

Creating wealth in the West Midlands through sustainable credit unions

An Action Research Project

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Foreword

They have recognised that if credit unions are to achieve their social goals, they must succeed first as businesses.

The action research project, *"Creating wealth in the West Midlands through sustainable credit unions"*, marks a step forward in understanding the organisational development of credit unions as quality financial institutions. In 1999, the research report *"Towards Sustainable Credit Union Development"*¹ argued that credit unions needed to adopt a more business and professional approach if they were to realise their potential to serve low income communities effectively. It called for credit unions to develop business plans, to strengthen board leadership, to employ staff and to move into more professional premises. Despite early misgivings within certain sections of movement, the business argument for credit union development is now accepted by government, by funders and by credit unions themselves. They have recognised that if credit unions are to achieve their social goals, they must succeed first as businesses.

The approach of the 1999 research was strengthened by the introduction into Britain of WOCCU's² new credit union development model³. The new model promoted a more rigorous approach to the commercialisation of credit unions and a radical restructuring of their financial and organisational management. It introduced directors and staff to a new methodology based on enterprise, efficiency, service and the economic strengthening of credit unions. Unfortunately, this new model methodology was sometimes misunderstood. It was argued by some that the new model focus on economic reality undermined the distinctiveness of credit unions as socially driven organisations.

Overall, savings and loans growth rates in beacon credit unions are nearly twice those for non-beacon credit unions.

The West Midlands project has been able to adapt and modify WOCCU's approach within the West Midlands, and, importantly, to test out new ways of working. Initial results have been very promising. Central to the project has been the beacon credit union programme in which a small group of credit unions received specialist support. In the period March 2002 – December 2004, savings in the beacon credit unions rose by 47% and loans outstanding by 49%. This compares with growth rates of 26% in savings and 22% in loans in the other West Midlands credit unions. These rates represent annual growth rates, from March 02 to October 04, of 18% in both savings and loans in beacons compared with 10% in savings and 8% in loans in non-beacon credit unions. Overall, savings and loans growth rates in beacon credit unions are nearly twice those for non-beacon credit unions. On average also membership growth rates are several percentage points higher for beacon credit unions over the same period. An analysis of records confirms the high percentage of low income members served by these credit unions. In Walsave Credit Union, for example, as of Sept 03, 48% of all loans were for less than £500, an internationally recognised indicator of the level of usage by low income members. In Citysave, an analysis of accounts revealed that 41% of the members had household incomes below £20k. However, it is important to bear in mind that these beacon growth figures are indicative only as some changes can take time to bear fruit. Since last October, for example, some credit unions have registered up to a 100% increase in monthly membership applications in comparison with the same period the year before.

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¹ Jones P.A. (1999) *Towards Sustainable Credit Union Development*. ABCUL, Manchester

² The World Council of Credit Unions is a world-wide credit union representative organisation of which the Association of British Credit Unions Ltd is a member.

³ Richardson D.C., Lennon B.L., and Branch B.A. (1993), *Credit Unions Retooled: A Road Map for Financial Stabilisation*. World Council of Credit Unions, Madison

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An Action Research Project

December 2002 – March 2005

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1 Background

..people often agree on what the problems are, however, they are less sure about the means and methodologies of bringing about change.

The rate of growth of West Midlands credit unions was not dissimilar to that of credit unions generally in Britain. At year end 2001, the 72 credit unions in the region had a combined membership of 25,080 adults representing a penetration rate of less than 0.5% of the population. In general, throughout the West Midlands, many credit unions found it difficult to attract new members and to build assets.

In recent years, academic researchers have identified poor legislation⁵ and ineffective organisational models⁶ as relevant factors that explain the lack of growth in credit unions. Increasingly, people often agree on what the problems are, however, they are less sure about the means and methodologies of bringing about change. In order to explore the dynamics of transformation, Advantage West Midlands (the Regional Development Agency), the West Midlands Social Economy Partnership and the Countryside Agency funded this action research project aimed at assisting credit unions to rethink their management and organisation and to take actions designed to maximise growth. The project, *Creating wealth in the West Midlands through sustainable credit unions*, began in December 2002 and concludes in March 2005. It is organised and managed by the Association of British Credit Union Ltd in collaboration with Birmingham Credit Union Development Agency, the Coventry and Warwickshire Co-operative Development Agency and Liverpool John Moores University.

2 Project methodology

..credit unions can only really grow when they think commercially and offer the kind of quality financial products and services that people want.

Transforming credit unions into modern, market oriented financial institutions is a difficult and complex process. The project has aimed to help credit unions restructure in ways that prioritise financial discipline, economic strength, professionalism and quality in financial services. It facilitated a programme of change that touched on all aspects of credit union organisation simultaneously. This involved encouraging business and market oriented practices, modernised lending procedures, a new financial structure and PEARLS ratio analysis as well as a more entrepreneurial and enterprise-driven culture.

The hypothesis of the project was that credit unions can only really grow when they think commercially and offer the kind of quality financial products and services that people want. Only then will their financial strength and long-term viability, independent of external subsidy, be assured.

The project was a multi-faceted programme, based on three key strands:-

- Building Beacon credit unions – a central part of the project based on the principle that the development of a number of strong credit unions in a region acts as a model and an inspiration for others. Beacon credit unions were Citysave, Walsave, Fairshare, Just and the Worcestershire group of Worcester Black Pear, Redditch and Bromsgrove. These were selected on the basis of their commitment to growth, sustainability and to share best practice. They include both small and large credit unions.
- Cascading good practice across the region – a programme of training seminars and implementation support which disseminated learning arising from the Beacon programme and involved other credit unions in the process of thinking about effective action.

⁵ National Consumer Council (1994), *Saving for Credit, The Future for Credit Unions in Britain*, The National Consumer Council and the Joseph Rowntree Foundation, London; Donnelly R. (2004), *British Credit Unions at the Crossroads* in Harafolos S., Spear R and Stryjan Y., *Local Society and Global Economy, The Role of Co-operatives*, Editions Hellin. Greece;

⁶ Jones P.A. (1999) *Towards Sustainable Credit Union Development*. ABCUL., Manchester

- Protecting low income credit unions – a series of interventions aimed at stabilising smaller credit unions that served low income communities and had difficulties in generating sufficient income or external subsidies to support their operations.

In addition, the project included specific research undertaken by the Birmingham Credit Union Development Agency⁷ and the Coventry and Warwickshire Co-operative Development Agency⁸. These agencies explored issues around mergers and the sustainable development of credit unions in their areas of operation.

3 Action research and learning

The focus of the project has been primarily on education and learning.

The West Midlands project has been a programme of action research. It has involved volunteer boards of directors and staff members in a process of reflective inquiry and action in order to generate learning about best practice in credit union development. The focus of the project has been primarily on education and learning. The challenge has been to assist people to rethink their understanding of credit unions as financial institutions so that they can initiate new approaches to their management and organisation.

Project seminars encouraged participants to think collectively about what was happening in their credit union, to interpret and analyse what was going on and to act to resolve issues and problems. The aim was not just to take actions but to understand clearly the rationale on which these actions were based. Reflection on the actions taken to modernise credit unions has given rise to the research findings that can now be shared with the wider credit union movement.

4 Key achievements

...participants have learnt the importance of objectivity in decision making and of the necessity of realistic plans based on the logical analysis of factual information.

The central achievement of the project has been the creation of a new publicly available body of knowledge which informs the effective management and organisation of credit unions as modern financial co-operatives. It can be found primarily in the final and interim project reports, both available from ABCUL, and in a range of papers and articles that have been published widely both nationally and internationally. The full range of publications arising out of the project is listed in the final report.

The key learning achievement has been the awareness that has grown among credit union directors and staff of the importance of objective and analytical thinking as fundamental to the process of credit union management. At the outset, project staff discovered that the majority of credit union volunteers and staff were motivated by a strong sense of social purpose, a belief in the fundamental principles of co-operation and a commitment to credit union development. Based on their background in the commercial business world, project staff realised that what was often lacking was an objective clarity about the social mission of credit unions and an analysis of how that mission may be achieved. Through the project, participants have learnt the importance of objectivity in decision making and of the necessity of realistic plans based on the logical analysis of factual information. This objectivity in decision making has been underpinned, for example, by PEARLS ratio analysis in which, maybe for the first time, participants were presented with the challenge of making decisions about the future based on clear statistical information about what was actually happening within their credit unions.

⁷ The Establishment and Development of South East Birmingham Community Credit Union Ltd, Birmingham Credit Union Development Agency, 2004

⁸ *Business Planning for Sustainability*, Coventry and Warwickshire Co-operative Development Agency, 2004

Objectivity and analysis were then understood to be fundamental to strategy, marketing, product development, financial planning and, in fact, to every aspect of credit union organisation and management.

Some of the key credit union achievements that have demonstrated the introduction of objective and analytical thinking into credit union organisation are:-

- *The 27% increase in savings and the 23% increase in loans in beacon credit unions through the period of the project. This demonstrates the impact of adopting commercially-oriented approaches to credit union marketing.*
- *The reform and re-orientation of boards of directors in credit unions throughout the region in order that actions are prioritised, planned and delivered.*
- *The adoption by credit unions of business plans that are realistic, robust and offer a vision of the future that is achievable through specific resourced action plans.*
- *The implementation of strategic marketing initiatives in several credit unions which has led to initial discussions on the creation of a regional marketing strategy.*
- *The severing of the link between lending and saving in a number of credit unions in the region. In 2003-04, this has led an increase in lending of 25% and in savings of 69% in Just Credit Union.*
- *The introduction of the PEARLS financial monitoring system to eight credit unions in the region leading to a greater awareness of using financial analysis as a basis for effective decision-making.*
- *The actions taken to meet or exceed the required bad debt reserves in beacon credit unions. These actions have been taken on the basis of a rigorous assessment of bad debt in credit unions and its impact on sustainable development.*
- *The opening of new, professional credit union branches in town centre locations throughout the West Midlands with a consequent positive impact on growth. This has been based on a robust financial and service analysis of traditional collection points. In one credit union, a collection point was closed in favour of a town centre branch when it was discovered that each transaction at the collection point cost the credit union £14.*
- *The extension of common bonds in Birmingham, Warwickshire, Herefordshire and Worcestershire and the mergers of credit unions throughout the region. Decisions to expand were based not on ideology, but on business principles designed to best serve the market place.*

5 What we have learnt on the project

Professional business consultants, from outside the credit union movement, were recruited as project staff with the express purpose of introducing credit unions to modernised business and commercial practices not always present within the credit union world itself. This was a specific aspect of project design, as modelled on WOCCU strengthening projects throughout the world. Overall project learning has focused on the challenge of bringing together a business and commercial perspective and traditional credit union values and principles. This has not always been easy and project staff through their experience of working with credit unions have had to change and modify approaches to suit the credit union world. However, and fundamentally, learning during the project has confirmed that business perspectives and credit union principles are wholly consistent and compatible. Not only are they compatible, credit union principles of member service and social goals are unobtainable without a good understanding of business and commercial practice. In marketing strategies, for example, researching the financial products that people really want and changing policies and procedures to meet those wants does not undermine credit union objectives, on the contrary it strengthens them.

The key areas of project learning are summarised as follows:-

Understanding credit union governance

Boards of directors have complex decisions to take and have significant accountability to members, the regulator, stakeholders and the community at large.

Governance is the system by which credit unions are formally controlled and held accountable. Both the board and the manager, as a cohesive unit, have important roles to play in ensuring effective credit union development. However, the project has highlighted active board involvement as a critical factor in the modernisation of credit unions. Boards of directors have complex decisions to take and have significant accountability to members, the regulator, stakeholders and the community at large. As a group, directors need skills and competencies in financial, organisational and strategic management in order to be able to work with the manager to improve decision-making and the taking of effective action.

A planned and strategic approach to board development is essential if directors are to carry out their decision-making responsibilities effectively. Such an approach includes enhancing the skills of the board and board members, ensuring clarity in director and staff roles and responsibilities, developing board and general manager relations, agreeing a code of practice of credit union governance and building a strong team approach to development. Progress has been seen within credit unions when directors have recognised the importance of effective board development, have been able to explain the rationale of their decisions they make and have worked collectively to enhance the momentum of change.

Effective change leadership

Growth is dependent on leaders who have the energy and entrepreneurial drive to accept the challenge of change. Where the project has seen real success has been when board of directors, together with staff, approach credit union development in commercial terms and begin to take action. Effective leaders recognise the urgency of bringing about change. They have the vision and the desire to change but also understand the process and tactics of change.

The PEARLS seminars were designed precisely to provide triggers for change

The project has revealed the drivers for change within the credit union movement. Change often depends on some kind of trigger, a pressure for change which arises from the realisation that current policies, procedures or other aspects of the organisation's structure are no longer appropriate or effective. The PEARLS seminars were designed precisely to provide triggers for change – the statistical evidence of the impact of low loan to asset ratios motivated participants to reform lending policies. The project has also identified some of the blocks to change. These have included a realisation of the enormity of the transformation being proposed, a lack of time and resources and, sometimes, a failure to manage external subsidies in a way that promotes sustainable growth.

The characteristics of strategic management

Success in credit union development depends on credit unions using a formal strategic planning process to position credit unions competitively in the market and having defined strategies for membership and asset growth. It depends on frequently revisiting and redefining strategies and tactics in the light of experience.

Credit unions that have progressed during the period of the project have learnt to create space for reflection, analysis and strategic thinking. They have realised the importance of using strategic and business plans as management tools to inform board and staff decision-making.

Successful credit unions have ensured that short-term wins have featured within their strategic development. These are actions that can be taken immediately and which display benefits that are visible and unambiguous. These have included the modernisation of lending policies, the introduction of new savings accounts, the improvement of premises and the introduction of new information technology systems.

Financial management and discipline

The project has demonstrated that long-term sustainability entails a rigorous adherence to market-based financial disciplines in order to generate sufficient income to cover operating expenses and to build capital and loan loss reserves. Credit unions have learnt that such disciplines include meeting prudential standards, attaining operating efficiency, pricing loans competitively and paying attractive dividends on savings.

A number of credit unions have faced some very difficult financial decisions. They have been assisted by using the PEARLS⁹ financial ratio analysis management tool which has enabled them to assess their performance much more effectively. Using PEARLS, management decisions have been made based on the observation of key performance indicators.

Rigorous financial analysis has presented directors and staff with the challenge of restructuring their credit unions in a number of significant ways. They have learnt the importance of using accruals-based accounting methods to build reserves throughout the year and to plan in advance to pay a dividend on savings. They have realised the impact of severing the link between loans and savings, a linkage which traditionally prevented a more immediate and flexible approach to lending and savings mobilisation. A number of credit unions have also had to make major adjustments to expenditure in order to achieve financial stability, particularly when external subsidies are reducing or ending. In general, the project's approach to financial analysis has revealed the economic realities of establishing credit unions as viable financial institutions. For many, the upper limit of 12.68% APR on loans is now regarded as unrealistic if credit unions are to effectively serve high risk consumers.

⁹ PEARLS is a sophisticated credit union management tool based on the calculation of a series of inter-related financial ratios. Education in PEARLS financial analysis formed a central part of the beacon credit union training programme. It was designed by the World Council of Credit Unions and is currently promoted in Britain by ABCUL.

Analysis has also demonstrated the complexities involved in managing external subsidies. It has become increasingly clear how inappropriate investment can compromise entrepreneurship, lead to dependency and even direct credit unions away from developing their core business and institutional strength. However, on the other hand, the project has revealed how West Midlands credit unions are often seriously constrained by the lack of appropriate capital investment. Credit unions serving low income areas and large rural communities are particularly in need of longer term capitalisation programmes.

Marketing credit unions effectively

The project has demonstrated the extent to which marketing is a new area for credit unions, the principles of which they are only beginning to understand. At the start of the project, the majority of credit unions, including the beacons, gave very little consideration to developing marketing strategies. Marketing was ad hoc, intermittent and mostly confined to occasional promotional and publicity events. Credit unions participating in the project have learnt the importance of market research, market segmentation, product diversification, unique selling propositions and corporate branding. Several credit unions have implemented marketing strategies with significant results. At least one beacon credit union has employed a dedicated marketing officer and several have established marketing budgets within their business planning.

It has been a key learning experience for credit unions that effective marketing depends on offering quality products and services that meet or exceed members' expectations. Understanding the implications of the link between marketing and the availability of products and services for different segments of the market has been a challenge for project participants.

Certainly many credit unions have learnt the centrality of prioritising marketing and accept that it must be strategic and linked to business plans. However, many challenges remain. Many credit unions still have to develop and use marketing strategies and will need to develop greater skills and competencies in marketing and sales. In addition, there is a lack of adequate statistical information on the profile of credit union members on which more sophisticated marketing strategies could be focused.

Modernising processes and procedures

Developing credit unions as effective financial institutions depends on modernising processes and procedures in order that products and services are perceived as high quality within the market place. West Midlands credit unions that have separated lending from saving and that have coupled this to efficiencies in service delivery have noted rapid growth. Lending in some credit unions has increased over 22% in the financial year 2003-2004. In one rural credit union, membership grew by 74% over the same period.

Credit unions have learnt to present a professional image and to modernise business practices, policies and procedures. At least three beacon credit unions have opened new professional branches since the project started, several have introduced electronic payment systems and improved telephone information lines, and a number have developed more formal approaches to management, teamwork and staff relations. Several beacons reorganised their staffing structure in order to clarify roles and responsibilities and enable organisational efficiencies.

... credit unions recognise that operational volunteers can have an important part to play so long as they have the requisite skills..



A sensitive area of change in some credit unions has been the modernisation of the role of volunteers who act as unpaid staff members. Increasingly credit unions recognise that operational volunteers can have an important part to play so long as they have the requisite skills, are adaptable to change and perform to acceptable standards. A number of credit unions have introduced new guidelines and agreements for volunteers.

Serving the financially excluded.

..in partnership with the local authority, offers a financial package to the homeless who want to access private accommodation.

An analysis of member accounts¹⁰ confirms that the majority of credit unions in the West Midlands have a strong social mission to serve low income members, particularly those facing financial exclusion. Credit unions continue to be attractive to those unserved by mainstream banking and financial institutions. Research has shown that people on low incomes base decisions about borrowing on the accessibility and immediacy of loans, on the flexibility and discipline of cash repayments and on the simplicity and straightforwardness of terms and conditions¹¹. The project has shown that larger, modernised credit unions are able to develop the capacity and systems to offer such a service effectively to low income groups. In addition, equally recognised by low income groups as essential to their financial needs, quality credit unions can offer a range of savings accounts geared to the needs of the small saver. Recent research¹² has also indicated the importance to low income groups of using financial services that are embedded in the community. Many project credit unions have worked to ensure whether, directly or through other organisations, this local presence is assured.

West Midlands credit unions have pioneered a number of new initiatives aimed at serving low income groups more effectively. Fairshare works, for example, through six housing trust offices offering specialised services to tenants and, in partnership with the local authority, offers a financial package to the homeless who want to access private accommodation. Citysave is a participant in a Factor 4 programme, which tackles fuel poverty, and which includes money advice and bill payment services.

In general, West Midlands credit unions have accepted the principle of income generation from more profitable lending to subsidise the less cost effective services to low income groups. However, cross subsidies cannot be seen as a goal in themselves. Products and services to low income groups, if they are attractive and responsive to people's needs, should, if priced correctly, generate sufficient income to cover costs and to contribute to overall credit union income. Financial analysis, through the PEARLS programme, has led to the conclusion that the statutory upper limit of 12.68% APR charged on loans is insufficient to cover the basic costs of certain categories of loans and leads to a restriction rather than to an expansion of services to low income groups. As a result of the statutory upper limit on interest rates charged on loans, many credit unions will remain dependent on external subsidies to serve the financially excluded (see recommendations).

Merging credit unions

At the start of the project, there were 72 credit unions in the West Midlands, currently there are 58. As in other regions of Britain, the credit union movement in the West Midlands is subject to a rapid rationalisation which is destined to continue. Various forms of amalgamations have developed among credit unions in the West Midlands including the Birmingham clusters, the transfers of engagements to larger credit unions in Telford and Walsall and the coming together of credit unions in Worcestershire, Coventry and possibly in Wolverhampton. Reflection on merger processes has generated specific

¹⁰ Detailed statistical information on who uses credit unions is not currently widely available in the credit union movement.

Analysis of who uses beacon credit unions has mainly concentrated on levels of borrowing, saving and income.

¹¹ Jones P.A. (2001) *Access to Credit on a Low Income, a study into how people on low incomes in Liverpool access and use consumer credit*. The Co-operative Bank

¹² Jones P.A. and Barnes T.(2005), *Would you credit it? People telling stories about credit*. The Co-operative Bank.

learning outcomes both in relation to Worcestershire and the development of the South East Birmingham Credit Union (SEBCU).

The project has highlighted the importance within any merger process of creating and establishing a vision, of ensuring transparency and commitment, of identifying a merger team, of asking the right questions, of business and financial planning, of keeping the focus on deliverables and of monitoring and evaluating progress. Specific research into the development of SEBCU, undertaken by the Birmingham Credit Union Development Agency, stressed the importance of constant communication and of developing effective partnership working.

The power of partnerships

Housing associations have also demonstrated how they can participate in governance, provide technical advice and financially invest in credit unions.

Credit unions have become increasingly aware of the importance of developing strategic alliances and partnerships with public, private and voluntary sector bodies. Partnerships with local authorities have been, in many instances, crucial to credit union development. Not only can local authorities act as effective sponsors, they are ideally placed to bring together key players within a community and to facilitate effective partnership working between credit unions and a range of organisations and agencies. Expanding the involvement of the private and voluntary sector is particularly important given the often decreasing availability of publicly funded support for credit unions.

Partnerships with housing associations have been particularly promising. Social housing providers and credit unions share a common commitment to tackling financial exclusion and, as has been the case in Shropshire and Telford, there are important benefits for tenants when social housing providers and credit unions work together. Not only can housing association tenants and staff benefit from a quality financial service, there are clear advantages arising from sharing premises and facilities and developing specific joint projects. Housing associations have also demonstrated how they can participate in governance, provide technical advice and financially invest in credit unions.

Experience of developing partnerships with housing associations, community organisations, and private companies has led credit unions to recognise the importance of having service level agreements with partner organisations to clarify respective roles and responsibilities.

Developing credit unions in rural areas

23% of all cash deposits are now made electronically.

The experience of Just Credit Union in Shropshire, and of the rural credit unions in Warwickshire and Herefordshire, has demonstrated the added organisational complexity of operating a credit union throughout a dispersed rural area. Rural credit unions require significant organisational capacity and adequate capital investment to be able to offer quality financial services, particularly to people in isolated areas who face financial exclusion.

It has become increasingly clear that credit unions need to build the business in selected locations, and with particular employee groups, before advertising a financial service throughout a large rural county. Just in Shropshire and Money Box in Herefordshire have both stressed the importance of developing links with partner organisations through whom services can be delivered to members. Just Credit Union's introduction of electronic payment cards has been particularly successful and 23% of all cash deposits are now made electronically.

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Credit unions and economic regeneration

The economic regeneration of low income and disadvantaged communities is undermined if people continue to have to pay high charges for credit. Consequently, West Midlands credit unions have been active in regeneration zones in the West Midlands, particularly in Birmingham, Coventry, Hereford and South Shropshire and increasingly in Sandwell and North Staffordshire.

Project interventions with small, low income credit unions operating in disadvantaged areas has confirmed the importance of developing credit unions, from the outset, as viable financial institutions. If credit unions are to contribute effectively to the economic regeneration of communities, they need investment, sponsorship and a commitment to develop the capabilities to serve low income members effectively.

Towards quality credit unions

Easy access to cash, and convenient forms of money transmission are essential if people on low incomes are to be included in mainstream financial services.

The lessons of the 1990's taught that the business case for credit union development was sound and the project has now identified a route map to the development of quality credit unions. Credit unions in the West Midlands have recognised that it is possible to modernise and develop commercial products whilst preserving traditional credit union values and principles. Quality credit unions promote a professional, business and member-oriented approach to financial and organisational management. They strive to become customer led rather than product led organisations by developing new products and services in response to the market.

The project has revealed the many challenges that still face West Midlands credit unions. Real progress has been made among a number of credit unions but many others lack investment and often the management and organisational competencies to develop as viable quality organisations. It is clear that business development programmes, and the introduction of such methodologies as PEARLS, need to be strengthened and increased.

Two further developments are important to the strengthening of West Midland credit unions. First, there is need for further legislative changes to enable credit unions to compete effectively within the market place. These are noted in the recommendations below. Secondly, it is unlikely that credit union potential will be fully realised without the introduction of basic current accounts and transmission services¹³. These include debit cards, ATM cards, direct debit systems, telephone and internet access. Without such modern facilities, credit unions will not be able to become the modern financial institutions that they aspire to be. Experience in all other credit union systems has shown that these changes will fundamentally alter the attractiveness of the credit union proposition and therefore are likely to lead to increased membership growth. This will enable a reduction in the time required to become independent sustainable organisations. These services are vitally important in terms of promoting financial inclusion. Easy access to cash, and convenient forms of money transmission are essential if people on low incomes are to be included in mainstream financial services.

¹³ Brown, Conaty and Mayo (2003) in the New Economics Foundation and National Association of Credit Union Workers' report, *Life Saving*, stressed the importance of transmission services in the credit path to financial inclusion. The West Midlands project has demonstrated how credit unions can develop the organisational capacity and competence necessary to manage electronic money transmission services.

6 Recommendations

1. Central government should:

- Recognise that quality credit unions can play a significant and leading role promoting financial inclusion.
- Establish a capital investment fund.
- Acknowledge a correlation between the cost to the state and the additional expense incurred by credit unions in providing services to the financially excluded
- Encourage allocating funding to establish sustainable credit unions. Ensuring that any grants are linked to results and tapered as the credit union moves towards sustainability.
- Require formal consideration of credit union services within regeneration programmes.
- Make the following legislative changes:
 - The ceiling lending rate to be increased to 25.4% APR.
 - Credit unions to be able to operate interest bearing savings accounts.
 - Increase maximum saving limit to the greater of £15,000 or 1.5% of total savings.
 - Extension to the maximum loan repayment period for unsecured loans to 5 years (for version 1 credit unions).

2. Sponsors and funding bodies should:

- Regard financial subsidy as a long term investment and ensure funds are directed at implementing sustainable capabilities
- Grant support with specified conditions to meet agreed financial and operational targets.
- Have an active involvement and participate in the monitoring of results.
- Recognise that credit union dependence on external subsidy can

result in economic vulnerability and insecurity

- Note that, in starting up, self sustainability is unlikely to be achieved in less than 6 years, given the present limited level of products offered, and in rural or predominately low-income areas will take longer.
- Ensure that aid is based on a compelling business case which seeks to reduce dependence on external subsidies over time.
- Recognise the criticality of developing the internal institutional strength of credit unions through building the capital base.
- Prioritise funding applications from credit unions seeking to implement the recommendations of the West Midlands project.
- Note that funding requirements focused on initiatives other than those within a credit union's core activities are likely to financially weaken the credit union.

3. Local authorities should:

- Encourage partnership between credit unions and the private and voluntary sectors.
- Support credit unions to create a viable business and avoid financial dependency.

4. Regional development agencies should:

- Recognise that a quality credit union can play a significant and effective role in economic regeneration and formally include support within their development strategy.
- Recognise that scale and size is necessary to deliver service effectively and provide funding only to credit unions with robust growth plans.

5. Credit unions should:

- Prioritise the development of business expertise and developing commercial products and services whilst preserving the credit union values and principles of democracy, self-help, service and social goals including the education of members.
- Prioritise governance, management, operations, product development and service delivery as the means of improving customer access, building public confidence and broadening their appeal.

Credit Unions, that want to grow, should seek to continually challenge their current practices and change the way in which they operate. Boards of credit unions should pay particular attention to:

Maintaining effective governance

- Ensure board and management decisions are objective and based on quantifiable data and evidence. For example:
 - Incorporate in its business plans, quantifiable and realistic financial projections and goals based on objective data analysis such as PEARLS.
 - Identify the key measures of operational performance and regularly report to the board and evaluate achievements.
- Ensure that the induction, training and support of board members adequately prepares them to fulfil their responsibilities and provide effective governance.

Leading Change

- Establish effective methods of leadership - collective decision making by a committee that only meets monthly is inefficient and unresponsive.
- Recognise and value the contribution made to direction, policy and strategy by the credit union's general manager and staff.
- Recruit volunteer directors whose skills and expertise in business, finance,

human resources or other aspects add value to credit union decision making.

Strategic planning

- Understand the importance of strategic planning and take steps to acquire the necessary skills and knowledge to be effective at it.
- Develop action plans based on specific steps and a clear identification of the responsibility for the timed actions necessary for completion.
- Cease competing solely on price and prioritise value, accessibility and quality of service.
- Sever the link between savings and loans. The necessity to save before borrowing is neither a legal nor regulatory requirement, neither is linking loan entitlement to savings. Attracting savings is the key to successful credit union development
- Adopt more strategic and systematic approaches to marketing using findings and conclusions established to inform development of the business plan.

Financial management and discipline

- Recognise and understand that financial discipline and fiscal efficiency are the central requirements of organisational management.
- Understand and accept that quantifiable and objective analysis of financial performance and key ratios constitutes an essential, standard business practice.
- Ensure they achieve a defined minimum capital-asset ratio
- Ensure that all external investment focuses on the development of institutional strength and core activities.
- Explore the use of subordinated loans to build secondary capital.
- Reduce dependency on external subsidies and monitor and record progress over time.



Marketing credit unions effectively

- Offer different and diverse groups of people the products and services they find attractive. They should stop presuming what their members need and give them what they want.
- Regard marketing as a central activity with an identified budget and employed specialist.
- Undertake market research and develop strategies based on a sound analysis of member/non-member needs and wants.
- Become member-led rather than product-led financial institutions.
- Maintain a programme of continual review and reform of products and services in response to a changing market.
- Recognise the importance and complexity of developing a national brand image.

Modernising processes and procedures

- Actively consider the use of electronic cards, such as PayPoint.
- Develop the management capacity to be able to obtain permissions to offer variable dividends on savings more than once a year.



Serving the financially excluded.

- Ensure that products and services respond to the needs and wants of low income members and prioritise both customer access and quality in service delivery.
- Be able to explain the benefits of credit union membership in simple terms and clearly highlight the disadvantages of borrowing from alternative providers.



- Provide immediate response to the credit needs of low income consumers through appropriate credit assessment rather than requiring an extended period of savings.
- Acknowledge the importance of saving products for low income consumers and prioritise the development of flexible and accessible accounts.

Establishing effective partnerships

- Develop closer working relationships that include collaboration on marketing strategies and the development of products and services.

6. The Association of British Credit Unions Ltd (ABCUL) should:

- Endorse the research findings and recommendations and assist credit union directors to understand the opportunities and implications for their credit union.
- Forge links with commercial institutions and develop a strategy to capitalise on their willingness to support credit unions.
- Reinforce the strategic rationale of the PEARLS programme.
- Educate credit unions on the importance of a market-oriented approach to development.
- Develop a marketing toolkit to meet an acute and widespread requirement.
- Identify the process and key steps necessary to achieve a coherent brand and national marketing strategy.
- Develop a Code of Governance and a toolkit for credit unions to assess and recruit a competent, compliant and effective credit union board.



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