Association of British Credit Unions Limited

13 April 2018
Sent to economyjobsandfairwork@parliament.scot

Dear MSPs,

Thank you for the opportunity to comment on the recent bank branch closures throughout Scotland. The Association of British Credit Unions (ABCUL) is the largest trade body representing credit unions in Scotland – more than half of the country's credit unions belong to ABCUL. We are secretariat for the Cross Party Group on Credit Unions and have a long history of engaging with the Scottish Parliament and Government on behalf of the sector.

Scotland has a particularly strong and vibrant credit union sector – currently around 7% of the population belongs to one of the 96 credit unions in Scotland (compared with around 2% in England and Wales). As of September 2017 there were 359,253 credit union members in Scotland, plus an additional 60,451 junior savers. The sector currently holds £615,673,810 in assets. Scotland is also home to a wide range of credit unions, from small volunteer groups serving a few hundred members in their community, to very large credit unions serving employers throughout the UK. The largest credit union in Great Britain is based in Glasgow.

Credit unions have traditionally served either a geographical common bond or common bond based on a particular demographic, though legislative changes in 2011 have resulted in increasingly varied common bonds. Of the 96 credit unions in Scotland, only around 9 have a common bond that serves only a non-geographical community – the rest have mainly serve a geographical area. All of Scotland is served by at least one credit union geographically.

In terms of branch coverage, we don't have any comprehensive figures on the number of credit union branches. However, we are fairly confident that all community credit unions have at least one branch in their area, with some having more than one. Some credit unions operate collection points at specific dates and times in their communities. However, we would note that, because credit unions are usually dependent on volunteers to operate branches that are open to the public, they may not have the same opening hours as a bank branch might. Those credit unions with a non geographical common bond tend to communicate with their members through work-based networks and via online and telephone channels, and so tend not to have an office that is open to the public.

In terms of how credit unions have and could respond to the recent wave of bank branch closures in Scotland, we would firstly like to note our appreciation of the committee's work on this important issue. Although we can appreciate that the banking sector has its own challenges, the continued increase in credit union membership shows that there is a clear need for community-based financial services in Scotland and that not all communities are being well served by the move towards online banking.

There are many examples of credit unions working to replace services when banks have withdrawn from communities. In Kilwinning, for example, 1st Alliance Ayrshire Credit Union has not only encouraged those affected by the closure to open a credit union account, but have also improved their own service in order to meet those needs. They have taken steps to be in a position to facilitate direct debts, and even taken on several business accounts for the first time. They have also invested in a debit card that allows people to access their money via an ATM, online, via contactless transactions, or via an app. They offer a bill payment service, same day money transfers, and members can have benefits and salaries paid into their credit union accounts.

Castle Community Bank, a credit union with several branches in Edinburgh serving the EH post code, has also been working with the local community council in Juniper Green to explore what services the credit union can offer the community following the closure of their local bank branch.

We would encourage anyone who is concerned about the impact of their local bank closing to explore what is on offer from a credit union – we operate a website to help people to find out which credit unions they are eligible to join (www.findyourcreditunion.co.uk).

However, we would note the challenges credit unions face in offering a 'like-for-like' banking service. The priority of credit unions in Scotland remains to provide people with ethical and affordable savings and loans. The sector has not only long played a significant role in offering affordable credit to those who do not have access to bank loans and other mainstream forms of credit, but it plays an important role in encouraging people to save. The Fairbanking Foundation carried out research last year into the behaviour of over 1200 credit union borrowers from 7 credit unions – 3 of which were based in Scotland – found that 67% of borrowers who had no savings (and found it impossible to put money aside) prior to getting a loan from a credit union, planned on saving regularly afterwards.

As you may be aware, the sector is restricted by legislation in how much interest it can charge on loans it issues – currently 42.6% APR. In truth, many of the loans that are offered by the sector are charged at a much lower rate, as credit unions mainly seek to cover the costs of their service, accumulate capital for regulatory purposes and to invest in their ongoing development rather than to make a profit for its own sake. As you would imagine, this has meant that many in the sector have found difficulty in keeping up with the 'offer' of commercial rivals - such as transactional accounts, online and mobile apps and ATMs. However, the sector continues to move forward and is constantly looking at improving its range of services whist still focusing on its core offering of affordable lending and savings. We would note, however, the cost of doing so is often increased by the cost to the sector of its banking arrangements.

At the moment only a small number of credit unions offer a transactional account to members. Many more credit unions offer a pre-paid card option, which allows members to have salaries or benefits paid into a credit union account, which is then transferred onto their card for them to use as they normally would. Credit unions typically work in partnership with external organisations to offer this – the two most widely used are Engage Card and the Change Account. We understand that Engage work with around 16 credit unions in Scotland, and the Change Account works with four.

Whilst these cards typically come with some low fees, they have been essential in allowing credit unions to enable members who could not access commercial bank accounts to enjoy some sort of transactional facility.

In terms of ATMs, this is not something that credit unions can typically offer, given the high costs of operating this service. However, credit union members can often access their funds at an ATM through a card product offered by the credit union. This is of course dependent on the banking sector ensuring access to an ATM. Similarly, the sector has not typically been active in the business banking market to date. The legislation only allowed this for the first time in 2011 and credit unions are still building their expertise and capacity in this area.

Moving forward, we would be cautious about promoting credit unions as 'like for like' alternative to bank branches. The credit union sector operates within more restricted margins than the banking sector does and, though it places huge importance on meeting the needs of members, our sector is careful to ensure that we do so sustainably and within our means.

However, I would like to outline a few improvements which would assist the sector improve its range of services and reach.

As the main trade association for the sector, we are prioritising our lobbying on legislative changes that might help the sector grow and serve many more people. Although much of this is within the remit of the UK Parliament, for reference I have listed the areas we feel would have the most impact:

- Capital requirements: We are concerned that the newly-introduced upper capital requirement of 10% for larger and more sophisticated credit unions is likely to hamper sustainable growth of credit unions, and we would like the Bank of England to consider a simplified system of risk-weighting for capital.
- Legislative reform : We feel the Credit Unions Act is archaic and out of date and we would like HM Treasury to reform key aspects of the legislation to allow a broader range of products to be offered by credit unions in order to support their sustainable growth and their playing a greater role in relation to key policy areas.
- Capital investment: The Lloyds Banking Group Credit Union Development Fund has invested £4 million in strengthening credit union balance sheets over the last four years. So far this has leveraged new lending by credit unions of 5:1 new lending to capital invested. We would like the Department for Digital, Culture, Media & Sport to consider replicating such a model in relation to its new £55 million financial inclusion fund.

We would be happy to provide more detail on these points if needed.

We continue to have a positive relationship with the Scottish Government on devolved matters and are looking forward to working closely with them on the delivery of a credit union awareness campaign, a commitment made in the Programme for Government. We also welcome the

Government's ongoing support in engaging more employers to work with credit unions to offer financial services to employees which been an important factor in the growth of the sector in other parts of the world.

We continue to be actively engaged with the Accountant in Bankruptcy on reforms to ensure small creditors are considered in statutory insolvency solutions, a matter that I know is also within the remit of the committee.

All of these areas will hopefully make a positive contribution towards the growth of the credit union sector its ability to serve many more people.

However, in terms of some areas the committee might wish to consider specifically in this enquiry, we would firstly note the impact of banking charges. The cost to credit unions of making payments on behalf of members though Faster Payments, BACS and so on, is significant and has long resulted in credit unions having to make difficult decisions on what services they can afford to offer their members.

As this point I would say that we fully appreciate banks need to cover their own costs and we do not expect charity from them. We also have had extremely positive discussions with at least one bank about this and, as a result, a package is being looked at that will enable more favourable pricing for credit unions.

However, the feedback we've had from our members about their individual discussions with their own banks suggest that, as well as the cost, they find themselves being passed around and it can be difficult to find anyone to speak to who knows about the arrangements in place for credit unions (even when those arrangements have been advertised elsewhere). We would therefore like to see banks looking at the how they can offer credit unions reasonable charges (whilst still covering their own costs). We feel this could help the sector offer more transactional services to their own members, who are realistically going to expect both a branch and efficient payments as part of a banking service.

Credit unions have long played an important role in supporting people in receipt of benefits, by allowing them to have the payment made to a credit union account or card, rather than a bank. This service has been particularly valuable to those who have been not able to access bank accounts.

However, in recent years we have been disappointed by the lack of communication with the sector by the DWP. Whilst we realise that, in light of the forthcoming EU General Data Protection Regulation, they rightly need to take steps to minimise how much personal information is shared between bodies, the lack of proactive communication from the DWP on occasion has resulted in some credit unions receiving payments with no other information to identify who they are for. This has resulted in delays in the money reaching claimants. Though the planning is at an early stage, we would encourage the new Scottish social security agency to work closely with our sector to ensure smooth arrangements are in place for those who opt to receive their benefits into their credit union account.

Finally, we would encourage the committee to give particular consideration to the impact of the loss of ATMs. Whilst we note the statistics showing we are increasingly a cashless society, we also feel that there are many groups who still do not have either the access or the trust to make use of the technology that is replacing cash exchanges. A reduction in ATMs, and therefore cash, is likely, for the reasons outlined above, to present more challenges than opportunities for credit unions.

I realise that this does not present any neat or easy solutions, though I hope it has been helpful in understanding the ambitions and challenges of the credit union sector in Scotland. We would of course be happy to discuss this in more detail with the committee, and please do not hesitate to contact me if you require clarification on any of these points.

Yours faithfully,

Karen Hurst
Policy Officer (Scotland)
Association of British Credit Unions Ltd