance, many of the strongest and most successful credit unions in England and Wales began life serving the employees of local government before expanding out into the community – this was the case with Glasgow Credit Union (the largest in the UK), London Mutual Credit Union (feted for its rival product to payday loans, *CUOK!*) and Cardiff & the Vale Credit Union in Wales. It is also a common theme running through the US Community Development Credit Union sector.

Therefore, we would like to suggest that local authorities, as well as asking credit unions to engage with excluded local communities (as most credit unions do extremely well already) use the opportunity of the Bill's requirement to implement a financial inclusion strategy which supports their credit unions to engage their own staff and those of large local businesses with which local government is engaged in an economic development capacity. This has benefits for local government in terms of more financially resilient staff and the boost to productivity that this entails but it also strengthens the credit unions' underlying business in order to help it do more to serve underserved communities. It presents a way of strengthening the credit union and the local authority without the need to find financial resources which in any case can weaken a credit union's long-term prospects.

At a recent conference on financial wellbeing in Wales, the Welsh Government's Minister for Health and Social Service, Mark Drakeford AM, made a strong case for encouraging all public sector organisations to extend credit union services to their staff for these very reasons – it benefits public sector workers, credit unions, public sector employers and the wider community too.[4]

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[3] http://www.bankofengland.co.uk/pra/Pages/regulatorydata/creditunionsstatistics.aspx
[4] http://www.youtube.com/watch?v=IgBPAj39EL0

A key feature of credit unions' successful engagement with employers is through the provision of services via payroll deduction and promotion of the service in internal communications and therefore a useful addition to the Bill in that respect would be to require local government to provide payroll deduction facilities for its local credit union.

Conclusion

Credit unions in Wales, as across Britain, play an active role in providing financial education and financially-inclusive products and services to their members. As such, ABCUL and our members support the thrust of the Bill which will support credit unions in their pursuit of both ends.

Having financial education on the Welsh curriculum will enable credit unions and other agencies to engage more successfully with schools in order to support financial education provision. Currently many credit unions find engaging with schools difficult since schools are facing a number of competing priorities and demands. To this end, the Bill's provisions may be strengthened by Welsh Government providing support and guidance for schools on the resources available to them for financial education.

In terms of financial inclusion strategies, there are a number of examples of very successful initiatives in this respect. The example of Leeds City Council in particular has demonstrated the great economic and social value that can be created by a financial inclusion strategy effectively implemented. Many examples of successful strategies involve credit unions in order to provide inclusive and affordable financial services to those otherwise denied such services.

Where these strategies incorporate credit unions, however, it is imperative that they seek to support credit unions' sustainable development. On average, credit unions in Wales are more reliant upon external grant support than their counterparts in England and Scotland and this leaves them vulnerable to funding withdrawal and distorts business models. If credit union services are to be secured for the long-term, therefore, they need to move towards self-sustainability.

As such, we recommend that the Bill and its surrounding documentation makes this sustainability imperative clear and further recommend that an ideal means of providing for this is to assist credit unions to engage local authority and other employees through the provision of payroll deduction both by local government itself and by local employers. By building a diverse membership base in this way, credit unions can be strengthened in order to sustainably serve excluded groups.

Once more, we greatly appreciate the opportunity to respond to this consultation and would be very happy to provide further information or oral evidence if required.

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