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Economy Committee
London Assembly
City Hall
The Queen's Walk
London, SE1 2AA

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Dear Caroline & the Economy Committee

The Mayor's role in promoting and supporting financial inclusion

We appreciate the opportunity to respond to this consultation. The Association of British Credit Unions Limited (ABCUL) is the main trade association for credit unions in England, Scotland and Wales. Out of the 323 credit unions which choose to be a member of a trade association, approximately 65% choose to be a member of ABCUL. In London, ABCUL represents 27 of 31 credit unions in the Greater London area.

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

At 30 September 2016, credit unions in Great Britain were providing financial services to 1,274,961 people using credit unions, including 134,206 junior depositors. The sector held more than £1.45 billion in assets with more than £788 million out on loan to members and £1.23 billion in deposits.[1]

Credit unions' work to provide inclusive financial services has been valued by successive Governments. Credit unions' participation in the Growth Fund from 2006 – 2011 saw over 400,000 affordable loans made with funding from the Financial Inclusion Fund. Loans made under the fund saved recipients between £119 million and £135 million in interest payments that otherwise would have been made to high-cost lenders. The DWP has contracted ABCUL to lead a consortium of credit unions under the Credit Union Expansion Project, which is investing up to £38 million in the sector and aims to make significant steps towards sustainability.

Response to the consultation

Credit unions play a crucial role in advancing financial inclusion both nationally and in Greater London. We are encouraged by the Mayor's commitment to financial inclusion as set out in his

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

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manifesto and we welcome the committee's enquiry to explore what that might mean in practice. Below we set out some detail on the position and role of credit unions in London, their work in addressing financial inclusion and ways in which the Mayor might support the expansion of credit unions in order to further address financial inclusion.

Credit unions in London

ABCUL only has readily available data for its members in London. An analysis for these 27 credit unions show that at 30 September 2016, credit union membership stood at at least 107,000 with total assets under management of almost £150 million with total outstanding lending of £78 million.

In 2014 we submitted a response to a similar enquiry by this committee in which we quoted figures for 2012 (as this was the last date at which the regulators published figures broken down by English regions) and at that time membership stood at 78,000, assets at £76 million and loans at £48 million.[2] In the years between 2012 and 2016, therefore, London's credit unions have grown by at least 31% for membership, 92% for assets, and 62.5% for lending activity.

Liverpool John Moores University published a report, *Community Finance for London,* in 2011 which looked at credit unions' role in the capital and found that the capital's credit union sector was the fastest growing in the UK. These more recent growth figures continue to show London's credit union growth outstripping that of the national movement.

Credit unions and financial inclusion

Credit unions in London, as across the UK, are actively providing a solution to financial exclusion. This is primarily done through the provision of affordable and ethical lending services and providing a safe and secure (i.e. FSCS protected) way of saving to increase financial resilience. Credit unions are particularly active in the area of encouraging savings habits where none existed before.

The lack of savings nationally is a major issue in relation to financial inclusion and financial resilience. Where an individual has no access to savings they are more likely to fall back on credit in order to cover the costs of unexpected life events. The Money Advice Service has found that as much as 40% of the adult population have less than £100 in savings.

Recent research from the Fairbanking Foundation demonstrates the power that credit unions' practices can have for building a savings habit where none existed before. As part of its accreditation process for financial products that drive financial wellbeing, the Foundation

[2] The earlier response to the committee can be found at the ABCUL website here: http://www.abcul.coop/media-and-research/consultations/lond-assem-inv

commissioned Ipsos MORI to conduct surveys of around 1,500 credit union members across 7 credit unions. In particular this research found that the ubiquitous practice of *Save As You Borrow* (SAYB) – where credit unions ask borrowers to make a small contribution to savings as they repay their loan – resulted in 71% of borrowers becoming regular savers. Only 26% had saved regularly prior to borrowing from the credit union. All seven credit unions received the highest 5 Star Fairbanking Mark for their lending products.

When this is coupled with payroll deduction, the mechanism is particularly powerful. SAYB works by acting with the behavioural biases that people have to make saving a default position and nudge people towards good financial habits. When linked to payroll deduction in the workplace, which also introduces default through automation, the effects on increasing savings can be truly transformational.

Credit union practices, therefore, have proven benefits in terms of providing sources of affordable credit but, crucially, turning the opportunity of a member seeking credit to create a new savings habit. This has huge benefits for financial resilience since the burden of debt and a lack of savings are the principal sources of financial fragility in people's lives.

Aside from their role in promoting savings alongside borrowing, credit unions credit facilities alone provide a crucial safety net against the threat of high-cost borrowing and the debt spiral that can often create. Credit union lending rates are capped by law at 3% per month or 42.6% APR. To compensate for this uniquely-low cap, credit union lending is by-and-large exempt from the full gamut of requirements under consumer credit law. This allows credit unions to continue to lend small sum credit to people who would otherwise have to access lending from high-cost alternatives.

One interesting innovation in this space is London Mutual Credit Union's CUOK! product which is designed to be a direct competitor with payday loans. It offers an online application experience and the speed and convenience of an online payday lender but with significantly lower rates of interest. Crucially, it always allowed borrowers to repay over a period of up to 3 months, rather than a single month or less, and the overwhelming majority of borrowers opted to pay over this longer period given the benefits it has for affordability of payments.

The merits of this approach have been subsequently demonstrated by the effects of the FCA's capping regime for payday loans which has seen many lenders discontinue their single "bullet" repayment model in favour of longer-term repayment schedules. These changing business models have coincided with a significant reduction in the harm caused by such lending and this has been demonstrated by the FCA's recent conclusion to its review of the payday lending cap.

Finally, credit unions also provide a range of payment and budgeting services to their members to help them manage their money, take advantage of the discounts offered by certain service providers for payment by Direct Debit and to cope with the changes that are to be brought about by the introduction of Universal Credit. Many credit unions offer prepaid card soltions to this end while London Mutual Credit Union has recently introduced a new full current account service for its members. All credit unions offering payment services seek to support their members to manage these accoutns and avoid penalty charges in a way that is not necessarily feasible for large banking institutions. Often these prodcuts will carry a member fee to cover the costs of this extra support.

In relation to such payment service provision we are supportive of the reforms to payments regulation and structures which are currently underway through measures such as the creation of the Payment Systems Regulator, the work of the Payments Strategy Forum (of which our Chief Executive is a member) and the Bank of England's moves to allow non-banks to access the Real Time Gross Settlement system.

Measures the Mayor could take to support credit union expansion

Advertising

Like all credit unions, London's sector has limited capacity and budget to market itself to the population. Given the position that th Mayor has in relation to Transport for London and the significant reach that its advertising space has, we have wondered for some time whether space could be provided to credit unions and other financial inclusion initiatives in order to raise awareness of the services that exist to support less-well-off Londoners.

Any campaign would need to be well-coordinated among the credit unions in the capital in order to ensure that messages were consistent with their strategic goals and provided a clear mechanism for people to access their local credit union but this should not be an insurmountable challenge. There are already well-functioning collaborative forums for credit unions in the capital.

Employers and the Good Work Standard

We recently submitted a response to support the inclusion of credit unions in the Mayor's proposed Good Work Standard. This is an initiative that has great merit and we would encourage the Committee to review our comments in response to that consultation and to support the inclusion of credit unions in the final Standard.[3]

Working with employers has significant benefits for employees through making affordable and ethical finance available more widely and through the ease of payment enabled by payroll

[3] ABCUL's response to the Good Work Standard consultation is available here: http://abcul.coop/media-and-research/consultations/mol-good-work-standard-cfe

deductions. Coupled with the Save As You Borrow method employed by most credit unions (as elaborated above and in the GWS response) this is particularly powerful given the double-harnessing of the “default” behavioural bias.

But this also has benefits for the strength and sustainability of credit unions and, therefore, by extension the membership of credit unions at large. By supporting a more commercially-viable business model, employer partnerships allow credit unions to be more active in their communities in extending financial inclusion, building financial resilience and tackling problem debt.

Capital investment for growth

While historically much financial support for the credit union sector has taken the form of revenue grant subsidy ABCUL has been advocating consistently for many years for the advantages of capital investment – either secondary capital to strengthen a credit union’s balance sheet and enable levereage for growth or capital investment in systems, technology and infrastructure.

While it has not been without its challenges and delivery has been delayed, the Credit Union Expansion Project, funded by the Department for Work & Pensions, continues to strive for the rollout of a shared infrastructure and business model for credit unions, integrated with the payments system, to enable credit unions to compete on a level playing field with online competitors. The Model Credit Union developmed by the Project has significant operational benefits in terms of convenience and accessibility for members and efficiency and security for the credit union and this is the form of capital investment which credit unions neeed if they are to continue to be relevant in an increasingly digital marketplace.

Similarly, a collaboration between ABCUL’s charitable sister company – the Credit Union Foundation – and Lloyds Banking Group has seen Lloyds make a £4 million capital investment in credit union balance sheets over a period of 4 years. By investing this money in credit union reserves, the fund has allowed the credit union beneficiaries to grow much more quickly than they otherwise would have been able to through capitalisation of only retained earnings. Some London councils have invested in subordinated debt or deferred shares as a way of achieving similar results and we encourage the Mayor’s office to support such initiatives.

Advocacy

Finally, the Mayor could usefully lend weight to key debates which impact credit unions and their ability to successfully grow and sustainably serve hard to reach communities. We are currently seeking a more proportionate and flexible regulatory treatment of credit unions by the FCA in order to allow credit unions to provide a wider range of lending and other products and the Mayor’s support in this would be invaluable. Similarly, the Bank of England’s minimum capital requirements for credit unions can present a significant brake on growth and could be usefully reviewed in order to facilitae credit union growth. Finally, the Credit Unions Act 1979 is an increasingly anachronistic piece of legislation which is no longer forming an effective basis for credit unions to reach their potential as demonstrated by credit union sectors across the world.

The Mayor's support and influence in encouraging other authorities to review and reform how various regulatory and legislative initiatives impact credit unions and their ability to alleviate financial inclusion would be a very welcome role.

We would be delighted to provide any further information should you require it and to meet to discuss the matters raised in this submission in more detail.

Yours sincerely

Matt Bland – Head of Policy & Compliance