Intelligence on financial inclusion

Linking credit unions and money advice

Deprived of money and debt advice, people can make poor money management decisions. On the other hand, advice alone will not always lead to greater financial stability if people do not have access to appropriate financial services. Linking financial services to money and debt advice is therefore a strategic initiative that could tackle financial exclusion. This paper summarizes research into a partnership between a credit union and two money advice agencies to explore the challenges posed, and the benefits it might create.

Key findings

- The research revealed that a common vision and purpose between credit unions and money advice agencies was essential, but differences also need to be identified and tackled.
- The credit union needed a clear needs assessment system so that people could be directed to the right advice. All partners needed an effective system for making appointments with the partner organizations.
- Many money advisors were cautious about making referrals for a variety of reasons, relating to: concerns regarding financial promotions legislation; fears over possible damage to agency independence; a concern about recommending borrowing as a way out of debt; and perceived risks in clients placing all their finances within one organization.
- Staff training, capacity issues, and strategic planning were also found to be key issues affecting the success of such partnerships.

Key conclusion

The partnerships created for this project succeed in offering a new service to advise clients and credit union members, and created a new understanding between the credit union and money advice sectors. The project highlighted the need for such partnership to be well managed and led, and for referral policies and practices to be both efficient and effective.

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About the study

The Southwark Credit Union Money Advice Project (SCU-MAP) ran from November 2005 to November 2006. It offered a coordinated financial service to the people of Southwark by linking access to affordable financial services with the provision of money advice, aimed primarily at income maximization and debt counselling. The project involved three partners – Southwark Credit Union Ltd (SCU), Blackfriars Advice Centre (BAC) and Twinpier Debt Management Agency.

This summary is based on statistical analysis of client data, discussions with money advisers and credit union staff, involved in this partnership and more widely, and a series of interviews with 14 clients. During the project, 76 credit union members were referred for money and debt advice and 80 people joined the credit union through the advice agencies.

Policy and practice context

Developing partnership working is a shared policy objective of both credit unions and money advice agencies. They recognize that by working together, they can offer people an enhanced service and a structured pathway into financial inclusion and stability. Promoting partnership working to tackle financial exclusion is also a key policy objective of Government.

The clients' perspective

Mr C. was able to move from a reliance on expensive home credit by joining the credit union, after he met the credit union debt support worker at the advice agency. Ms N. was directed to the debt advice agency by the credit union. With their support she was able to consolidate her debts, reduce repayments and gain greater financial stability. However, users were also outspoken about gaps in provision.

Establishing a vision and purpose

Although a common commitment, vision and purpose are clearly important to successful partnership working, the study found that they can mask differing underlying organizational assumptions, beliefs and interests. But mutual recognition and acceptance of their differing perspectives on a range of issues enabled these partner organizations to achieve real benefits through partnership working.

Managing referrals

Referrals made by credit unions to advice agencies

The research revealed the importance of a needs assessment system in the credit union prior to referral, if people are to be directed appropriately to the advice they need. In addition, people need to be told what to expect from the advice process before they attend an interview at an advice agency. Efficiency in making referrals and appointments is critical to success. Despite the misgivings of some advisers, a priority appointment system enabled a seamless service to be offered to people who were in difficulty. There was evidence that both telephone and face-to-face options are needed.

Feedback to the credit union on the quality and outcome of referrals to advice agencies is important so that they can offer a coordinated and supportive service to members.

Referrals made by advice agencies to credit unions

Many of the money advisers were cautious about making referrals to the credit union for a number of reasons:

- *Possible contravention of financial promotions legislation* Credit union savings and current accounts are covered by financial promotions legislation, and an adviser who makes a recommendation to join a credit union technically enters a legal grey area. However, Government stresses that advice agencies ought to act in the best interests of their clients and avoid being over-cautious to the extent that financially excluded people lose out on access to affordable financial services.
- *Compromising agency independence through links with a financial institution* For some advisers, independence entailed maintaining a marked distance from credit unions.

- *Recommending borrowing to get out of debt* Many money advisers were concerned that over-indebted clients should not take out additional loans, particularly in an attempt to reduce existing debts. However, others argued that ruling out borrowing altogether is too strong a position to take and that, even if over-indebted, some people still depend on further credit.
- *Holding current, savings and loan accounts with a single banking services provider* Some advisers questioned the wisdom of low-income clients saving, borrowing and having wages or benefits paid into the same financial institution, because the income on which they depend to live may be at risk if they default on a loan.

Given their cautious approach, most advisers felt they could only inform clients about the possibility of joining a credit union as one option, and gave information about other options. Still, this resulted in 80 advice clients meeting the credit union worker in the advice agency and joining the credit union. In wider research discussions held with advice agencies and credit unions nationally, it emerged that where advice agencies take a more proactive approach to recommending credit unions to their clients, credit unions themselves had a different set of concerns, related to:

- *Client expectations* Advice agencies can sometimes give clients unrealistic expectations of the assistance that a credit union can give.
- *Credit unions as cooperative businesses* Advice agencies need to ensure that the people they refer to a credit union for a loan do have the full capacity to repay.
- *Credit union independence* Credit unions are independent financial organizations that have to take full responsibility for making the final loan decisions.
- *Managing loan default* Advice agencies and credit unions need to agree on how to deal with referred clients who subsequently default on loans to the credit union.

Staff induction and training

The researchers suggest that this is required at three levels – philosophical (to explore the underlying values and principles of both organizations); practical (to understand the policies and procedures for delivering such a service); and specialist (training in the other organization's services to enable them to make referrals appropriately).

Organizational capacity

Partnership working to promote financial inclusion places demands on the organizational capacity of credit unions and advice agencies. In this research, this surfaced in these key areas:

- *Advice agency capacity* Partnership working depends on credit union access to an agency's appointments system, which puts extra demands on the advice agency.
- *Credit union administration* The project enabled the credit union to offer a money and debt advice referral service as part of its credit administration. However, it was beyond the capacity of the credit union to employ the debt support worker and to continue this service after the project ended.
- *Money guidance and financial capability education* Evidence indicated that longer-term solutions depended as much on money guidance and financial education as on debt and money advice, and on access to financial services.

Developing a strategy

The project revealed the importance of strategic planning if credit unions and advice agencies are to work effectively together. Unplanned approaches limit what can be achieved. The effectiveness of this project was compromised by a tendency to focus primarily on debt advice and access to loans. A greater understanding of the importance of savings, current accounts, insurance services and income maximization in tackling financial exclusion would have opened up the project to many other beneficiaries.

Key conclusions and recommendations

Credit unions and advice agencies need resources to work effectively in partnership. When the funding for this project ended, so did the partnership, as there were no funds available from the core budgets of the participating organizations to sustain services.

Long-term development will inevitably depend on continuing external financial support, whether from Government or the private sector. However, it is important that funding streams that support credit union development, debt advice, generic financial advice and financial capability education interconnect one with another.

The key challenges for organizations acting in this area are for partnership projects to be well led and managed, and to have effective and efficient referral policies and practice.

Key recommendations for managing partnership working:

- All parts of the organization must be committed to partnership working, and there must be a clear mission statement for the partnership.
- Roles and responsibilities must be clear in all documentation, and a named person should be responsible for partnership liaison in each participating organization.
- Contested issues must be managed in a way that does not undermine the partnership and compromise its ability to promote financial inclusion.

Further information

This summary is available in print and pdf from Friends Provident Foundation (foundation.enquiries@friendsprovident.co.uk and www.friendsprovidentfoundation.org). The full report, *Linking Credit Unions and Money Advice* by Paul A. Jones, is available from the Research Unit for Financial Inclusion, Liverpool John Moores University, http://www.ljmu.ac.uk/HEA/financialinclusion/.

Published by the Friends Provident Foundation, an independent grant-making charity. The views expressed in this summary are those of the authors, and not necessarily those of the Foundation.

FRIENDS PROVIDENT Foundation

ISBN 978-1-906249-37-3 (print) ISBN 978-1-906249-38-0 (pdf)

www.friendsprovidentfoundation.org