



Association of British Credit Unions Ltd

The Credit Union Current Account

*A research study into low-income
consumer expectations of the operation
and charging structure of the Credit
Union Current Account.*

The **co-operative** bank
good with money



Paul A Jones
Research Unit for Financial Inclusion
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April 2008

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Foreword

Access to banking is an essential element of financial inclusion. The introduction of the Credit Union Current Account at the end of 2006 was an exciting development to meet the particular needs of low-income members in terms of both service and cost, helping them to manage their money on a day-to-day basis, effectively, securely and confidently.

I'm encouraged by the findings in this research, commissioned by ABCUL and independently carried out by the Research Unit for Financial Inclusion at Liverpool John Moores University. It shows that the Credit Union Current Account is meeting the needs of low-income consumers who may, in the past, have been put off opening a bank account because of fears about cost or of dealing with an organisation they did not feel comfortable with. The findings demonstrate that the Credit Union Current Account offers low-income members the kind of product and level of service they look for in transaction banking.

I hope that the extra choice that this new product is giving to consumers will help us to make progress towards the shared goal between Government and the financial services sector of significantly reducing the number of adults without access to a bank account. As more credit unions begin to offer the account, many with support from the Financial Inclusion Fund, I am sure that we will see its impact within low-income communities around the country.

I'm also optimistic about what the Credit Union Current Account will do to encourage more people to make use of credit union services. This valuable new product, coupled with the pioneering new legislative regime which I am pleased to have put forward for consultation, will give the credit union movement the ability to reach out to many more people, particularly those at the greatest risk of financial exclusion, and encourage the further expansion of a vibrant, exciting and increasingly essential part of the financial services sector.

Kitty Ussher MP

Economic Secretary to the Treasury

Foreword

In 2006, with ABCUL and nine credit unions, The Co-operative Bank launched the pioneering Credit Union Current Account, which already enables more than 13,000 credit union members to withdraw money from ATMs and to use a debit card. We are pleased with the early success of the account and look forward to working with more credit unions as they start to roll it out to their members.

I am delighted that we have been able to build on the success of the Credit Union Current Account and support this research study into the operation and charging structure of the account, which was commissioned by ABCUL and conducted by Paul Jones of the Research Unit for Financial Inclusion at Liverpool John Moores University. This research affirms our decision to commit to the development of the Credit Union Current Account, which represents a real step to tackling financial exclusion. Credit Unions have played a crucial part in the provision of affordable savings and loans, which are accessible in workplaces and communities currently not served by many mainstream financial services providers. The current account enables credit union members to access transactional banking facilities, which will encourage more people to make use of credit union services and support the growth of the vibrant credit union sector.

I welcome the research, which shows that the Credit Union Current Account meets the needs of low-income consumers by providing access to cash via ATMs and that access to a debit card helps people gain wider social inclusion. It is also interesting that the research shows that a majority of respondents were prepared to pay a modest monthly fee in return for lower service charges for failed direct debits or standing orders. The Credit Union Current Account offers a real alternative to basic bank accounts such as our own Cashminder current account.

We have a long history with credit unions, banking more than two thirds of the credit unions in this country, along with ABCUL itself. Since 1998, our commitment to credit unions has been enshrined in The Bank's customer mandated ethical policy. This commitment forms a key part of our financial inclusion strategy and our support for the wider co-operative and mutual movement, sharing the same co-operative heritage and values.

David Anderson
Chief Executive, The Co-operative Financial Services

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This research report was written by Paul A. Jones, of the Research Unit for Financial Inclusion at Liverpool John Moores University.

The opinions, ideas and recommendations contained in this report are those of the author, based on data generated through the research project. They do not necessarily reflect those of the Association of British Credit Unions Ltd. or of any particular participating credit union.

Research Unit for Financial Inclusion

Paul A Jones is a senior researcher in the Research Unit for Financial Inclusion. His research interests are in the fields of credit union development, co-operative and social enterprise, money and debt advice and financial services for people on low incomes.

The Research Unit for Financial Inclusion (RUFi) is situated within the Faculty of Health and Applied Social Sciences at Liverpool John Moores University. It undertakes academic, action and evaluative research in a wide range of areas related to the development of financial services for lower income households. RUFi has a particular expertise in research aimed at strengthening credit union capacity and effectiveness.

For further information on RUFi see:

<http://www.ljmu.ac.uk/HEA/financialinclusion/index.ht>

Executive Summary

This research project was commissioned by ABCUL to explore how credit unions could best deliver the new Credit Union (CU) Current Account to respond effectively to the needs of low-income consumers and thereby to actively facilitate financial inclusion. A key question tackled in the study was that of monthly or weekly fees on accounts. Credit unions need to generate sufficient income on current accounts to cover processing and other costs. The question was: would actual and potential Credit Union Current Account members accept a small monthly (or weekly) fee if high-cost charges for failed direct debits, standing orders and unauthorised overdrafts could be avoided?

The research, organised by the Research Unit for Financial Inclusion at Liverpool John Moores University, ran throughout 2007. It involved a survey of credit union members in 25 credit unions and consultations with credit union and banking personnel and money advisers, as well as a literature review. Nine structured focus groups were organised in five credit unions.

The survey

328 survey forms were completed and returned; 92% by credit union members. 63% of respondents were female and 37% male. Over a third of all forms were completed by people less than 35 years of age and 70% by people less than 45. 50% of respondents were in some form of employment or on a Government training scheme.

48% of respondents had a bank current account, 27% a basic bank account, 32% a savings account and 19% were unbanked altogether. 30% had neither a bank current account nor a basic bank account, even though some of these had a savings account

63% of those with no bank current or a basic account had an income of less than £160 per week. 37% of those with basic bank accounts paid charges, 75% of whom were dissatisfied with the default charges made on accounts by banks.

Banks, credit unions and POCA levels of satisfaction

41% of basic bank account customers thought that they received a good or quite a good deal from their bank. In contrast, 95% of credit union members who used a basic bank account thought that they received a very good or quite a good deal from their credit union. 65% of those with a Post Office Card Account (POCA) were satisfied with it.

23% of respondents had opened a new Credit Union Current Account – 63% since March 2007.

Important features of the Credit Union Current Account

The four most important ranked features of the Credit Union Current Account for those account holders who previously had a basic bank account (BBA) or who were unbanked (UN) were:-

- Cash machine access, 96% (BBA) and 80% (UN)

- Certainty about charges, 78% (BBA) and 89% (UN)
- Low default charges for failed direct debits and standing orders, 82% (BBA) and 85% (UN)
- Access to a loan – 86% (BBA) and 81% (UN)

These features were in addition to the importance of having wages or welfare benefits paid into the account. The receipt of wages or benefits was important for:

- 79% of those on welfare benefits
- 70% of those in receipt of wages.

However, this compares to the four features of the Credit Union Current Account ranked as most important by non-Credit Union Current Account holders, all with bank current accounts:

- Certainty about what I am charged – 64%
- Cash machine access – 63%
- Ability to set up direct debits and standing orders to pay bills – 60%
- Having a debit card to pay for goods in shops – 59%

For both groups, access to cash and certainty about charges are important. For the unbanked and those with basic bank accounts, there is a higher stress on low default charges and access to loans. For those already banked, a greater priority is placed on direct debits and having a debit card to pay for goods in shops¹.

Fees on accounts

71% of those with the Credit Union Current Account agreed that credit unions should make a small monthly or weekly fee to avoid having to make high charges on accounts in cases of misuse. 83% of the Credit Union Current Account holders who had a basic bank account were satisfied with a regular fee, as were 72% of those who were previously unbanked.

In contrast, only 44% of people without a Credit Union Current Account agreed that credit unions should charge a small monthly fee to avoid having to make high default charges on accounts. However, only 31% agreed that Credit Union Current Accounts should always be free. Of those with a basic bank account, 44% agreed with charges, 23% did not and the rest were undecided. The majority of non-Credit Union Current Account holders were in favour of a small monthly or weekly charge

62% of those with a Credit Union Current Account who previously had a basic bank account thought that they would use them for saving. This builds on credit union

¹ NB. In these tables, it is the ranking in order of importance by the different participant sectors that is being compared. The percentages themselves are not being compared between sectors. For example, 69% of those with a Credit Union Current Account, who previously had a basic bank account, considered that having a debit card to pay for goods in shops was important. However, even with this score, its importance still ranked lower than the four prioritised features noted in this executive summary (in addition to having wages or benefits paid into the account).

experience of the use of benefit direct accounts² where direct benefit payments into credit unions resulted in people retaining about 10% of deposits in savings (Decker and Jones 2007).

When asked what attracted them to opening a credit union current account, 69% of account holders replied that it was because a credit union is a friendly organisation. This rose to 73% among basic bank account customers. Direct face-to-face interaction is very important for low-income consumers.

62% of those without a Credit Union Current Account said that they would likely open one if one was available. 45% said they were very likely to open an account and 17% said they were quite likely. Only 6% said that they were not at all likely to open an account. 63% of those unbanked requested an application form to open a Credit Union Current Account, as did 44% of basic bank account users.

The focus groups

Use of bank current accounts, basic bank accounts and POCA

Over 60% of participants identified having difficulties with the management of a bank account and with bank charges in the past. A significant number noted that difficulties in managing bank accounts led them to manage their finances in cash and depend on a Post Office Card Account (POCA) or a credit union savings account. Some had bank accounts but did not use them. However, the lack of a bank account and managing in cash was also recognised as having its own difficulties.

What people want from a credit union current account

Overall, the participants were looking for a different kind of service from what they had received previously from a bank or from what they imagined a bank would offer. The key elements of a credit union current account that would respond to the needs of participants were:-

Ease in opening accounts

The majority of those consulted were looking for an account that was easy and straightforward to open. Many participants had a hesitation and a fear about using banks and looked to the credit union to act in ways that would allay their anxieties and hesitation.

A safe, secure and straightforward transaction service

Participants were looking for a safe and secure² place to receive wages or welfare benefits and a straightforward transaction account service that was easy to use and to understand.

² A credit union benefit direct account refers to a credit union savings account into which members have arranged to have their welfare benefits, in whole or in part, paid. They are not current accounts but, in some credit unions, some people do use them as their sole form of transaction service. There is no electronic ATM card access to funds on these accounts. Credit unions that have introduced the Credit Union Current Account have often migrated people to the current account from a benefit direct savings account.

Access to cash

Access to cash through an ATM was a central feature sought by all participants. This was a practical necessity, particularly for people whose prior experience had been with a POCA or with a credit union benefit direct account.

Certainty and transparency about charges

Certainty about charges on accounts was a headline issue in all focus groups. The fear of impending charges for failed direct debits or standing orders or unauthorised overdrafts led many people to distrust banks and their own capability of managing a bank account.

Low default charges for failed direct debits and standing orders

There was a desire that credit unions should not impose excessive and unfair charging structures, such as some participants had experienced with banks. However, there was realism among participants that credit unions would have to charge for default in order to cover costs and to deter abuse.

Weekly or monthly fees on current accounts

The realisation that credit unions would have to generate income to cover the costs of the processing of current accounts led 72.5% of all focus group participants to be in favour of credit unions charging a small account fee if, at the same time, they avoided making high default charges on accounts.

Financial control and money management

For people on a low income, financial control and money management are particularly important. It is the reason why many people preferred to manage their money in cash and to not take the risk of having a bank account that may incur unplanned and unprovided for charges. The stress on financial control meant that participants were looking for current accounts that enabled them to check balances often and to receive account statements regularly.

Overdrafts and buffer zones

Overall, about 60% of focus group participants preferred a Credit Union Current Account not to have an overdraft facility. They felt that, given the strains on their financial situation, they would be unable to manage it well and an overdraft could result in default charges, which they could not afford. The majority were also unattracted by access to a buffer zone or to any form of automatic credit on the account.

Flexibility and understanding rather than overdrafts and buffer zones

Flexibility and understanding were seen as pre-eminently important to assist people to avoid unnecessary charges on accounts. Participants wanted credit unions to contact members if it appeared that direct debits or standing orders would not be paid, to offer periods of grace if calls for direct debits were received before a regular

wage or benefits deposit was made into an account, and to do all in their power to assist members to avoid charges if they were facing temporary financial difficulties.

Direct debits and standing orders

Direct debits and standing orders had a very limited appeal to most people in the focus groups. They were seen primarily as compromising the control people desired over their finances and as leading to unexpected charges if account holders ran into difficulties. However, if charges were lower and the credit union had a more flexible approach to missed payments, participants reported that there may be more interest in them.

Debit cards – making payments and cash back

Attitudes to debit cards varied. In the groups where the Credit Union Current Account was not yet available, access to and the use of a debit card tended to be seen as a low priority. However, in groups where people possessed Credit Union Current Account debit cards, they were regarded as an important element in assisting people to gain wider social inclusion. It was felt that debit cards increased a person's standing and status in society, and made them feel normal and included. Interestingly, the ability to use the debit card for purchases was more important than obtaining cashback in shops.

The human touch – 'someone to talk to'

In all groups, there was high stress on current accounts being operated by credit unions that were friendly, approachable and understanding. The importance of having direct, face-to-face interaction with someone in the credit union was a very important issue for most people. They looked for personal access to someone to whom they could speak in order to discuss their account.

Access to loans and saving accounts

A number of participants stressed that a current account would enable them to have all their finances in one place, which they saw as advantageous. Many people reported that a current account that supported borrowing was of high importance. Linked to this, there was also a stress on the importance of saving and it was felt that the Credit Union Current Account could assist in this.

A professional and efficient service

There was a high stress on professionalism in service delivery. Participants sought a local, non-bureaucratic, accessible and flexible service that was, at the same time, efficient in responding to members' needs.

Writing and depositing cheques

There was no call for a facility to write cheques in any of the groups and the fact that the Credit Union Current Account does not have such a facility was not seen as a disadvantage. In those groups where the Credit Union Current Account was available, the clearing of cheques was noted as an issue for some. There was a general feeling that cheques took too long to clear.

Information and education

Some Credit Union Current Account holders were confused about how exactly the account worked, about the inter-relationship between their savings account and the Credit Union Current Account and what to do if they lost their card. It was noted by many that managing a current account was a significant learning curve for people who were unused to managing a current account previously. It was stressed that it was important that they had clear information in a language they could understand.

Credit union management of current accounts

The research, including the focus group discussions, took place during the early days of Credit Union Current Account availability, at a time when account systems and procedures were new to both credit unions and account holders. The comments of participants need, therefore, to be set within the context of progressive improvements in Credit Union Current Account management and delivery.

However, at the time, the discussions with participants highlighted areas of credit union management and operations that they thought needed strengthening if the Credit Union Current Accounts were to fully meet the needs of low-income members. In particular, participants were calling for improvements in:-

- Systems and procedures
 - Some early account holders had experienced delays in enquiries and in account set up times. There were calls for improvements in systems and procedures with regard to opening accounts, lost and stolen cards, the depositing of cheques and cash into current accounts and the availability of funds following deposits. It needs to be borne in mind that most participants were unfamiliar with banking systems and the demand for the availability of funds from a deposited cheque, for example, had not taken into account the procedures of the cheque clearing system to which the credit union itself was subject.
- A Credit Union Budgeting Account
 - Worries about managing a current account led focus group participants to strongly prioritise the importance of support in handling a Credit Union Current Account. Some described how they sought support in budgeting and planning ahead to pay bills, especially when paid by direct debit. A Credit Union Budgeting Account, linked to a bill paying account, could be an important support mechanism to assist people to migrate successfully to a Credit Union Current Account.
- Face-to-face contact
 - Personal access to someone in the credit union to whom people could directly relate with regard to their accounts.
 - Improvements in customer care and communication skills were called for in at least two groups.

- Information and education
 - It was noted that managing a current account was a significant learning curve for many credit union members on a low income. It was important that they had clear information in a language they could understand.
 - The importance of education on account usage was stressed by some participants. It was clear that some participants were unfamiliar with some of the basic terminology and concepts of transaction banking.
- Staff training
 - There were some calls for further staff training in efficient and professional current account management

Conclusion

The Credit Union Current Account was recognised by low-income consumers as being driven by their needs and circumstances. So much so that the fact that account holders may have to pay a small monthly fee did nothing to dampen interest in the accounts among those consulted as part of this research process.

The challenge for those credit unions that offer the Credit Union Current Account is to ensure that accessible information about the account permeates the social and community networks of low-income communities, so that people fully understand the long-term benefits of migration.

The most encouraging feature of the research study was the progress some participants had already made through their use of the Credit Union Current Account. This not only proved that financial inclusion is both possible and achievable if an appropriate model of transaction services is available and delivered in a supportive and informative manner, but it demonstrated the high interest people have in making the journey into inclusion once given the opportunity.

1. Introduction

The introduction of the Credit Union Current Account in 2006 was a significant step forward for British credit unions. Since the late 1990s, they have endeavoured to transform themselves from traditional social-model organisations into modern, market oriented, financial institutions with the capacity to combat financial exclusion effectively. This has involved them in a radical restructuring and a sea change in thinking in how credit unions can best serve low-income communities (Jones 2006).

A key driver behind the transformation of the British credit union movement has been a growing realisation of the reality and dynamics of poverty and financial exclusion in low-income communities. Traditional social-model credit unions operated mainly as small, community based savings and loans organisations, which endeavoured to combat poverty but did not offer a route to financial inclusion. By the turn of the century, it had become clear that credit unions could not respond effectively to financial exclusion without offering people the access point into inclusion of the equivalent of a bank current account. As Sinclair (2001) points out, financial inclusion is first evaluated in terms of access to banking services for money transmission. Credit union restructuring had inevitably to recognise that, if credit unions were to be effective vehicles for financial inclusion, they had no choice but to develop the Credit Union Current Account.

However, just having a bank account does not result in financial inclusion. Research shows that people on low incomes, and who experience financial exclusion, require bank accounts that have particular and specific features if they are to use them successfully. It is the lack of these features that leads half of basic bank account holders to still prefer to manage their money in cash (NCC 2005). Just extending the current model of basic banking to credit unions would have limited success if the key features needed and wanted by low-income consumers were neglected.

This research project was designed to explore how credit unions could develop the new Credit Union Current Account to best serve low-income consumers and to actively facilitate financial inclusion. Central to the research approach was the engagement of consumers themselves in a co-operative enquiry as to how the Credit Union Current Account could work for them. The research findings aim to inform credit unions how a new model of transaction service can be created that can build upon the cash-based money management strategies that people on low incomes understand and operate successfully.

The research also aimed to explore the question of account fees and charges. Credit unions need to generate sufficient income on accounts to cover administrative and other costs. The question was would Credit Union Current Account holders accept a small monthly or weekly account fee if high-cost default charges on accounts, often implemented by banks, could be reduced. Participants were clear that a small account fee is acceptable if credit unions operate the Credit Union Current Account flexibly and with the features people need.

The research took place not long after the Credit Union Current Account went live. However, it demonstrated clearly the need for a flexible and responsive transaction service within low-income communities.

2. Transaction banking and the path to financial inclusion

Research has increasingly demonstrated that lack of access to transaction banking leads to a significant negative impact on individuals, communities and, importantly, on society at large (BMRB 2006). For society, lack of access to financial services, to banking in particular, is often a critical factor that lies behind persistent income inequality and slow economic growth (Demirgüç-Kunt 2008). For individuals, having no bank account is a barrier to employment or starting a business, and results in paying far higher charges for basic financial services (e.g. cashing cheques) and in limiting access to certain products and services (e.g. mobile phone contracts and discounts on utility bills that require direct debit or standing order payment) (Brown and Thomas 2005, Herbert and Hopwood Road 2006). In addition, no bank account contributes to people failing to grow in financial capacity, limits access to money advice³ and results in a poor credit score which is central to a path to financial inclusion (BMRB 2006).

For Government, transaction banking is central to a pathway to financial inclusion:

People who do not have access to banking services are limited in undertaking a wide range of everyday financial transactions, and those limitations are arguably increasing as such transactions become more sophisticated.

Appropriate access to banking services serves as a crucial stepping stone to full financial inclusion (HCTC 2006).

Bridges and Disney (2004) argue moreover that a bank account acts as a gateway to a range of other financial services and is necessary to progress into longer term financial stability and inclusion (cf. NCC 2005). It is for this reason that consumer advocates such as Citizens Advice (Herbert and Hopwood Road 2006) and the New Economics Foundation (Brown and Thomas 2005) have called for the provision of universal fair and cost effective transaction banking to combat financial exclusion effectively.

Research suggests, however, that the two transaction banking service options, developed as a direct result of Government policy to achieve financial inclusion, basic

³ Meadows et al. (2004) argued that the unbanked are disproportionately drawn from social networks where few or no members have bank accounts. People in these social networks have little knowledge of the workings of financial services, the result being general financial information failure on the part of the unbanked. Clearly, those without bank accounts can access money advice through money advice agencies in low-income communities. However, in reality, people in marginalised communities tend to gain their knowledge of financial services through social and community networks (Jones and Barnes 2006). Having a bank account has the possibility of introducing people to a new, wider and more informed social and community network and, consequently, to greater access to professional money advice. BMRB Research (2006) revealed that 51% of respondents from banked households reported that they would go to a bank or building society if they needed financial advice.

bank accounts and the Post Office Card Account (POCA), have failed to deliver appropriate banking transaction services for those most in need.

Herbert and Hopwood Road (2006) identified and analysed a range of difficulties with basic bank accounts which, in many cases, were shown not to operate in the best interests of low-income consumers. There were problems with both opening and using accounts. They were not widely promoted by bank branches or readily available to consumers and, when people did open them, there were much poorer levels of service for account holders than would normally be expected in a bank. In addition, the impact of charging structures for such items as declined direct debits and standing orders and unauthorised overdrafts most heavily penalised low-income consumers. It was such concerns that had earlier led the National Consumer Council to conclude that the current model of basic bank accounts introduced by the Government in 2000 was not achieving the original objective behind their development (NCC 2005). The National Consumer Council argued:

Our research shows that attempts to extend the current model of basic banking will have limited success. More importantly, it will not result in meaningful financial inclusion, with the benefits of banking realised for the most vulnerable customers (NCC 2005).

The POCA was regarded as even less likely to result in financial inclusion. As the House of Commons Treasury Committee publication, "Banking the Unbanked", reported:

Ms Whyley told us that the limited functionality of those accounts really does not amount to financial inclusion. It merely is a good way of people receiving their money electronically. It is not financial inclusion in any meaningful sense.

Mr Pomeroy told us that people who currently only held a POCA were counted as financially excluded, "because the functionality of the Post Office Card Account is very limited compared with a normal bank account". Others took a different view: the BBA⁴ believed that, "where an individual having opened a POCA is aware of its limited functionality, but decides nevertheless it meets their requirements, this we consider results in financial inclusion" (HCTC 2006).

However, despite the British Bankers' Association reservation, with its limited functionality as merely a conduit for welfare benefit payments, as Marshall (2004) maintains, there are good grounds for scepticism that the POCA could ever bring people into financial inclusion. Indeed, POCA's limited functionality and inability to offer no more than a transactional account for benefit payments fails to provide anyone with an effective pathway towards financial inclusion.

Despite these difficulties, the underlying reasons for the introduction of basic bank accounts and the POCA remain well-founded, as people do need transaction

⁴ British Bankers' Association

accounts to take the step up into banking services and into wider financial inclusion. It was for this reason that the development of the Credit Union Current Account became, in 2003, a key strategic goal for ABCUL. This goal was realised in 2006 through the 'banking project' partnership with The Co-operative Bank.

The introduction of the Credit Union Current Account was a major advance for British credit unions for it took them a step nearer to becoming full service financial institutions with the capacity and capability to serve low-income communities effectively. Internationally, for example, credit unions have long recognised that transaction services, savings accounts, affordable loans, and asset accrual (ownership of property or a business) are all fundamental to an effective framework of products designed to assist low-income consumers into financial inclusion and stability (Mahon and Northrup 2006).

Yet the development of transaction services is only the first step for British credit unions; the much greater and more significant step is developing the expertise to manage the Credit Union Current Account in the long-term interests of people on low incomes and/or who are financially excluded. If the Credit Union Current Account merely replicates basic bank accounts, its purpose will be severely undermined. It can only work if it addresses the specific needs and circumstances of the people it was primarily designed to serve.

Research has shown that just having a bank account does not necessarily result in meaningful financial inclusion (Regan and Paxton 2003; NCC 2005, 2006; Jones 2006). As Collard (2007) points out:

There is little point in giving customers a right to a basic bank account if that account does not meet their needs, or they do not get the service they require from banks. (Collard 2007:15)

In fact, a 2006 report, *Basic banking: A step towards financial inclusion* (Change 2006 quoted in Herbert and Lederle 2007), illustrated just how newly banked social housing residents responded when they did not obtain the services they required:

A high proportion of customers, around two thirds, are still managing their finances on a cash basis i.e. drawing out all their money in one go. The number of respondents using Direct Debit facilities was also low, with two thirds of customers still expressing a preference for using cash or, in some cases, not knowing that direct debits were available on their accounts.

In order to better respond to the needs of those on low incomes, the NCC (O'Reilly 2006) was able to identify a framework of features that people looked for in a bank account and that the Credit Union Current Account, if successful, would equally need to address. According to the National Consumer Council, people on low incomes are seeking transaction (current) accounts that:-

- Are offered by a financial institution that treats them fairly and that understands their background and circumstances. People seek direct

face-to-face contact with staff, including a tailored explanation and demonstration of account features,

- Incorporate certainty, control, flexibility and visibility and which facilitate the constant tracking of money and the need for frequent low-value withdrawals and deposits.
- Allay fear of fraud and which communicate the risk of electronic theft and provide frequent account monitoring mechanisms.
- Limit danger of debt from the imposition of high-cost default charges and by ensuring bills will be paid.
- Facilitate saving by incorporating a facility for setting aside a regular sum for future needs.

The challenge for credit unions will be to deliver the Credit Union Current Account so that it is able to provide the certainty, control, flexibility and visibility people seek. This will be demanding on administrative systems and inevitably costly. Already, credit unions are committed to charging substantially lower fees for unpaid transactions than those of the banks (see HCTC 2006).

3. The Credit Union Current Account Research Project

The research project was designed to explore how the new Credit Union Current Account could be designed to address the specific needs and circumstances of low income and financially excluded consumers. The aim was to research the specific needs of individuals, but also the wider social and economic issues associated with the operation of the Credit Union Current Account and their impact on financial exclusion.

In particular, the research aimed to explore the feasibility of credit unions charging a small weekly or monthly administrative fee on the Credit Union Current Account, rather than having to charge high cost default charges. This fee was only to be considered within the context of ensuring that the Credit Union Current Account responded to the needs and wants of low-income consumers, facilitated financial inclusion and generated sufficient income to cover administrative and other costs.

The research also aimed to address the impact of fees and charging structures on social policy objectives around financial inclusion and on overall credit union business objectives.

Research Methodology

The research was a participatory and collaborative project over a twelve month period, which mainly took place during the second half of 2007. It involved credit union members, low-income consumers who are not credit union members, credit union and money advice staff in an enquiry into the feasibility, operation and impact of credit union current account charging structures.

The research focused primarily on the expectations, views and thoughts of low-income consumers who used or could possibly use the Credit Union Current Account. The aim was to give an opportunity to actual and potential users, mostly on low incomes or experiencing financial exclusion, to consider how the Credit Union Current Account could effectively respond to the needs and circumstances that they themselves identified.

The research methodology had a number of distinct elements, which included:

- a statistical survey carried out by a leading market research company. This entailed distributing 4,000 survey forms through 25 credit unions, which were either currently offering the Credit Union Current Account or planning to do so in the foreseeable future.
- a series of focus groups with existing low-income Credit Union Current Account members, credit union members (not yet with a Credit Union Current Account), and low-income non-members. Nine separate focus groups were organised, four in Scotland and five in England.

In addition, the research involved interviews and consultations with credit union staff on the operation and economics of current account charges and with social policy researchers at Citizens Advice, Citizens Advice Scotland and AdviceUK as to the impact of charging structures on social policy objectives.

4. The survey

The surveys were designed for completion by Credit Union Current Account holders, credit union members and other low-income consumers who were not yet members of a credit union. 4,000 survey forms were distributed to 25 credit unions by an independent market research company. These credit unions included all those that were already offering current accounts and those that were actively considering introducing them in the not too distant future.

328 surveys were completed and returned, which represents 8.2% of the total distributed. This low rate of return was disappointing but was explained by the high research demands that had been placed on credit unions in the months prior to this research project, and also by the time required to support low-income consumers in the completion of the survey forms.

Of the 328 people who completed the survey, 63% were female and 37% male. This corresponds to the higher level of credit union usage among women in low-income communities. Similarly, 70% of the focus group participants were women.

34% were under 35, 26% were 35 to 44, 19% were 45 to 54 and 18% over 55 (3% did not specify their age). Given the fact that completion of the survey forms was voluntary, it can be assumed that people completing the forms were more rather than less interested in the current accounts. Over a third of all forms were completed by people less than 35 years of age and 70% by people less than 45 years. Only 6% of participants were over 65. This suggests that current accounts are of relevance mainly to younger people. This was confirmed in the focus groups, where those reporting that they were less likely to open an account tended to be older credit union members.

34% of participants were in a full time job and 14% either in part time work or self employed. 48% were therefore in some form of employment. 2% were on a Government training scheme. The remainder were not working, either unemployed (14%), permanently sick (10%), looking after the home (11%), wholly retired (8%) or in full time education (4%). (3% were doing something else or refused to specify).

30% were on less than £100 per week and 53% on less than £200 per week. However, 25% were on over £300 per week. 69% of respondents received some form of welfare benefits. The majority of respondents were, therefore, on a low income. 32% of those working were on an income of less than £200 a week.

Experience of banking

48% of respondents had a bank current account, 27% a basic bank account, 32% a savings account and 19% were unbanked altogether⁵. 30% had neither a current account nor a basic bank account, even though some of these had a savings account (not including their credit union savings account).

⁵ These figures do not total 100% as some people had multiple accounts.

Bank accounts were with the Halifax (22%); followed by Barclays and Lloyds TSB (17%), NatWest (15%) and the Co-operative bank (10%).

63% of those with no current or basic bank account had an income of less than £160 per week.

Table 1 indicates respondents' use of bank current or basic bank accounts by those with accounts.

A notable difference in the use of accounts by bank current and basic bank account customers was that 70% of bank current account holders used their accounts for direct debits and standing orders in comparison with only 48% of those with basic bank accounts.

Table 1 – Use of bank accounts by those with a current or basic bank account.

BCA - bank current account; BBA- basic bank account.

	All	BCA	BBA
Receipt of benefits (column 1 not working only)*	71%*	37%	57%
Receipt of wages (column 1 those working only)*	86%*	66%	40%
Direct debits and standing orders	60%	70%	48%
Clearing cheques	36%	42%	30%
Had an account but did not use it	3%	3%	4%

Only 3% of respondents had a bank current account but did not use it. Of these, 63% said that they preferred to deal in, or could manage their money better in cash. 38% of this group said they did not need a bank account.

77% of those with a bank current account had a cheque book compared with only 22% with a basic bank account. The fact that 22% of those with a basic bank account claimed to have a cheque book is at first sight confusing, as basic bank accounts do not supply cheque books. The explanation may be that they retained a cheque book from a current account that they no longer used. Only 13% of those with a standard current account used a cheque book regularly; 46% rarely or never used a cheque.

77% of those with bank current accounts and 49% of those with basic bank accounts had a bank cheque guarantee, debit or cash card. 81% of these used it to take money out of cash machines, 70% to buy goods, 44% to get cash back when shopping and 28% to guarantee cheques. Slightly more of those with current accounts, 74%, used a debit card to make withdrawals in shops, compared with 61% of those with basic bank accounts.

Bank charges

37% of all respondents said they paid charges on bank accounts of which 59% were on overdraft charges, 33% on failed direct debits or standing orders. The highest number of people paying charges were those in the age range of 26 – 44 years. 48% of these said that they paid charges. In equal proportion to the whole group of respondents, 37% of those with basic bank accounts paid charges.

40% of respondents knew how much they had been charged. 21% of those paying charges had paid over £200 in the last year and 43% over £100. 33% of those paying charges with basic bank accounts had paid over £200 in the last year and 51% over £100.

61% of those with bank current accounts were dissatisfied with the charges made on accounts by banks, 47% were very dissatisfied. 23% had tried to get a refund on charges; 64% of them were successful. 75% of those with basic bank accounts were dissatisfied with the charges made on accounts by banks or building societies, 79% of whom were very dissatisfied. 45% had tried to get a refund on charges; 40% of them were successful. Overall, there was greater dissatisfaction among basic bank account holders with regard to bank charges and a greater propensity to take action to recover them. However, overall, they were less successful than current account holders.

Only 11% thought that they got a very good deal from their bank. 33% thought they got quite a good deal. 46% of current account holders, compared with 41% of basic bank account holders, thought that they got a good deal.

Table 2 indicates the reasons given by the 30% of respondents, without a current or basic bank account, as to why they did not have one.

Table 2 – Reasons for not having a bank current or basic bank account

Never needed one	24%
Don't trust banks	15%
Can manage my money better in cash	14%
Prefer to deal in cash	13%
Poor credit rating	5%
Not enough ID	3%

47% of the 17–25 year old age group said that they had never needed a bank account compared with just 10% of the 55-64 year old age group. 43% of those over 65 without a current or basic bank account preferred to deal in or manage their money in cash.

However, importantly, only 24% said they never needed a bank account. The conclusion must be that up to 76% of respondents recognise some need for an account and are open to considering using a current account.

Post Office Card Account (POCA)

35% of those without a current or basic bank account had a POCA, of which 60% were very or quite satisfied with the account. Overall, 65% of those with a POCA were satisfied with it. The greatest number of people with POCAs (45%) were over 65. In general, by a margin of about 6%, men were more satisfied with the POCA than women (68% of men and 62% of women). 78% of those over 65 were satisfied

with the POCA. 30% of people with bank current accounts had a POCA, 80% of whom were satisfied with it.

Experience of using a credit union

92% of respondents were credit union members of whom 71% were frequent users. Slightly more than average, 76% of those with neither a bank current nor a basic bank account used their credit union account frequently. This confirmed findings in the focus groups that credit union members without access to mainstream banking relied on credit union services. Some of these members would have credit union benefit direct accounts.

Table 3 indicates the reasons given by all respondents for using a credit union.

Table 3 – Use of credit unions

BCA – Bank current account; BBA- basic bank account, UN - unbanked.

	All	BCA	BBA	UN
Saving	75%	85%	76%	60%
Loans	62%	60%	67%	61%
Benefit payments into credit union	28%	14%	28%	40%
New credit union current account	16%	14%	16%	20%
Christmas or holiday savings clubs	13%	15%	15%	8%
Wages paid into credit union	2%	1%	0%	6%
Insurance	2%	3%	1%	2%

40% of those with neither a bank current account nor a basic bank account used their credit union account for the receipt of benefits. 20% of those unbanked had opened a Credit Union Current Account compared with 14% of those with current accounts. Of course, not all would have had the option of doing so if they were members of credit unions that did not offer a current account service. However, the conclusion must be that a higher number of people without bank current or basic bank accounts are interested in the Credit Union Current Account than those already in the banking system.

95% of credit union members thought that they received a very, or quite a good deal from their credit union. This rose to 96% among those who had neither a current nor a basic bank account.

Important features of the Credit Union Current Account for those with the account.

23% of respondents had opened a new Credit Union Current Account – 63% since March 2007. This rose to 29% among those who had neither a current nor a basic bank account, many of these would have had Post Office Card Accounts.

The important features of Credit Union Current Accounts for those who had opened the accounts are noted in table 4.

Table 4 – Important features of a Credit Union Current Account for holders of the accounts.

	Very important	Quite important	Total
Cash machine access	70%	13%	83%
Certainty about what I am charged	57%	23%	80%
Low default charges for failed direct debits and standing orders	54%	26%	80%
Ability to have benefits paid in– those on benefits only	69%	10%	79%
Access to credit union loans for higher amounts when needed.	54%	24%	78%
Immediate and prearranged access to a small loan to cover bill payments when no money in account	49%	29%	78%
Ability to set up direct debits and standing orders to pay bills	54%	19%	73%
Ability to have wages paid in – for those in work only	61%	7%	70%
Ability to pay in and clear cheques	44%	23%	67%
Not having an overdraft so I cannot go overdrawn	46%	20%	66%
Having a debit card to pay for goods in shops	51%	14%	65%
Having a debit card to get cash back in shops	39%	14%	53%

The four most important elements of the credit union account for those with a Credit Union Current Account were:-

- Cash machine access, 83% – access to cash scored the highest percentage points overall. This is perhaps the key motivator for people to open a Credit Union Current Account.
- Certainty about charges, 80% – given the experience of many respondents with regard to bank charges, people are attracted to the Credit Union Current Account as it offers greater certainty on charges. This links to the following point on low default charges.
- Low default charges, 80% - for failed direct debits and standing orders.
- The ability to have welfare benefits paid in, 79% (*for those on welfare benefits*) – the importance of having a place to deposit benefits was more important to those on benefits than was a place to deposit wages for those who were waged.

However, when respondents with current accounts were divided according to whether they had a bank current account, a basic bank account or had neither of

these, the order of importance of the various features varied. Table 5 aggregates the replies for very and quite important and tabulates respondents according to the type of accounts.

Table 5 – Important features of a Credit Union Current Account for those with a Credit Union Current Account, listed according to other accounts held.

BCA – Bank current account; BBA- basic bank account, UN - unbanked.

	All	BCA	BBA	UN
Ability to have wages paid in *(column one, those in work only)	70%*	43%	64%	87%
Ability to have benefits paid in *(column one, those on benefits only)	79%*	40%	54%	62%
Cash machine access	83%	77%	96%	80%
Certainty about what I am charged	80%	70%	78%	89%
Low default charges for failed direct debits and standing orders	80%	73%	82%	85%
Ability to set up direct debits and standing orders to pay bills	73%	66%	78%	77%
Access to credit union loans for higher amounts when needed.	78%	69%	87%	81%
Ability to pay in and clear cheques	67%	61%	73%	73%
Immediate and prearranged access to a small loan to cover bill payments when no money in account	78%	65%	86%	81%
Having a debit card to pay for goods in shops	65%	69%	69%	62%
Not having an overdraft so I cannot go overdrawn	66%	57%	59%	77%
Having a debit card to get cash back in shops	53%	54%	55%	54%

A number of differences between the three groups emerges from table 5. If the features of the Credit Union Current Account valued by each group (those with current accounts, those with bank accounts and the unbanked) are ranked according to percentages scored within that group alone, different emphases among the three groups are revealed.

The four most important features for each group in turn were:

For those with bank current accounts:

1. Cash machine access – 77%
2. Low default charges for failed direct debits and standing orders - 73%
3. Certainty about what I am charged – 70%
4. Access to credit union loans for higher amounts when needed – 69%
5. Having a debit card to pay for goods in shops – 69% (equal 4th place)

For those with basic bank accounts

1. Cash machine access – 96%
2. Access to credit union loans for higher amounts when needed – 87%
3. Immediate and prearranged access to a small loan to cover bill payments when no money in account – 86%
4. Low default charges for failed direct debits and standing orders – 82%

For the unbanked

1. Certainty about what I am charged – 89%
2. Ability to have wages paid in – 87%
3. Low default charges for failed direct debits and standing orders – 85%
4. Access to credit union loans for higher amounts when needed – 81%
5. Immediate and prearranged access to a small loan to cover bill payments when no money in account – 81% (equal 4th place)

Low default charges feature in all three groups, as does access to loans for higher amounts. The importance of cash machine access predominates for those who have either bank current or basic accounts, whereas, for the unbanked, certainty about charges tops the list of desired features.

The stress on loans is higher in the unbanked group, whose members also seek a small loan to cover bill payments when no money is in the account.

The importance of a debit card is strongest among people who have bank current accounts. It does not figure highly in the features valued by those with basic bank accounts or who are unbanked.

If percentages alone are taken into account, without ranking within each category separately, those with a basic bank account or who were unbanked placed more emphasis than those with bank current accounts on access to loans and on certainty about what they would be charged, including low default charges. They also placed a greater emphasis on access to cash through a cash machine, even though this does not appear in the unbanked ranked list above.

According to the percentages, without specific ranking in order of importance in each group, the four most important features of a Credit Union Current Account for account holders who previously only had a basic bank account (BBA) or were unbanked (UN) were:-

- Cash machine access, 96% (BBA) and 80% (UN)
- Certainty about charges, 78% (BBA) and 89% (UN)
- Low default charges for failed direct debits and standing orders, 82% (BBA) and 85% (UN)
- Access to a loan – 86% (BBA) and 81% (UN)

The percentages in the above list relate to respondents saying those features were important. However, in assessing how important the above features are to people without a bank account or who had only a basic bank account, 62% said that low default charges were *very important* and 58% said that access to credit union loans was *very important*. Low default charges and access to loans rank very high in the needs of people who have been unbanked or who have only been accustomed to using a basic bank account.

Cash machine access was highest in importance among people who had a basic bank account. 73% said cash machine access was very important and 23% said it was quite important, compared with 65% of those who were unbanked, who said it

was very important and 15% who said it was quite important. However, out of all those with current accounts, who considered that cash machine access was important, 77% considered it to be very important.

Use of Credit Union Current Accounts by those with the accounts.

The survey asked those with Credit Union Current Accounts to what use they would put them. Table 6 tabulates the answers to this question.

Table 6 – Expected use of a Credit Union Current Accounts by those with an account.
BCA – Bank current account; BBA - basic bank account, UN - unbanked.

	All	BCA	BBA	UN
Having wages paid directly into it* (column, those in work only)	61%*	35%	45%	46%
Having benefits paid in* (column 1, those not working only)	72%*	19%	41%	62%
Withdrawing cash	70%	54%	77%	77%
Saving	57%	62%	50%	42%
Direct debits and standing orders	47%	50%	55%	42%
Paying bills	41%	31%	45%	50%
Repaying loans	37%	23%	50%	42%
Transferring money	29%	31%	36%	23%
Cashing cheques	23%	19%	23%	27%

The unbanked, those with no current or basic bank account, said that they would use the accounts mostly to receive their benefit payments, to withdraw cash and to pay bills. The emphasis on the use of direct debits and saving was less than average among the unbanked, whilst the repayment of loans was slightly higher than average.

Those already banked, with either a current or a basic bank account, said they thought they would use them mainly as a savings facility and to withdraw cash.

Credit union charges, the views of those with the new current accounts

30% said that their credit union charged for the current account, and 27% did not know whether it did or not. Of those who said they were charged, 90% said that they knew how much they were charged.

42% were very satisfied and 26% were quite satisfied with the charges made by their credit union on the current account. Therefore, in total, 68% of those with current accounts were satisfied with the charging structure.

83% of those with a basic bank account were satisfied with the charges, as were 72% of those who were unbanked.

71% of those with the Credit Union Current Account agreed that credit unions should make a small monthly charge to avoid having to make high default charges on

accounts. 77% of those with basic bank accounts agreed with the charge, as did 65% who were unbanked.

Only 21% felt that the Credit Union Current Account should always be free and that credit unions should cover costs mainly by making default charges on accounts. This rose to 27% among those who had previously had no bank current or basic bank account.

Why people were attracted to open a Credit Union Current Account.

Respondents were asked what attracted them to opening a Credit Union Current Account; their replies are noted in Table 7. The main reason given by all groups of people was the friendliness of the organisation.

It is significant that 38% of the unbanked wanted all their finances in one place, which is a higher percentage than average. This probably links to the greater need to access loans through the credit union.

64% of those with basic bank accounts thought that they would get a better deal from the credit union. The limitations of basic bank accounts were to surface in the focus groups and it is clear that, for the majority of basic bank account holders, a Credit Union Current Account offered a better option.

Table 7 – Reasons for being attracted to a current account - by those with a Credit Union Current Account. *BCA – Bank current account; BBA- basic bank account, UN - unbanked.*

	All	BCA	BBA	UN
The fact that the credit union is a friendly organisation	69%	73%	68%	62%
I thought I would get a better deal at a credit union than a bank or building society	51%	54%	64%	38%
Being able to access cash through a cash machine and in shops	50%	42%	50%	50%
Wanted all my finances in one place	30%	19%	27%	38%
The credit union is more convenient for me than the bank	33%	27%	27%	38%
My benefits were already being paid into the credit union	21%	23%	27%	15%

Interest in opening Credit Union Current Accounts

Of those without a Credit Union Current Account, 70% said that an account would interest them, rising to 83% of those with a basic bank account and 76% of those who were unbanked. There was clear evidence from the survey of a high level of interest in Credit Union Current Accounts.

Important features of a Credit Union Current Account, the views of people currently without one.

Those not yet with a Credit Union Current Account were asked what features they would look for in a current account. Responses are noted in Table 8.

Table 8 – Important features of a Credit Union Current Account noted by those without a Credit Union Current Account.

	Very important	Quite important	Total
Ability to have wages paid directly into the account (those working only)	60%	8%	68%
Ability to have benefits paid directly into the account (those not working only)	53%	14%	64%
Cash machine access	63%	8%	71%
Ability to set up direct debits and standing orders to pay bills	54%	10%	64%
Having a debit card to pay for goods in shops	51%	9%	60%
Certainty about what I am charged	50%	14%	64%
Access to credit union loans for higher amounts when needed.	44%	21%	63%
Ability to pay in and clear cheques	42%	13%	57%
Having a debit card to get cash back in shops	41%	9%	50%
Immediate and prearranged access to a small loan to cover bill payments when no money in account	42%	18%	60%
Low default charges for failed direct debits and standing orders	41%	12%	53%
Not having an overdraft so I cannot go overdrawn	31%	12%	43%

The four most important features of a credit union account, judged by people currently without the accounts were:-

- Ability to have wages or benefits paid directly into the account, 68% of those working and 67% of those not working
- Cash machine access, 71%
- Ability to set up direct debits and standing orders to pay bills, 64%
- Certainty about charges 64%

The importance of direct debits was slightly higher among those without accounts than among those who had already opened Credit Union Current Accounts.

However, when respondents without Credit Union Current Accounts were divided according to whether they had a bank current account, basic bank account or neither, the order of important features was slightly different. In this table, totals for quite and very important have been aggregated.

Table 9– Important features of a Credit Union Current Account by those without a Credit Union Current Account.

BCA – Bank current account; BBA- basic bank account, UN -unbanked.

	All	BCA	BBA	UN
Having wages paid directly into it* (column 1 those in work only)	68%	51%	42%	43%
Having benefits paid in* (column 1 those not working only)	64%	44%	59%	68%
Cash machine access	71%	63%	78%	75%
Certainty about what I am charged	64%	64%	68%	60%
Low default charges for failed direct debits and standing orders	53%	52%	60%	53%
Ability to set up direct debits and standing orders to pay bills	64%	60%	70%	62%
Access to credit union loans for higher amounts when needed.	63%	58%	75%	69%
Ability to pay in and clear cheques	57%	55%	49%	53%
Immediate and prearranged access to a small loan to cover bill payments when no money in account	60%	53%	68%	67%
Having a debit card to pay for goods in shops	60%	59%	67%	59%
Not having an overdraft so I cannot go overdrawn	31%	34%	52%	51%
Having a debit card to get cash back in shops	41%	51%	48%	53%

A number of differences between the groups emerges from an analysis of table 9. If the features of the Credit Union Current Account desired by each group are ranked according to percentages scored, different emphases among the three groups emerge. This confirms that the banked, those with basic bank accounts and the unbanked have different needs and are looking for different features in a Credit Union Current Account.

Those already banked with current accounts elsewhere prioritise certainty about charges, cash machine access and access to direct debits, standing orders and debit cards. As the tables below demonstrate, those with basic bank accounts and the unbanked tend to prioritise access to loans.

The four most important features for each group, ranked according to percentages are:

For those with bank current accounts

1. Certainty about what I am charged – 64%

2. Cash machine access – 63%
3. Ability to set up direct debits and standing orders to pay bills – 60%
4. Having a debit card to pay for goods in shops – 59%

For those with basic bank accounts

1. Cash machine access – 78%
2. Access to credit union loans for higher amounts when needed – 75%
3. Ability to set up direct debits and standing orders to pay bills – 70%
4. Certainty about what I am charged (equal 4th ranking) – 68%
5. Immediate and prearranged access to a small loan to cover bill payments when no money in account (equal 4th ranking) – 68%

For the unbanked

1. Cash machine access – 75%
2. Access to credit union loans for higher amounts when needed – 69%
3. Ability to have benefits paid in - 68%
4. Immediate and prearranged access to a small loan to cover bill payments when no money in account – 67%

Cash machine access is common to all groups. But for the unbanked, access to a loan and having somewhere to receive benefits are ranked as of high importance. Access to direct debits and standing orders is important for both those with current and basic bank accounts but appears less important for the unbanked, as too does certainty about charges.

For those without Credit Union Current Accounts and the unbanked, the priorities are access to cash, somewhere to receive benefits and access to loans. 67% prioritised access to a small loan to cover bill payments when there was no money in the account, but only 53% expressed an interest in an overdraft. Findings from the focus groups suggest that this relates to a concern that the use of accounts does not lead people into overindebtedness through default charges. In general, people on low incomes in the focus groups confirmed that they preferred accounts not to have overdrafts but required some flexibility of approach by the credit union in order to avoid accounts attracting default charges.

How would you use a Credit Union Current Account?

When people without accounts were asked if they were to open a Credit Union Current Account, what they thought they would use it for, the majority of respondents said they would use it to receive wages or benefits. Overall, after the use of accounts for wages or benefits, the priority was to use the accounts for saving. Saving scored high in the three groups, with only the unbanked marginally prioritising withdrawing cash. The possible uses of the Credit Union Current Account by those currently without the account are listed in table 10.

60% of those not in work and on benefits considered that they would use the current accounts for receipt of their benefits. This supports the finding that 68% of those in receipt of welfare benefits regard the ability to pay benefits into the account as a key desirable feature of the account.

Table 10– Using a Credit Union Current Account – the views of those without a Credit Union Current Account.

BCA – Bank current account; BBA basic bank account, UN, unbanked.

	All	BCA	BBA	UN
Having wages paid directly into it (column 1 those in work only)	61%	41%	35%	31%
Having benefits paid directly into it (column 1 those not in work only)	60%	34%	52%	61%
Saving	57%	55%	59%	56%
Withdrawing cash	54%	50%	59%	58%
Paying bills	49%	42%	58%	50%
Direct debits and standing orders	46%	44%	52%	43%
Repaying loans	32%	33%	55%	42%
Cashing cheques	25%	27%	26%	22%
Transferring money	21%	25%	21%	15%

Credit union charges, views of those without a Credit Union Current Account.

44% of people without Credit Union Current Accounts agreed that credit unions should make a small monthly charge to avoid having to make high default charges on accounts. This rose to 46% among those who were not working. Also 47% of women agreed with the monthly charge, as did 61% of those in the 26-34 year age group.

However, this was a much lower level of agreement on current account charges than the 71% of those who already have the Credit Union Current Accounts and who agreed with the small monthly charge. In fact, it is a significant difference that requires explanation.

One explanation is that 25% of respondents did not reply to this question and, therefore, can be assumed to be undecided. Moreover, only 31% agreed that Credit Union Current Accounts should always be free and that costs should be covered by making default charges on accounts for misuse. Only 27% said that they would not pay for a Credit Union Current Account.

There was, therefore, a larger proportion of people, 44%, who agreed with the charge than did not. 26% said they would pay £1 or £2 per month, 11% said £3 per month and 9% £5. 5% said that they would pay £10 or more.

What would attract you to open a Credit Union Current Account?

When people without accounts were asked what would attract them to opening a Credit Union Current Account, it was cash machine access that came top of the list,

followed closely by the ability to have benefits paid into the account (for those on benefits).

Table 11– Using a Credit Union Current Account – the views of those without a Credit Union Current Account.

BCA – Bank current account; BBA basic bank account, UN, unbanked

	All	BCA	BBA	UN
Being able to have my wages paid directly into the credit union (working)	50%	35%	29%	26%
Being able to have my benefits paid directly into the credit union (non-working)	50%	29%	45%	60%
Being able to access cash through a cash machine.	54%	48%	50%	65%
Being able to use a debit card in shops to pay for goods	42%	38%	42%	49%
The fact that the credit union is a friendly organisation	41%	40%	45%	43%
Having access to loans in the credit union	42%	38%	45%	50%
Having all my finances in one place	38%	34%	38%	43%
Being able to access cash through cash back in shops	36%	37%	33%	39%
If the credit union was more convenient for me than the bank	33%	30%	42%	43%
Nothing would attract me – I do not need a current account	6%	12%	5%	3%

Only 12% of those with a bank current account said nothing would attract them as they do not need a current account. Only 5% of those with basic bank accounts said nothing would attract them to the Credit Union Current Account.

45% of respondents said they were very likely to open a Credit Union Current Account and 17% quite likely. That means that 62% of those without a Credit Union Current Account said that they were very or quite likely to open an account. Only 6% said it was not at all likely that they would open an account.

What would prevent you opening a Credit Union Current Account?

When participants were asked what, if anything, would prevent them opening a Credit Union Current Account, the main issue that surfaced was the fact that some people already had a bank current or a basic bank account. However, those saying that they were happy with their current bank account were only 20% of current account holders and 35% of basic bank account holders.

63% of those unbanked requested an application form to open a Credit Union Current Account, as did 44% of basic bank account users. 29% of those with full

bank current accounts also expressed an interest in opening a Credit Union Current Account. The full list of responses is to be found in Table 12.

Table 12– What would stop you opening a Credit Union Current Account – by those without a Credit Union Current Account.

BCA – Bank current account; BBA basic bank account, UN, unbanked

	All	BCA	BBA	UN
Nothing would stop me, send me an application form.	42%	29%	44%	63%
Already have a current or basic bank account I am happy with	20%	35%	11%	4%
Just want to use the credit union for saving	9%	13%	6%	6%
Just want to use credit union for loans	7%	8%	6%	7%
Prefer to deal in cash	6%	5%	2%	10%
Proposed charges on accounts	2%	2%	2%	0%
Don't trust the credit union	1%	2%	0%	1%
Slow setting up direct debits	1%	1%	2%	0%

People were asked if they had any other comments about the survey form. 90% made no comment. 4% said that they were pleased with the good service from the credit union and 3% of respondents noted the friendly staff as a key attractive feature of credit unions. The remainder were individual operational comments on accounts.

Conclusions of the credit union survey

The credit union survey revealed the strong interest in Credit Union Current Accounts but also the varying features of these accounts required by different segments of the market. The following is a summary of some of the key points to emerge from the survey.

Ability to have wages or benefits paid into accounts

Consistently important for all respondents was the facility of having wages or benefits paid into Credit Union Current Accounts. 70% of those in work who had the accounts already, and 79% of those on benefits, stressed the ability to receive wages or benefits as an important feature of the accounts.

The ability to have wages paid directly into the credit union account was more important for those with basic bank accounts, 64%, or who were unbanked, 87%, than among those who had a bank current account. In fact, interestingly, the need for the Credit Union Current Account for the receipt of wages was seen as more important among those with basic bank accounts or who were unbanked than for the receipt of benefits. Benefits can always be received with a Post Office Card Account, but the receipt of wages requires a current account.

Priorities for those with basic bank accounts or who were unbanked

In addition to the facility of having wages or benefits paid into the account, the four most important features of a Credit Union Current Account for account holders who previously only had a basic bank account (BBA) or were unbanked (UN) were:-

- Cash machine access, 96% (BBA) and 80% (UN)
- Certainty about charges, 78% (BBA) and 89% (UN)
- Low default charges for failed direct debits and standing orders, 82% (BBA) and 85% (UN)
- Access to a loan – 87% (BBA) and 81% (UN)

This compares with the four most important features of a credit union account, judged as important by non-credit union account holders who are already banked with a mainstream current account

- Cash machine access, 63%
- Ability to set up direct debits and standing orders to pay bills, 60%
- Having a debit card to pay for goods in shops, 59%
- Certainty about what I am charged 64%

For both groups access to cash and certainty about charges are important.

For the unbanked and those with basic bank accounts, there is a higher stress on low default charges and access to loans.

For those already banked, there is a greater stress on direct debts and having a debit card to pay for goods in shops.

Bank and credit union service

Only 44% of respondents thought that they got a very good or quite a good deal from their bank. 66% of all respondents were dissatisfied with the charges made on accounts by banks, and 52% were very dissatisfied. 75% of those with basic bank accounts were dissatisfied with the charges made on accounts by banks.

95% of credit union members thought that they received a very good or quite a good deal from their credit union. 68% of those with the Credit Union Current Account were satisfied with the charges made by credit unions.

64% of basic bank account users thought that they would get a better deal from their credit union than from the bank.

Credit Union Current Account charges

71% of those with Credit Union Current Accounts agreed that credit unions should make a small monthly charge to avoid having to make high default charges on accounts.

In contrast, only 44% of people without a credit union account agreed that credit unions should make a small monthly charge to avoid having to make high default

charges on accounts. This rose to 46% of those who were not working and, interestingly, to 61% of people in the 26–34 age group. However, only 31% thought that credit union accounts should always be free. In fact, therefore, the majority of those without Credit Union Current Accounts had no objection to paying a small monthly charge. In addition, 25% of respondents failed to reply to this question, from which it seems legitimate to conclude that a significant number of people are undecided or have no view on the issue.

A focus on saving

57% of those with Credit Union Current Accounts, and 50% of those who have the accounts but had basic bank accounts, thought that they would use them to help them to save. This builds on credit union experience of the use of benefit direct accounts where direct benefit payments into credit unions resulted in people retaining about 10% of deposits in savings (Decker and Jones 2007).

A focus on the member / credit union relationship

When asked what most attracted them to opening a Credit Union Current Account, 69% of account holders replied that a credit union is a friendly organisation. The importance of the member / credit union relationship would also surface strongly in the focus groups and is very important, particularly for low-income consumers.

Market potential of Credit Union Current Accounts

The survey confirmed the market potential of the introduction of the Credit Union Current Account. From the responses, however, the greatest market potential is with lower income consumers and people whose prior experience has been with basic bank accounts, or who have remained unbanked (which includes those using Post Office Card Accounts)

62% of those without a Credit Union Current Account said that opening one would interest them and it would be very likely that they would apply for one if they were available in their credit union. 63% of the unbanked, without a Credit Union Current Account, requested an application form to join. Significantly, 29% of those with bank current accounts also said that nothing would stop them joining

A third of all survey forms were completed by people less than 35 years of age, and 70% by people under 45. This indicates a greater interest in current accounts among younger people.

5. Regional Focus Groups

Nine focus groups were organised in five credit unions; Capital Credit Union in Edinburgh, Southwark Credit Union in London, White Rose Credit Union in Yorkshire, Drumchapel Credit Union in Glasgow, and Enterprise Credit Union in Huyton, Merseyside. Overall, 40 people participated in the focus groups, 28 women and 12 men. 90% of the participants self-identified as being on a low income and the majority had either experienced financial exclusion or had faced difficulties previously in managing a basic or standard bank current account. At Enterprise Credit Union, all the participants used the Post Office Card Account (POCA) as their sole “transaction” account.

Capital, Southwark and White Rose had already introduced Credit Union Current Accounts and the Capital and Southwark participants included people who were already using them. All focus groups followed the same structured pattern with the aim of exploring in depth the issues participants face or had faced in using banks or the POCA, and what they would look for in a current account in a credit union.

Use of bank current accounts, basic bank accounts and POCA

Over 60% of group participants identified having had difficulties with the management of bank accounts and with bank charges in the past.

“I’ve no control managing a bank account, I get overdrawn very easily, and then I get massive charges.”

Problems with bank charges were common in most groups. In Drumchapel, one of the participants living on welfare benefits related that she no longer used a bank current account as she had a history of being unable to manage it satisfactorily. She described how, in one particular week, she had amassed £90 in bank charges, which she was unable to have refunded. She explained how her accruing such charges was not uncommon, which often led to severe strains on her household budget. She now has all her benefits paid directly into the credit union and manages solely with her credit union savings account.

Also in Drumchapel, a young man told of multiple difficulties in managing his bank account. Failed direct debits for his mobile phone led to an unauthorised overdraft which then incurred additional charges. He related how he now prefers to deal solely in cash, as he feels that helps him to manage his money better and not get into debt. He also has a credit union savings account, into which his wages are paid but which he entirely withdraws in cash each week.

It was the fear and anxiety of not being able to manage a bank account, and of the charges that may ensue, that led a number of participants to forego the idea of having a bank account at all. A White Rose participant, a female lone parent, recounted her experience:-

“I’ve never had a bank account (a current account) and I don’t want one. Because I’d use it, it is too easy to go and buy things and I’d go overdrawn. I just have a building society account (savings account) and I cannot go

overdrawn. It is a good thing that I can't overdraw as I think bank charges are disgusting. I just use it to access cash. There is only one thing I have to pay through the bank, the television, and I pay this through my daughter's account".

Managing with a savings or Post Office Card Account and using a friend's or family member's current account to pay occasional standing orders or direct debits surfaced regularly in the groups. In Huyton, where all participants managed just with a POCA, satellite television was often paid for through other people's bank accounts.

The White Rose participants' fear of going overdrawn was the underlying reason why many with basic bank accounts valued the fact that these accounts did not allow for an overdraft facility. However, for some, this did not prevent the possibility and the reality of bank charges. For with a basic bank account, if one or more direct debits fail because of insufficient funds in the account, this will lead to charges and possibly to even additional charges for an unauthorised overdraft. One group participant in Edinburgh, with a basic bank account, related her experience of bank charges on her basic account:-

"I got big charges – not sure how much. Then I stopped the standing orders – I now pay bills in cash, I prefer to pay in cash. If it's a standing order, I'm not sure what I am dealing with. If I went a few pounds over, not aware of what I was spending because I could get the money out easily, then I got the charges".

The control that managing in cash afforded people living on a tight budget was often more highly valued than any perceived advantages of having a bank current account. Many participants were not confident and did not trust that a current account would offer them the level of control they needed to manage on a low income. Some had bank accounts but did not use them and others had used them in the past but had now closed them.

"I don't like using banks, because of the direct debit charges – I don't use the account. I prefer to deal in cash".

"I've had lots of difficulties with the banks and with the charges. I closed my account because I have more control in cash. I pay my house insurance through someone else's account".

Fear of charges and getting into debt underpinned many of the participants' perceptions of using bank accounts. It led to a general distrust of banks in a number of groups, described by one participant in Edinburgh as "*institutional highway robbers*". For many, there was a feeling of alienation from the banking sector which led to the belief that banks were not the kind of organisations that they could approach easily. For many participants, banks were not user friendly organisations that would welcome them or be interested in their financial affairs. One woman in the Capital group expressed the sentiment of many:-

"If I go to a bank, I feel criminalised, I feel like I am going to see the headmaster".

Another member of the same group noted:-

"Banks don't know you; you feel threatened".

In some groups, for example at Southwark, this alienation led to a range of practical difficulties in operating bank accounts and in dealing with bank staff. One Southwark participant explained:-

"I couldn't get statements when I was overdrawn; I had all kinds of problems with the bank so I closed my account".

The issue of access to bank statements surfaced regularly in the groups, primarily because people had to keep close track of their accounts to ensure that they did not go overdrawn. However, mostly people were unsure how to access regular bank statements, even though these would have incurred additional charges, but admitted that they were reluctant to approach and ask questions of bank staff.

Nevertheless, the lack of a bank current account and the reality of managing primarily in cash were recognised as having their own difficulties. In Southwark, for example, one single man, in his forties, living on income support, related how he had a POCA and therefore had no choice but to manage his money in cash. He found accessing cash particularly difficult as, with no ATM card, he was confined to post office opening hours. He had to queue for long periods in the post office and to withdraw all his money at once to make sure he would have enough to see him through the week. Added to this, he found it difficult to have to pay all his bills in cash and was concerned that he had no way to pay bills over the phone or on the internet. He was unsure, however, if paying bills in cash was costing him more money and had not calculated what he would save by using direct debits or standing orders.

Other participants, in Southwark and in Huyton, tended to share the same opinion about some of the hassles of using a POCA:-

"You can only get your money out. It's okay but the queuing is awful. You can queue for 20 minutes or an hour in Camberwell post office and when the machine breaks down you are stuck or have to go to another post office".

"It is major nightmare if you have lost a card. You can go and organise a giro but it is very difficult, If you lose the card or if it does not work, you have to wait three weeks for another card. You have no money if you lose the card".

Nevertheless, despite the difficulties of long queues, lost cards and accessing cash out of hours, in both Southwark and Huyton, participants were relatively positive about using a POCA. It gave instant cash at a local and accessible venue and many participants were positive about the control that paying bills in cash gave them, often at the post office itself. But still, in Southwark and in Huyton, the disadvantages of a POCA regularly surfaced and were keenly felt by many. Above all, said one of the participants in Huyton, *"I can't put my money into it"*. This was the major disadvantage for most people using a POCA. For others, the fact that a POCA did

not provide a direct debit or standing order facility still meant the inconvenience of having to use relatives' and friends' accounts when an important regular bill needed paying.

Not all the group participants, of course, had had problems with bank accounts. One focus group in White Rose, for example, was made up of older, more financially included people who were able to manage their bank current accounts successfully. These participants tended not to be interested in a Credit Union Current Account.

What people are looking for in a Credit Union Current Account

From the preliminary discussions on participants' past experience of using banks, it was clear that for the majority of group members, a Credit Union Current Account would be attractive if it addressed the specific needs and circumstances of low income and financially excluded consumers. Overall, they were looking for a different kind of service from the one they received from a bank.

"A credit union needs to operate differently, it needs to intervene, not just make charges, and it needs to be sympathetic and to link to money advice".

The majority of focus group participants in credit unions that did not yet provide current accounts were receptive to the idea of opening one if they became available. In Huyton, 100% of the participants, all of whom only used a POCA, said that they would be very likely to open a current account if provided by Enterprise Credit Union. In Drumchapel, 80% of those participating in the groups stated that they would be very likely to open a Credit Union Current Account if it was available. In White Rose, where the current accounts were just being introduced at the time of the research, the participants in each of the two focus groups responded differently. Only one of the five people in the first group said they would be interested in opening an account, whereas five of the six people in the second group said that they would be likely to open an account in the near future. Unlike the second group, as already noted in the previous section, the first group was comprised nearly entirely of older, more financially included members. The one person who said she would be likely to open an account had neither a bank basic nor a current account.

Through a series of exercises and discussions, participants were encouraged to identify how Credit Union Current Accounts could respond effectively to those needs and circumstances. They were asked to consider what they would look for in a Credit Union Current Account for it to work successfully for them.

The participants identified the following features of a Credit Union Current Account that they considered would respond to their needs. Overall, the participants were looking for a different kind of service from the one they had received previously from a bank or from what they imagined a bank would offer.

- **Ease in opening accounts**

The majority of those consulted were looking for an account that was easy and straightforward to open. Many participants had a hesitation and a fear about using banks and looked to the credit union to act in ways that would allay their

anxieties and hesitation. They looked for a friendly and supportive service that would streamline the account opening process and would offer them information about the account in a language that they could understand.

“Sometimes in banks it’s like the third-degree. It’s important not to be bureaucratic; an account needs to be easy to open and to understand”.

“It’s really hard to open an account in a bank; it’s like going on a murder charge”.

Ease of access was ranked very high in the features that people sought in a current account. In Edinburgh it appeared in the top three sought after features; the other two were cash machine access and no overdraft on the accounts. However, ease of access was spoken of mainly in terms of the information and personal support required to understand the application process. Information and personal support went very much hand in hand for many people, as leaflets and printed material alone were not always readily understood. The stress was on a personal relationship with staff as a key factor in allaying fears about transaction services and in giving them the confidence to open an account.

None of those consulted in the groups, however, raised proof of identify as an issue that they identified as problematic in relation to opening a current account in a credit union, even though it is a major issue in the wider banking sector. The reason for this may have been that most group participants were members of credit unions and so issues around identity did not arise immediately for them.

However, some participants had experienced difficulties in opening a Credit Union Current Account. One participant with a current account related some of the problems he had faced in opening the account:-

“It was not easy to get to talk to someone about the account in the credit union, I couldn’t get through on the phone and when I did speak to someone in the credit union, nobody seemed to know very much about it”.

- **A safe, secure and straightforward transaction service**

Overall, participants were looking for a safe and secure place to receive wages or welfare benefits and a straightforward transaction account service that was easy to use and to understand.

Banks were not regarded, for the most part, as safe and secure institutions; neither were they seen as easy or straightforward to use. There was a common perception in many of the groups that money was not safe in a bank as a bank was able to make unauthorised charges on the accounts. On the basis of past experience, there were multiple statements as to how participants did not trust banks, and how they did not find them helpful when they had difficulties in managing their accounts. As one participant explained:-

“I got into difficulty with my account, but received no explanation about it from the bank”.

Overall trust levels in the credit union were much higher, as evidenced by this member of the Edinburgh group:-

“In the credit union, they explain everything to you, the credit union is people related, and they sit you down and explain in great detail. I trust the credit union in a way I could never trust the bank”.

However, even with this trust, participants were looking for reassurance that their money would be safe in a credit union, and that the credit union would do nothing that would be financially disadvantageous to them. As another Capital Credit Union member put it, *‘We need a bank account we are not scared of’.*

Participants in Southwark and in Edinburgh, who had opened accounts, stressed how much of a learning curve it had been for them to migrate from a POCA to a Credit Union Current Account and to understand its basic workings. As one participant explained:-

“I have no bank account and have not had one for years – I am on income support and have only used the POCA. So it was not too difficult to change to the credit union account. But it was not easy to understand, it was a big change for me. I had a bank account in the past but have not used it for at least five years”.

He went on to explain how he found it difficult to understand the procedures associated with the credit union account in terms of paying money in, accessing cash through an ATM, using the pin number, and using a debit card. He had not yet tried to use direct debits or standing orders, apart from the payment of rent to the Council, and was unsure how they operated. He also was very unclear about the procedure to obtain a statement and was unaware that mini-statements were obtainable through an ATM. He was not alone, however, and others with a similar background were also unclear about aspects of current account operation. It was also clear in discussions that the language of accounts could itself pose problems for people. The concepts of direct debits and standing orders, for example, were not readily understood by all.

Participants were seeking straightforward accounts, but some related that the new credit union accounts were not always as easy to use as they might have expected. Difficulties mentioned included delays in benefits payments into accounts, problems with depositing cash, using the debit or cash card in certain locations and in delays in the clearing of cheques. As participants reported:-

“With cash, it takes three days to clear; they hold it for three days for something or other”.

“You cannot use the visa card in the post office, in one of their new machines”.

“I tried to pay a cheque into my Credit Union Current Account and it took ten days to clear. I have not tried to clear a cheque since”.

Even though the clearing of cheques, in general, did not rank highly as a desired feature of an account, several Credit Union Current Account holders did note the importance for them of clearing cheques within a short time period.

Particularly difficult for some to understand was the link between savings and current accounts. As one person explained:-

“The benefits go into the current account, then you have to transfer to the savings account - there is a form to fill in. When I visited the credit union, nobody knew anything, the procedures are too complicated, they need simplification. To pay in, you have to move money from savings to current account – I am not sure how user friendly the credit union is – but not sure how to make comparisons – all seems rather complicated, more complicated than the benefit direct account”.

However, there was evidence that some of these difficulties were initial teething problems, both for credit unions and account users. At the time of the focus groups, current accounts were new to credit unions and many of the participants had only had the accounts for a matter of months. In fact, some of the difficulties arose not so much from difficulties with credit union procedures but from account holders' lack of understanding of the way the accounts worked. Nevertheless, when things did go wrong, for people who were unused to dealing with a transaction account, handling the consequences was sometimes not so easy.

“I lost the card – it was stolen in a bar, my wallet went from my pocket – I did not notice it had gone – but when I found out at 3 p.m. the next day, I did not have a number to ring. I could do nothing immediately, as it was a Sunday. I called the credit union the next day at 11.00 a.m. then reported it to the bank – but it was difficult, as I had to search for the papers – I only had the card for a week and did not expect to lose it – I was told that it was cancelled and I had to order a new one, but I had to go to credit union to order it. It could not be sent automatically and posted though special delivery. It was posted to the credit union and took 10 days – ages – in the meantime I had to go back to withdrawing money from the counter. They did not know at credit union what was happening, they were not too clear. I admit to being muddled but did not expect them to be muddled”.

Issues relating to the loss or theft of the cash or debit card surfaced in at least two other groups. There was a general worry that lost or stolen cards would result in a loss to the account holder.

Another issue mentioned in one of the groups was the fact that outside agencies did not immediately recognise the Credit Union Current Account and were reluctant to set up payments into it. The Southwark group noted that some people had initial difficulties in getting child benefit paid into the account. However, this did seem to be just a teething problem and depended on the outside agency updating its list of recognised transaction accounts.

However, despite procedural difficulties and initial problems in understanding and in using the accounts, participants with accounts, including the man who lost the card, were very positive about the value of the accounts to them. They stressed the importance of the account and the definite advantages it gave them over a POCA or the previous credit union benefit direct accounts.

Compensating for any concerns about understanding or operating the accounts, was the high level of trust in the credit union to act in the members' best interests. The man who lost the card, for example, did not know if the credit union charged or not for the account, but, nevertheless, he trusted the credit union to act in his interests. His response was typical of many in the groups:-

"I believe that the credit union acts in favour of the members; I trust in the credit union, I trust that it would act in the best interest of members. When they did not know me, they gave me a loan and I was impressed that they took me as a customer. They trusted me and I trust them. But I don't trust banks".

- **Access to cash**

Access to cash through an ATM was a central feature of a current account sought by all participants. This was a practical necessity, particularly for people whose prior experience had been with a Post Office Card Account (POCA) or with a credit union benefit direct account. People recounted how they had regularly experienced difficulties in the past accessing cash when they needed it. As one Southwark member related:-

"I was attracted to open a current account because I did not have a bank account, only a Post Office Card Account. But it was not convenient – it only operated during opening hours, no ATM access and I had to go to the post office counter. And the post office was always too crowded and you had to queue. Getting cash was a big issue. I changed to the credit union and closed the POCA. The credit union is more convenient – and I have no problem withdrawing cash".

For this member, as others, what mattered was the availability of an ATM cash card on the account. He added, *"The credit union decided on giving me a debit card, I was not offered an option. Maybe because I am a dependable customer"*. But it was the cash card for ATM withdrawals that counted the most.

Importantly, however, as a backup, people sought the assurance that cash would also be available over the credit union counter in case of any difficulties with the electronic card. People had experienced multiple difficulties with their POCA in the past, including the post office machine breaking down and problems with the card, and considered cash over the counter to be an important option. As one Huyton participant put it:-

"You got three goes with the (POCA) card – if it does not work, have to wait three weeks for another card – there is no money if you lose the card. A lost

card is a major nightmare – you can go and organise a giro if you lose card, but it is very difficult.

Access to cash via an ATM was linked by participants to security and safety needs. Carrying cash was a worrying experience for some people, particularly women living in difficult neighbourhoods. Keeping money in an account which then could be accessed regularly through an ATM was seen as a much safer and secure option:

“We used to cash loan cheques in the post office and carry the cash out. It’s dangerous to do that around here”.

Accessing cash was also linked to financial control, budgeting and money management. A number of people in the groups had stressed the value of managing their finances in cash, particularly with reference to the idea of using a bank account. People knew exactly where they were with cash and found it easier to juggle their money. However, the majority of the women in the Southwark focus group, even though traditionally used to operating in cash, felt that their new credit union ATM cash card would enable them to carry less cash and would assist in reducing the temptation to spend and in resisting constant requests from family and friends for money or loans. However, in reality, even with the card, the women still thought about money management in cash terms. The current account, via the ATM, became, in a sense, a safe place in which to keep cash.

Thinking about money management in cash meant that they needed to access small amounts of cash regularly through the ATM. This led to some concern being expressed that cash machines did not dispense amounts less than £10. For the group, the conclusion was that ATM access needed to be supported by counter access to cash. However, increasingly, some in the group recognised that they were now learning some of the advantages of cashback in shops, even though the use of a debit card as such was not high on the list of the features they sought in an account (*see section on debit cards below*).

Young people in the focus groups particularly stressed the importance of cash machine access for them. It fitted in with their lifestyle and was seen as a priority for the management of their finances.

Interestingly, the issue of cash machine charges was not mentioned in any of the groups. This had not yet surfaced as an issue, perhaps because access to free ATM machines in both Southwark and Edinburgh was not particularly problematic.

- **Certainty and transparency about charges**

Certainty about charges on accounts was a headline issue in all focus groups. The fear of impending charges for failed direct debits or standing orders or unauthorised overdrafts led many people to distrust banks and their own capability of managing a bank account.

It was the fear of charges that led some people not to have a bank account at all, as this member of the Drumchapel focus group said:-

“I had a £90 charge in one week and I did not get it back. Now I just use the credit union and pay benefits into the credit union”.

Participants recognised the reality of charges, but they needed to be certain and sure what these would be. One woman in Edinburgh explained:-

“I need anything that is not going to put me into a worse financial situation and I consider that banks are going to make things worse”.

There was a stress that charges needed to be transparent and not lead to further hidden charges. There was a worry that charges would incur further charges and lead people into significant debt. The participant in Edinburgh continued:-

“What’s important is not having an “unexploded bomb” charge. One that would trigger all sorts of other charges – like take someone overdrawn and involve other default charges”.

In general, those who had bank accounts currently or in the past had many difficulties with bank charges. It was the main reason why many in the groups had closed bank accounts or managed with a POCA or credit union savings account. They looked to credit unions to introduce charging structures that would not be to their long-term disadvantage.

- **Low default charges for failed direct debits and standing orders**

As well as certainty and transparency in charging, all participants looked for low charges from credit unions. There was a desire that credit unions would not impose what were regarded as the same excessive and unfair charging structures as the banks.

Overall, however, there was realism among group participants that credit unions would have to charge to cover costs and if account holders were regularly running their accounts into overdraft or had multiple and ongoing failed direct debits and standing orders.

Nevertheless, it was stressed that these charges had to be reasonable and, importantly, responsibly applied. There was a focus on credit unions being flexible and understanding in the way in which they dealt with people who had difficulties with their accounts (*see the section on flexibility and understanding below*). As one Drumchapel participant put it:-

“Charges need to be fair, they should be more responsible; the bank puts you into debt; it certainly put me into debt”.

- **Weekly or monthly fees on current accounts**

The realisation that credit unions would have to generate income to cover the costs of the administration of current accounts led 72.5% of all focus group participants to be in favour of credit unions charging a small account fee to cover

administration costs if, at the same time, they avoided making high default charges on accounts.

“The only cost that matters to me is charges (that is default charges) – don’t want to pay bank charges but what I hear about a monthly charge sounds attractive”.

The majority of the participants had no objection to a small weekly or monthly account fee (usually understood as being no more than £1 per week or £5 per month) if the credit union was fair and flexible with regard to other charges. For most people, fairness and flexibility meant not making high charges for failed direct debits and standing orders when deposits were expected into the account but perhaps late on a particular occasion. People were prepared to accept a monthly or a weekly fee if credit unions did everything they could not to put a person into debt.

However, it was noted by several people that a monthly fee that itself occasioned a debit situation, which then incurred a default charge, would be seen as very unfair. As one participant put it:-

“Nobody minds the service charge, because they talk to you. So long as the charge does not take you overdrawn and involve other penalty charges”.

In general, the people who objected to a weekly or monthly account fee were either those who were already financially included and operated a bank account successfully, or those who had no intention of using direct debits, standing orders or overdrafts. One of the groups at White Rose was in the first category. They were credit union members who were all very satisfied with their mainstream bank account and all objected to an account fee:-

“The £5 a month fee puts me off - I agree with the high default charges – keep the default charges”.

People in this first category considered that accounts should be free, and charges should be made to recover the costs of running the account.

There were a few individuals in the second category, those who had no intention to use direct debits, throughout all the groups. They suggested such solutions as a rebate for “good behaviour”, for not running the account into a debit situation, or the payment of interest on the current account to offset the weekly or monthly fee.

In general, it was noticeable in the focus groups that those who had had poor experience of banks, or who only had use of a POCA or credit union benefit direct account, were ready to agree with fair and reasonable weekly or monthly account management fees. It was rather the financially included, those with greater financial choices, who tended to object to management fees on accounts.

- **Financial control and money management**

For people on a low income, financial control and money management are particularly important. It is the reason why many people prefer to manage their money in cash and not take the risk of having a bank account that may incur unplanned and unprovided for charges. As one participant stressed:-

“Being on benefits we know how to mind an account, keeping track is very important. You need to know where you are up to”.

The stress on financial control meant that participants were looking for current accounts that enabled them to check balances often and to receive account statements regularly. This was stressed as a very high priority in all groups:-

“It is important to be able to check the balance. People are very anxious, they have a terror of getting into debt, and many people have experience of financial crises”.

There was some related evidence in the groups that current account holders did tend to check their account balances more often than they made withdrawals. However, there was at least one participant who was unaware that he could obtain a balance from an ATM and mini-statements from some designated ATMs.

The issue of financial control underpinned much of the discussion on the various features of the current account. It was, for example, the imagined loss of financial control that led to much of the resistance or hostility to bank accounts. It was underlying attitudes to financial control and money management that informed participants’ understanding and views of direct debits and standing orders, debit cards and overdrafts. As noted above (*in the section on access to cash*), for example, it was a perceived increase in financial control that led to a high value being placed on access to cash through an ATM.

- **Overdrafts and buffer zones**

Overall, about 60% of focus group participants preferred a Credit Union Current Account not to have an overdraft facility. For many, the fact that Credit Union Current Accounts did not offer overdraft facilities was a “good thing”. Some of the statements of participants included:-

“I like the idea of not being able to go overdrawn, I’d put that at the top of my list”.

“With the credit union I have been able to conquer my debts and bills and doing a lot better now, don’t want an overdraft”.

“I need to learn how to budget. On average, I get £180 a week, out of that I have got to pay rent, council tax, gas and electricity, also mobile bills, Sky bills, TV, water rates and I have to budget how to pay the bills, so would like no courtesy credit. I’d like a loan, but not an overdraft”.

Resistance to the idea of an overdraft was linked to financial control and money management. Those unattracted by an overdraft facility felt that, given the

pressures and strains on their financial situation, they would not be able to manage it well and it would result inevitably in additional charges, which they could not afford.

However, this was not the view of everyone and some people, who felt they were in more financial control, still preferred the option of an overdraft facility.

There was some discussion on the possibility of credit unions offering a buffer zone on accounts. This would in practice be a small pre-agreed loan activated automatically if the account went into debit. This was a contested issue in several groups but, overall, the majority were also unattracted by access to a buffer zone or to any form of automatic credit on the account.

In two of the groups, when buffer zones were considered, some members even asked if it would be possible to have a credit union basic current account which would not provide access to automatic credit, even if others wanted the facility on their accounts. They were concerned that, under financial pressure, this buffer would be quickly exhausted, which might then result in the credit union imposing charges for unauthorised overdrafts or direct debits.

However, it was a contested issue and a buffer zone did appeal to some. One member of a White Rose group argued:-

“It would have appealed to me and maybe I would have used it. You can’t get credit when you are bringing up children”.

In general, rather than an overdraft or any form of automatic credit on accounts, most participants were looking for the credit union to take a flexible and sympathetic approach to the management of member accounts.

- **Flexibility and understanding rather than overdrafts and buffer zones**

Flexibility and understanding on the part of the credit union were seen as a pre-eminently important feature of current account development in order to assist people to avoid unnecessary charges on accounts.

Participants wanted credit unions to contact members if direct debits or standing orders appeared as if they would not be paid, to offer periods of grace if calls for direct debits were received before a wage or benefits deposit was made into an account, and to do all in their power to assist account holders to avoid paying charges if they were facing temporary financial difficulties.

Participants wanted credit unions to understand the difficulties of life on a low income. They did not want credit unions to imitate banks and impose charges for even the slightest transgression. However, there was a recognition that accounts could not be abused, and charges would have to be imposed for regular and consistent misuse.

A ‘period of grace’ was preferable to overdrafts and buffer zones for most participants because, *“if they (the members) know they have to pay, then they will”*. In other words, unlike an overdraft or buffer zone, a few day’s grace was not

regarded as compromising a person's ability to manage her money and did not risk mounting debts. Rather than building up an overdraft or buffer zone debt, most participants preferred the credit union to manage a direct debit or other payment for them until sufficient funds were in the account:

"If you have a direct debit going through every week, and if your money doesn't go in, you should have a week to pay. You are going to pay it anyway, so the credit union could pay it till your money goes in".

"The credit union need not pay the direct debit if no money is in the account. They can pay it when they have got the money (member's deposit) in the account".

"Rather than a loan, which you'd be tempted to use, you would prefer the credit union to stand the direct debit for a week or so. They could pay the direct debit, just until the wages went in as they know that it is coming anyway".

Southwark Credit Union participants described the kind of service they said they received from their credit union when it came to managing direct debits:-

"I have a certain amount of money each week and I don't want them (the credit union) to take out the money for the direct debit. I go to the credit union and they put a note on the computer, the money is kept back for the bill, if the bill is on a Monday and the money comes in on a Thursday. I need this kind of flexibility".

Even though participants sought flexibility, they did recognise that there had to be limits. Most felt that after a period of grace, if the debt had not been settled, then it was fair for the credit union to charge. The period of grace was only applicable to cover short-term financial pressures, or delays in wages or benefits being deposited in the account. It was accepted that credit unions had to cover the real costs of managing the accounts.

However, as the previous quotation makes clear, it must be noted that discussions were coloured by some lack of understanding about the nature and operation of direct debits. The credit union tended to be regarded as being in control of direct debits, which, unlike standing orders, it is not.

- **Direct debits and standing orders**

Direct debits and standing orders had a very limited appeal to most people in the focus groups. They were seen primarily as compromising the control people desired over their finances and as leading to unexpected charges if account holders ran into difficulties. As several participants in Drumchapel explained:-

"I never want direct debits, I'm happy to pay gas and electricity in cash, I have always done it, you know where you are when you pay in cash".

This was supported by a Huyton participant:-

“I prefer to pay in cash, prefer to pay each week so I know where I am up to. If your money is not in your account, (when the direct debit arrives), you pay a lot”.

There was a noticeably strong feeling in all the groups that direct debits resulted in a loss of control, and despite the theoretical possibility of making savings by using them, in practice, direct debits resulted, particularly for utility bills, in higher costs in the long-term. As one of the Southwark group argued:-

“I had prepayment meters put in. It was costing more on direct debits, I was paying more. The prepayment meter gives me more control, you are paying more but you are not getting in debt. Direct debits were more expensive because I was using more gas. I now use £10 cards and I can see where I am saving. But when you are doing it quarterly, you use more gas and more electricity. A meter is better, I have more control”.

In most groups, except one in White Rose, participants maintained that paying gas and electricity bills by direct debit did not lead to long-term savings. With a meter they could see immediate savings on gas or electricity, and could control usage more effectively. Paying by direct debit only led to greater household usage of gas and electricity and opened up the possibility of having to pay bank charges on failed direct debits.

However, there were some exceptions. In general, direct debits seemed more acceptable for certain payments. As one Southwark participant explained:-

“Direct debits are not really a priority at moment. I am not used to using them, I can manage without, but I pay the credit union loan from my account and pay the rent to Southwark Council and another £20 payment – that is all. I am trying to keep it at that”.

However, another person in the Southwark group disagreed with even these exceptions:-

“I am not into direct debits at all – not even for the rent. I have no trust that Southwark Council would not take the money out. Direct debits, no chance! Maybe for a mobile phone, but with 3 you can have a contract without a bank account”.

There were some group participants who identified real savings for particular categories of payment. One group member in Huyton, with only a POCA, explained how using a direct debit could reduce her costs:-

“I have Sky television – it is costing me an extra £4 a week to pay in the post office”.

However, even with the knowledge of regular saving, this did not lead her to open a basic bank account as the perceived risk of charges was too high. As she explained, *“but the charges put you off, as you might go overdrawn”.*

A recent incident in the Huyton area had strongly influenced thinking on the non-desirability of direct debits. A local supermarket had gone into liquidation and there was a delay in the wages of the staff being paid into their accounts. The company apologised for the delay but said it would not cover the bank charges of its mostly low-income workforce. Many people lost out.

In order to avoid charges, others also without bank accounts, rather than open a bank account of their own, preferred to pay certain bills using direct debit facilities through a relative's or friend's account:-

"I have an account with the Yorkshire Building Society and it won't accept direct debit. My TV licence, I cannot pay through building society – I pay it through my daughter's account".

"I have no bank account so have to pay my house insurance through someone else's account".

Overall, participants reported that direct debits and standing orders were one of the least preferred features of a Credit Union Current Account. For the most part, the worry about charges on unpaid direct debits or standing orders led to their not being considered as a priority. However, if charges were lower and the credit union had a more flexible approach to missed payments, participants reported that there may be more interest in them.

- **Debit cards – making payments and cash back**

Attitudes to debit cards varied. In the groups where current accounts were not yet available, access to and the use of a debit card tended to be seen as a low priority. For the most part, people said that they would prefer to withdraw their money from an ATM and to continue to pay for everything in cash. For people with a POCA or the credit union benefit direct account, that was how they managed at the moment and it gave them a greater sense of control. They knew exactly where they were and felt that they were not tempted to overspend.

However for others, particularly those with a card, access to a debit card had become an important feature of the account. As a member stated in Edinburgh:-

"A debit card is very useful; it helps you control your cash. A debit card is very important for someone on a low income, a cash machine does not give small amounts so what if you have £9.91 left in account, that's the importance of the debit card, you can spend it in a shop".

Interestingly, the ability to use the debit card for purchases was more important than obtaining cashback in shops. Even in groups where access to cash through an ATM was seen as important, access to cash through a debit card was rated as of low importance. This may have arisen from a lack of familiarity with the system but, as surfaced strongly in Scotland, there was also an impression that some banks charge for cashback. There was also a suggestion from some that the use of a debit card, either for purchases or for cashback, could be risky because if a

person's money was nearly exhausted, there was a possibility of the card being declined by the shop assistant.

However, in Southwark and Edinburgh, where people possessed the cards, they were regarded as an important element in assisting people to gain wider social inclusion. It was felt that debit cards increased a person's standing and status in society, and made them feel normal and included, if they were able to use a card in a shop, to order goods over the internet or on the phone. In Southwark, the group of people who had never had a debit card before felt that having the card changed the way they felt about themselves in terms of their position and place in society.

"I like the idea that I can phone the local kebab shop with my card, when you call up, they deliver, and they will take your card".

"On Sunday nights when you run out of drinks for the kids' packed lunches, you can run down and get the drinks with the card. It's easier especially when you have kids".

- **The human touch – 'someone to talk to'.**

In all groups, there was high stress on current accounts being operated by credit unions that were friendly, approachable and understanding. Friendliness of service was identified as a key important feature of current account delivery:

"Banks don't know you. You feel threatened there. You need someone you can talk to".

The importance of having direct, face-to-face interaction with someone in the credit union was a very important issue for most people. They looked for personal access to someone to whom they could speak and discuss their account.

In this regard, credit unions were spoken about in positive terms, as in this comment from the Edinburgh group:-

"At the credit union, they consider people, I don't feel there is a barrier like at a bank, the credit union is very friendly, it is not the same experience as at a bank. It is like coming to see an old friend. They are very helpful".

Personal access to someone to talk to, however, was not sufficient in itself. Participants sought access to a staff member who they felt understood and empathised with them as low-income members. They wanted someone who understood, and preferably had experienced the social and economic difficulties they often have to face in life. This was highly important. They neither wanted to be stereotyped nor looked down upon by credit union staff. In most groups, participants were able to identify by name staff members with whom they were able to build trusting and positive relationships. They sought, therefore, not just someone to talk to, but a named person to talk to.

In two groups, even though they stressed the value of the credit union, participants pointed out the need for improvements in customer care and in the communication skills of a number of staff members. As one member noted:-

“They should answer their phone. You can never get through to the credit union. They don’t have the staff to answer the phone. XXX is brilliant, though. She will ring you back. There’d be no credit union without XXX. She speaks to everyone”.

Not being able to call the credit union, and speak to someone in person presented major difficulties to people. There were several suggestions for the development of a credit union call centre, with a guaranteed phone answering service. Significantly, among the 40 participants, only two noted that they would be interested in internet banking. The human touch counted for much more.

- **Access to loans and saving accounts**

A number of participants stressed that a current account would enable them to have all their finances in one place, which they saw as advantageous. As one White Rose participant argued:-

“Having everything in one place is much easier to manage”.

Many people in all the groups reported that a current account that supported borrowing was of high importance. Not only did they see the current account in the credit union building up the personal credit rating of the member, but the repayments of loans would be easier as they would come directly from wages or benefits. In Southwark, the participants with current accounts all repaid loans directly from benefits payments into the account.

Linked to this, there was also a stress on the importance of saving and it was felt that the Credit Union Current Account could assist in this. Most of the people with current accounts reported that it was helping them to save a certain amount each month.

“I like the fact that I am saving when I am repaying a loan”.

In the Edinburgh groups, many of the participants stressed that they were attracted to the current accounts because they assisted them to save.

- **A professional and efficient service**

There was a high stress on professionalism and efficiency in service delivery. Some early Credit Union Current Account holders had experienced some delays in enquiries and in set up times for the accounts. They had also encountered counter staff who were not fully knowledgeable as to how the accounts worked.

There were calls for improvements in systems and procedures, particularly with regard to opening accounts, lost and stolen cards, the depositing of cheques and cash into current accounts and the availability of funds following deposits (it should be noted that the focus groups were held in the early days of current account availability when credit unions were becoming familiar with operations).

Many participants stressed that they were looking for a non-bureaucratic, personalised, friendly but professional service. To this end, there were some calls for further staff training in efficient current account management. This was stressed by one participant in Southwark:-

“I am looking for a professional service. The quality of service at banks is impressive, that is why I would like an account there – at the beginning, with the accounts, training of staff looked like it had not happened, nobody knew anything about the card account; it was all a bit untidy. Nobody seemed to have been trained”.

This Southwark comment, however, revealed that direct comparisons were being made by some between the service available through the credit union and a service that they imagined would be available through a bank. Some participants seemed to have little knowledge of how a Credit Union Current Account actually operated, which led to some unrealistic expectations.

- **Cheques**

There was no call for a facility to write cheques in any of the groups and the fact that the Credit Union Current Account does not have such a facility was not seen as a disadvantage by any of the 40 participants.

The clearing of cheques through the current account was not listed as a high priority in any of the groups. However, in those groups where current accounts were available, the clearing of cheques was noted as an issue for some. There was a general feeling that cheques took too long to clear. There was also confusion as to the procedures concerning the depositing of cheques in accounts. Some people were convinced that cheques could not be deposited into a current account, a confusion that arose probably from a lack of clarity around the inter-relationship between savings accounts and the Credit Union Current Account. In one group with the accounts, participants maintained that the credit union charged to cash cheques.

- **Information and education**

Linked to an ease of access and use was the need, expressed by many, for information that was clear, concise and easy to understand. Some Credit Union Current Account holders were confused about how exactly the account worked, about the inter-relationship between their savings account and the Credit Union Current Account and, particularly, what to do if they lost their card.

It was noted by many that managing a current account was a significant learning curve for people who had not been used to managing a current account previously. It was stressed that it was important that they had clear information in a language they could understand.

The importance of education on account usage was also stressed by some participants, which was linked strongly to the need to have a named person in the credit union with whom they could discuss the account.

All the evidence gathered from the research points to the conclusion that Credit Union Current Account members who are new to current accounts, need more detailed information and guidance on how the account works, and how they can best make use of it.

6. Survey of credit union staff by ABCUL

The focus groups revealed that for many members new to the Credit Union Current Account, managing an account was challenging and involved a significant learning curve. Not only did focus group participants relate how they looked for clear information and personal support in understanding the Credit Union Current Account, but some comments reflected myths and misunderstandings with regard to how a Credit Union Current Account operated.

In order to better understand some of the difficulties faced by new Credit Union Current Account holders, ABCUL organised an online consultation exercise for credit union staff who were directly involved in the management and operation of the Credit Union Current Account. Staff were asked to identify the issues and difficulties that new account holders faced in managing a Credit Union Current Account, particularly those who had little or no prior experience of operating a current account. This consultation was designed to explore the gaps in knowledge that Credit Union Current Account users had in relation to using their accounts effectively. Staff members in each of the eleven credit unions operating the Credit Union Current Account were invited to participate.

A number of the issues arising from the ABCUL consultation exercise complement and support the findings of this research project, that migration to a current account is a significant learning curve for many people unused to bank accounts. A selection of the issues identified follow in this chapter.

ABCUL's findings

The following findings relate the views and perceptions of credit union staff about member perceptions of and difficulties with regard to the operation of the Credit Union Current Account. Where views are noted, they are noted as the views of members only insofar as these have been recorded by staff members working with them.

Paying into accounts

- About 90% of Credit Union Current Account members were unclear about the procedures associated with paying into the Credit Union Current Account by cash and only slightly fewer with regard to paying in by cheque. Not all members know that they can actually make arrangements to pay in wages etc by BACS.
- There are confusions about when deposits will actually credit a Credit Union Current Account as members cannot pay in directly to their Credit Union

Current Account. Cash and cheque deposit payments go via a credit union central account or via their standard savings account before being transferred into the Credit Union Current Account. Members did not seem to know this, and do not realise how long it will take for deposits to clear in the Credit Union Current Account.

- Members do not know how long it takes for BACS payments to be available in the Credit Union Current Account and expect them to arrive more quickly. The most frequent concern listed was that of people not knowing the timescale involved for BACS, and the expectation that deposits would be cleared in a Credit Union Current Account more quickly than they actually were.

Using an ATM machine

- The best understood aspects were obtaining cash from an ATM, and knowing what a PIN was and how to use it.
- Levels of understanding were slightly less when it came to obtaining a balance or getting a receipt. There were some difficulties in understanding the difference between the displayed balance and the actual amount available to withdraw. This indicated a lack of understanding of cleared and uncleared balances. A displayed balance does not always take into account transactions that have been completed, but are not yet reflected in amounts shown. Some difficulties were also noted in obtaining and interpreting a mini statement and in realising that these were only available from The Co-operative Bank machines.
- Credit union staff considered that they needed to help members to discover if a particular ATM would charge, and to make sure that they know how much a non-LINK ATM will charge them.

Debit card

- Credit union staff felt that their Credit Union Current Account members have significantly better understanding of how to use their Credit Union Current Account card to make debit card payments rather than using cashback.
- Members do not always understand that debit card transactions or cashback withdrawals may not be processed immediately.

Standing orders and direct debits

- Just over 80% of credit union staff thought that their Credit Union Current Account members had a basic understanding of how direct debits and standing orders operated. However, most felt that the Credit Union Current Account members needed to know more about them.
- There was a concern that members need to know when their standing orders or direct debits are due so that they leave enough money in their account to cover them.

Balance enquiries

- Staff believed that only about 25% of members knew how to get an up-to-date balance and even fewer, perhaps 10%, knew what to do if they didn't have enough money in their account to cover direct debits or standing orders that were due out of their account.
- Staff were concerned to remove the assumption that transactions would automatically impact on the balance at the ATM or at the credit union as they can sometimes take longer to appear.
- More than 30% of staff thought that members only had a basic level of understanding about how to read a bank statement.

Security Issues and problems

- Only about 40% of credit union staff were sure that their members knew what to do if their card was lost or stolen. Only 23% of staff thought that their members would know what to do if they had a difficulty with an ATM machine.

Financial terminology

- More than 50% of credit union staff thought that their members did not understand the meaning of the financial language associated with the accounts, such as direct debit, standing order, opening and closing balance, cashback, chip and pin, bounced cheque and so on.

Let's make money easy – Your step-by-step guide to using and managing your new current account.

The consultation exercise assisted ABCUL to develop a pack of educational and support materials designed to best meet the needs of low-income Credit Union Current Account members.

This pack includes the two publications '*Let's make money easy – Your step-by-step guide to using and managing your new current account*' and '*Pocket Tips – your handy guide to using your current account*'. These publications were produced with the support of the Department of Work and Pensions in order to particularly support the development of effective service delivery in credit unions that offer the Credit Union Current Account.

The publications will inform members, in straightforward, clear language, the key issues associated with:

- Paying money in
- Accessing your cash
- Using your Visa debit card
- Direct debits and standing orders
- Budgeting, account statements, and charges
- Setting up 'secure personal information'.

- Lost or stolen card, and security
- Frequently asked questions
- Jargon buster

The ABCUL consultation and the subsequent publications highlight a key finding arising from this research project that people new to the Credit Union Current Account require information and support tailored to their needs. Managing a current account will not be easy for many new members and they will need a gradual introduction to a new way of managing their money. However, and this will be the major challenge for credit unions, the Credit Union Current Account will not result in meaningful financial inclusion if the expectation is that the accounts will work in exactly the same way for higher and lower income members. Financial inclusion will only happen if the Credit Union Current Account is able to meet the specific needs and circumstances of low-income members.

7. Research findings

The research into consumer expectations of the Credit Union Current Account confirmed that transaction services offered to people on low incomes, or who experience financial exclusion, are not likely to succeed unless they are designed specifically to respond to their needs, wants and circumstances. This was similarly stressed in research undertaken by Opinion Leader Research for the Financial Inclusion Task Force (OLR 2006), which concluded that for many financially excluded people, the perceived barriers to mainstream banking substantially outweighed the benefits. To avoid the pitfalls and the risks of managing a bank account, people accepted paying over the odds and remaining outside mainstream financial services.

People on low incomes have often developed successful cash-based money management strategies (NCC 2005), which place a high importance on the control and the visibility of their finances. It was for this reason that direct debits and standing orders, despite theoretically offering savings on outgoings, were not high on participants' list of sought after features of a Credit Union Current Account. For those on a low income, paying for gas or electricity with a pre-payment meter can sometimes offer greater control, visibility and financial saving over the longer term. As participants argued, with a pre-payment meter, you are much more careful about the energy you consume and you "*know where you are up to*". This was a position maintained despite the knowledge that pre-payment tariffs were higher than those offered on the basis of direct debit payments.

Fear and suspicion of banks, and perceived worries about or past difficulties with high bank charges, led some focus group participants to choose to manage without an active bank account, and to depend solely on a Post Office Card Account or a credit union savings account. In fact, all group members in Huyton used the POCA and, initially, were reluctant to even consider the possibility of migrating to a Credit Union Current Account, if it became available. This was a decision not based on any forced exclusion by banks, but rather on a rational personal choice and preference to manage primarily in cash. Among this group, there was a perceived lack of need for a bank current account (cf. BMRB 2006).

However, despite their choice of a POCA, the Huyton participants did recognise many of the limitations of managing in cash and, when introduced to the possibility of a flexible, responsive and low default charge, the Credit Union Current Account, all expressed an interest in opening such an account if it became available in their credit union. It was clear that the choice not to have a bank account was not about not having a bank account per se, but about not having one that they considered would be disadvantageous to them over time. Offered the possibility of an account that responded to their needs, its advantages, benefits and possibilities were readily appreciated.

A similar educative process would have taken place in Southwark and in Edinburgh, where participants, equally unused to transaction banking, had opened a Credit Union Current Account. The focus group recognised that they had gained, through

the experience of using the account, the confidence to manage a Credit Union Current Account successfully. Most were not yet using direct debits, but the use of the debit card to make purchases, for example, was already seen both as giving greater control over the household budget and as facilitating a greater sense of social inclusion. They were now *“like anyone else”*.

The experience of the participants who had migrated successfully to a Credit Union Current Account suggests that moving into more mainstream financial services is possible for financially excluded people, provided they are offered an account with the features they need and the information and support they require. Meadows et al. (2004) demonstrated that non-users of financial services in the UK have a similar profile to users of financial services with the same background and experience. This leads to the conclusion that there is every reason to believe, given the opportunity and support, that those who are financially excluded can enter the financial mainstream.

A new approach to transaction accounts

Both the survey and consultations revealed that low-income consumers are seeking a model of transaction banking that does not merely replicate what is already available through basic bank accounts. Participants were looking for a form of account that responds to their needs, and offers or strengthens the kind of control they gain from cash-based management strategies. This reflects the numerous calls from consumer organisations for banks to reform basic accounts to respond appropriately to the circumstances of those on low incomes.

Getting basic banking right means focusing on what low-income consumers need it to deliver by respecting and building on the money management strategies that work for them. (NCC 2005)

Overall, research participants were looking for a form of transaction service that offered easy and straightforward accessibility, regular control over day-to-day finances, certainty and transparency about charges, flexibility of operation, and which, at the same time, enabled them to save and to access loans when required.

For those Credit Union Current Account holders who previously had held a basic bank account or who had been unbanked, the four most important features of this new approach to a transaction service were cash machine access, certainty about charges, low default charges for failed direct debits and standing orders, and access to credit. In addition, they stressed the importance of having a transaction service into which wages or welfare benefits could be paid.

Over and above specific account features, flexibility and understanding on the part of the credit union were regarded as pre-eminently important by participants in order to assist people to avoid default charges. In fact, flexibility and understanding were seen as much more important than overdrafts or buffer zones. Participants wanted credit unions to proactively intervene if problems with direct debits or standing orders arose, to act supportively in cases of financial difficulty and to avoid imposing charges automatically if standing orders or direct debits were due just before a

regular wage or benefits deposit was to be made into an account. As the National Consumer Council has stressed, and as was confirmed in this research study, people on a low income want to be treated fairly, to be understood and to be offered a service that frees them from the fear of debt or fraud (O'Reilly 2006).

There was clear evidence arising from the research that a new more flexible and fair approach to transaction services would appeal to people on low incomes or facing financial exclusion. Moreover, the Credit Union Current Account was seen by participants to reflect many of the elements people were looking for in an account. In all focus groups, participants were asked to identify from a profile of each of the accounts whether it was a Credit Union Current Account or a typical basic bank account that more closely met their needs. 85% of focus group participants stated that a Credit Union Current Account more closely responded to their financial needs than a basic bank account. In the survey, 83% of people with a basic bank account and 76% of those who were unbanked said that they were interested in opening a Credit Union Current Account, if one became available in their credit union.

Professionalism and quality of service

Focus group participants had a high level of trust in their credit union and affirmed that they believed that the credit union acted in the best interest of its members. 95% of credit union members thought that they received a good deal from their credit union and 64% of basic bank account users thought that they would get a better deal from their credit union than from the bank.

However, having a positive image of the credit union did not mean that participants were not sometimes critical of the service they received. In the groups where credit union accounts were available, there were calls for improvements in systems and procedures, particularly with regard to opening accounts, lost and stolen cards, the depositing of cheques and cash into current accounts, and the availability of funds following deposits. A particular difficulty for some people was the link between the credit union savings account and the Credit Union Current Account, which was seen as difficult to handle and sometimes complex to comprehend (cash and cheque withdrawals from a Credit Union Current Account have normally to be processed via a central credit union account or the member's savings account which can involve additional delays in the availability of funds). In fact, the Credit Union Current Account was designed essentially for electronic transactions, and not for cash or cheque payments into or withdrawals from accounts. It is this feature of the functionality of the account that underlies the need to move cash or cheque transactions via another account. This is not always fully understood by members.

Many focus group participants stressed that they were looking for a non-bureaucratic, flexible but also a professional service. In fact, research undertaken by Collard et al. (2003) revealed that low income consumers prefer to deal with locally-based community finance organisations, because of ease of access and because they mistrust banks and mainstream financial providers. However, in line with this research study, Collard et al. (2003) stressed that financially excluded people also

want financial products and services to be delivered by established and professional providers with well-trained staff. There were some calls by participants in credit unions already offering the accounts for further staff training in efficient Credit Union Current Account management and delivery.

The early criticisms, however, of the professionalism and quality of service delivery should be set in context. The research project was conducted soon after the Credit Union Current Account was first introduced into credit unions. If managing a transaction account was a steep learning curve for many members, managing the transaction service as a whole was a major step forward for credit unions themselves. In the beginning, it was clear in places that the credit union information and communications systems relating to the Credit Union Current Account still needed to be developed. Credit unions continue to make progress in this area and the development of new Credit Union Current Account information literature, written in a language people understand, is a welcome advance (ABCUL 2008a, b).

The importance of face-to-face interaction

Face-to-face interaction was highlighted in the research as being very important to many credit union members in relation to the management of a Credit Union Current Account. People wanted to be understood and fairly treated, but they also wanted a personal, one-to-one relationship with someone in the credit union with whom they could discuss their account and any problems they may have with it. The human touch, a named person who could relate to and empathise with the social and economic circumstances of low-income members was seen by many as critical to the successful introduction of current accounts in credit unions.

The importance of supportive face-to-face interaction in the process of moving people along a pathway to financial inclusion has been stressed in previous credit union research reports. In 2003, for example, a Barclays' research project into credit unions and loan guarantee schemes (Jones 2003) concluded that if credit unions were to serve low-income consumers effectively, they needed to adopt a holistic approach, which included, as well as access to credit and savings accounts, money advice, help with budgeting, financial education, and one-to-one personal support. Internationally, the importance of face-to-face interaction in the delivery of credit union services has also been recognised for certain sectors of society (Lee and Kelly 2001).

It is recognised that face-to-face interaction is demanding for credit unions in terms of staff time, training and resources. Recent research relating to the delivery of the Financial Inclusion Fund Growth Fund highlighted the challenges faced by credit union staff in serving low-income members, and called for staff training in customer service to assist in the development of positive and supportive relationships with low-income members (Jones and Goggin 2007). Improvements in customer care and communication skills were called for in at least two groups.

However, reports from credit unions offering current accounts suggest that the demand for direct one-to-one contact from Credit Union Current Account members

does decline over time. Southwark Credit Union reported, for example, that as more and more people became familiar with the workings of the Credit Union Current Account and the knowledge of its operation permeated the community, members tended increasingly to seek support from family and friends, rather than constantly calling into the office for staff support. In fact, this process ties into research findings that stress the importance of social and community networks in the dissemination of knowledge of financial services in low-income communities (Meadows et al. 2004, Jones and Barnes 2005).

Financial control and money management

Central to participants' consideration of the Credit Union Current Account was the way in which the account could offer greater financial control and assist them to more effectively manage their money. For people used to managing their money in cash, close financial control and a visible means of keeping track of expenditure were essential to low-income money management (NCC 2005, O'Reilly 2006, OLR 2006). For many people, bank accounts were perceived as not giving the kind of control people required. Direct debits and standing orders were seen, in the words of one Edinburgh participant, as "*unexploded bombs*", financial disasters just waiting to happen, which led ultimately to high bank charges and overindebtedness. Such charges lacked transparency and were seen as putting people in a position of uncertainty.

For those who had migrated successfully to a Credit Union Current Account, the advantage of the account was often described in terms of the greater control it gave them over their household budget. Using a debit card, for example, rather than carrying large amounts of cash, assisted them in not overspending or in losing cash constantly to borrowing friends, relatives and children. It was the stress on financial control and money management that led Credit Union Current Account participants to regularly track their money through checking balances at the ATM, to request account statements, and to make regular low value withdrawals. One participant noted the potential usefulness of text alerts to mobile phones to alert members when balances were running low.

Current account fee and charges

Default charges on current accounts were a major issue for people consulted through the survey or in the focus groups. It was the fear of high and unpredictable default charges levied on current accounts that deterred people from opening bank accounts. For some, it was their past experience of debts arising directly from bank charges that led them to abandon transaction banking and to rely solely on a POCA or on a savings account and to manage their money in cash. To be attracted to a current account, participants were clear that it would have to offer certainty, transparency and flexibility on charging, and low default rates for failed direct debits and standing orders. In fact, the attractiveness of the Credit Union Current Account was based, for most people, on its fair and open approach to charging structures.

In order to cover the costs of the Credit Union Current Account and to ensure a certain, flexible and low-cost charging structure, the majority of those consulted agreed that credit unions should charge a small monthly or weekly fee to cover administration and other costs. A regular small fee was just not an issue for most participants. 72.5% of focus group participants were in favour of credit unions charging a small account fee, as too were 71% of those who had opened a Credit Union Current Account. 83% of Credit Union Current Account holders who previously had a basic bank account were satisfied with a regular fee, as were 72% of those who were previously unbanked.

Of course, the agreement on an account fee was dependent on this fee being fair and linked to credit unions not making high default charges on accounts. Participants were concerned, for example, that an account fee should not incur an additional charge if there was no money in the account when the fee was due to be debited from the account.

The issue of credit unions making charges on current accounts is sometimes contested, particularly by money and debt advisers. They worry that charges on accounts may result in low-income people being worse off if they do not use direct debits or standing orders. As one money adviser consulted put it:-

“£5 per month may not seem a lot, but to someone on Income Support £60 a year is more than one week’s Income Support to a single person. If a credit union member keeps their account in good order why should they be penalised? What would concern us especially is if people on benefits or low incomes are dissuaded from opening a current account because of a weekly or monthly charge”.

However, of the eight advisers and policy makers consulted in national money advice organisations, six agreed with credit unions making a small weekly or monthly charge to cover costs. As one adviser wrote:-

“Having spoken with other members of staff in the Bureau, we are of the opinion that a minimum nominal fee is acceptable. Having seen clients as recently as this morning being put into debt situations with banks and bank charges, it would make sense for those clients that need a bank account to be able to access an account that is not going to put them in the red constantly.

With regard to the issue on concerns by money advisers in connection with credit unions introducing regular charges, it should be remembered the needs of those clients that are unable to access financial products due to low credit scoring or a bad credit history. Those are the clients that the Government through the DWP’s Growth Fund are tackling, and as long as the credit unions are open and transparent with their fees and any increase in these fees has been agreed and full consultation has taken place amongst the members then there would be no problem in these charges. It should after all be remembered that credit unions are a business and as such they will be required to generate income to sustain the availability of affordable loans.”

Those in money advice agencies who argued the case that accounts should always be free also argued that default charges should only cover the actual administration costs of a particular default. As one adviser wrote:-

“I suspect that advisers would be less willing than presently to suggest a Credit Union Current Account if there was any charge and would recommend a basic bank account. Assuming that credit unions only levied penalty charges which recovered the actual costs incurred by them when a customer defaults, I think this is preferable to a charge on all accounts”.

Despite the reservations of a few advisers, the majority of those consulted, including those in the money advice sector, were realistic about the overall costs involved in offering a current account service and agreed with a small regular fee in order to ensure the long-term sustainable development of the credit union in the interests of low-income members.

A Credit Union Budgeting Account

Given the importance of financial control to people on low incomes, the challenge of migrating from managing money in cash to using a Credit Union Current Account is significant. In the focus groups, people spoke about the fear and anxiety they felt about managing a bank account, which resulted in many rejecting the idea of having a bank account altogether. They said that they found it difficult to imagine forgoing the control and visibility that cash gave them for the uncertainty and obscurity of a bank account, which, if mismanaged, could result in high penalty charges and debt.

Even though people said that they trusted a credit union in a way they could never trust a bank, for some a residual fear and anxiety associated with managing a bank account coloured their consideration of migration to a Credit Union Current Account. It was for this reason they stressed the importance of being able to regularly check balances and played down the need for direct debits and standing orders. Even in a credit union, they considered that the time-lag between the deposit of funds and a call for a direct debit could occasion penalty charges, albeit those charges would be less than in a bank. It was worries about managing a Credit Union Current Account that led people to strongly prioritise the importance of support in account management and, significantly, of having someone to talk to in the credit union who would understand and be sympathetic to their financial situation.

People who manage their money in cash often develop informal ways to budget in order to make sure they have sufficient funds to pay bills. To save for a forthcoming bill, for example, they will often ask family or friends to hold money for them so that they do not spend before the bill is due. In other words, they set money aside for a future expenditure. In the White Rose focus group, one unbanked participant related how she used her daughter's bank account as a kind of informal budgeting account. Not having a bank account of her own, she deposited money in her daughters account to pay bills, which would then be paid by direct debit. By putting money into her daughter's account, she made sure she had sufficient funds to pay the bill and she avoided all the risks of having an account of her own. Apparently, her daughter

was able to manage her account well! Similarly, with the same concern to set money aside to pay a bill, some Credit Union Current Account members of the Southwark focus group described an informal budgeting mechanism they had developed with credit union staff. They went into the credit union office and asked the staff member to put a note on the computer to make sure money was kept back in their account to pay an impending direct debit when it arrived.

For people migrating to use a Credit Union Current Account, effective support and assistance must include some form of budgeting mechanism to ensure funds are put to one side to pay impending direct debits and standing orders. In the focus groups, people were clearly afraid of *“unexploded bombs”*, as unprovided for direct debits were referred to Edinburgh, which could incur charges and put them in debt. If they can be assured that funds are safeguarded and set aside to pay bills, then the process of transition is certainly easier and less painful.

Clearly, informal budgeting systems have their place but, with a credit union aiming to offer a professional service to many thousands of members, a more systematic solution is required. If the Credit Union Current Account could be effectively linked to a Credit Union Budgeting Account, people would then find the certainty and security they seek. As the research demonstrated, despite preferences to manage in cash and even fear of a bank account, most people realised the limitations and difficulties of managing entirely in cash and, offered an appropriate account, would migrate to transaction banking. A Credit Union Budgeting Account, linked to a bill paying account, could be an important support mechanism assisting people to migrate successfully to a Credit Union Current Account. Now ABCUL has facilitated the introduction of the Credit Union Current Account, the next step is clearly to develop a fully functional Credit Union Budgeting Account.

8. Conclusion

Research participants who were on low incomes or facing financial exclusion sought specific features in a current account if they were to be attracted to migrate from a POCA, a savings account or a basic bank account to a credit union transaction service. The research demonstrated that they were looking for an account that offered certainty about charges, financial control, operational flexibility and transparency, as well as one that enabled access to savings and loans accounts.

However, it was clear in the study that people recognised many of these account features in the Credit Union Current Account, which stimulated their interest in opening an account in their credit union if one became available. In 2005, the NCC (2005) called for a new model of basic banking that *“is genuinely driven by consumer needs and which offers real benefits to those on low incomes”*. The NCC argued that such an account should incorporate a small penalty-free ‘buffer-zone’, weekly direct debits that fit in with budgeting periods, automated payments triggered by money entering the account so that payments cannot be made without money to cover them, and payment systems that incorporate occasional payment holidays. Of course, the Credit Union Current Account does not have all of these features; some are technically impossible to provide and others, such as the buffer-zone, are not necessarily high on the list of sought after features. However, as this research demonstrated, the Credit Union Current Account is recognised by low-income consumers as being driven by their needs and circumstances. So much so that the fact that account holders may have to pay a small monthly fee did nothing to dampen interest in the accounts among those consulted as part of this research process.

The challenge for those credit unions that offer the Credit Union Current Account is to ensure that accessible information about the account permeates the social and community networks of low-income communities, so that people fully understand the long-term benefits of migration. As the research showed, the process of migration to the Credit Union Current Account needs to be supported not just by printed information in a language people can understand, but also through the personal support of staff members who understand and empathise with the social and economic situation of low-income communities. It is often the human touch, the personal hand-holding that is the most successful in encouraging people to take a step along a pathway into financial inclusion.

The most encouraging feature of this research study was the progress some participants had already made through their use of the Credit Union Current Account. This not only proved that financial inclusion is both possible and achievable if an appropriate model of transaction services is available and delivered in a supportive and informative manner, but it also demonstrated the high interest people have to make the journey into inclusion once given the opportunity. Not only did the Credit Union Current Account give people greater control over their finances, it facilitated a deep sense of social inclusion. As one Credit Union Current Account member in Southwark noted, we are now *“like anyone else”*.

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