



Association of British Credit Unions Limited

Greater Manchester Co-operative Commission  
Greater Manchester Combined Authority  
Churchgate House  
56 Oxford Street  
Manchester  
M1 6EU

2 September 2019

Dear Co-operative Commissioners,

### **Greater Manchester Co-operative Commission – Call for Evidence**

We welcome the opportunity to respond to this consultation. ABCUL is the primary trade association representing credit unions in England, Scotland and Wales with around two thirds of credit unions in mainland Great Britain affiliated to the Association.

Credit unions are co-operative societies who provide financial services – primarily savings and loans facilities – to their member-owners. They are registered as Co-operative Societies under the Co-operatives and Community Benefit Societies Act 2014 and the Credit Unions Act 1979. As deposit-takers they are dual-regulated by the Prudential Regulation Authority and the Financial Conduct Authority.

Credit unions have since their inception in Britain in 1964 been closely associated with anti-poverty and financial inclusion. They tend to provide savings and loans facilities to those with limited or no access to financial services from mainstream providers, generally due to their low income and / or lack of a developed credit profile. They have been a central element of numerous government and philanthropic initiatives to extend financial inclusion and address the lack of adequate provision of affordable credit and secure savings facilities for large sections of the population. They are capped in the interest that they can charge at 42.6% APR under the CUA 79 and provide credit in competition with high-cost lenders who charge several hundred (in the case of doorstep lenders) or several thousand (in the case of payday lenders) % APR.

They are numerous, with around 300 credit unions active in mainland Great Britain today, and have around 1.3 million members and £1.5 billion in assets under management. They range from mid-sized businesses of up to 50 staff or more to small voluntary organisations.

In Greater Manchester there is a flourishing credit union movement which is reflective of the strong historical foundations that co-operatives have in the city region. The Credit Unions for Greater Manchester (CUfGM) or SoundPound consortium of credit unions represents 8 community-focussed credit unions which between them serve the entire GMCA region. In addition the city region is home to some of the most successful workplace-based credit unions in the UK. Voyager Alliance credit unions for workers in the passenger transport industry, Metro Moneywise Credit

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Industrial and Provident Societies Act Reg No. 23136R

Union based in Rochdale and serving a range of public and private sector employee groups, No1 Copperpot a credit union for the police and one of the two largest credit unions in the country and the Co-operative Credit Union serving workers in the wider co-operative sector, primarily the Co-operative Group, all operate from bases in Greater Manchester. There are also a number of small, church-based credit unions centred on particular parishes and trade union credit unions serving members of GMB and the Bakers, Food & Allied Workers unions based within the city region.

The proliferation of credit unions large and small including some of the most successful credit unions in the country on both a community and workplace footing makes Greater Manchester, alongside Liverpool and the wider Merseyside region and the greater Glasgow area, one of the key centres for credit union activity in Great Britain today. Membership of credit unions serving or based in the city region far exceeds 100,000 and the total assets of credit unions in the region is approaching £250 million.

As has been alluded to above, credit unions' role in supporting financial inclusion is long-standing and is well-recognised. Credit unions were the primary delivery agents for the Financial Inclusion Growth Fund, a national government scheme sponsored by HM Treasury and delivered via DWP between 2006 and 2011 which saw credit unions make £175 million in over 400,000 subsidised loans which saved borrowers around £135 million in interest.<sup>1</sup> Credit unions' role in supporting financial inclusion – and the importance of this agenda more widely – has been recognised more recently with the work of the Financial Conduct Authority in addressing the bad practices in various high-cost credit markets and proposing measures to support alternative sources of affordable credit, such as credit unions, through passing new legislation for credit unions.<sup>2</sup> Similarly, HM Treasury announced a package of measures in the 2018 Autumn Budget which credit unions are central to including the creation of a new Financial Inclusion Organisation – *Fair 4 All Finance* – piloting a new Prize-Linked Savings initiative, and an Affordable Credit Challenge Fund promoting partnerships between credit unions and fintech organisations.<sup>3</sup>

Similarly, credit unions' role in the workplace in supporting the financial wellbeing of workers through providing affordable credit and secure savings facilities via payroll deduction is increasingly recognised. We are working closely with the newly-established Money & Pensions Service to support their offer to employers seeking to support their employees' well being by providing access to responsive and responsible services.

A report from 2017 by the Fairbanking Foundation on the credit union practice of Save As You Borrow demonstrated the behavioural impact that credit unions can have in creating new savings habits among those who have never felt able to save before. By asking borrowers to save a portion of each of their regular loan repayments, credit unions are able to use the opportunity of

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<sup>1</sup> <http://www.bristol.ac.uk/geography/research/pfrc/themes/finexc/growth-fund.html>

<sup>2</sup> <https://www.fca.org.uk/publications/research/alternatives-high-cost-credit>

<sup>3</sup> <https://www.gov.uk/government/publications/budget-2018-documents>

someone seeking credit to create a new savings habit which often continues beyond the conclusion of the loan – particularly, where this is linked to payroll deduction and the regular deduction amount remains the same. The report found, across 7 credit unions and 1,200 credit union members surveyed for the report by Ipsos MORI, that while 26% of borrowers were regular savers before borrowing from the credit union, 71% intended to save regularly thereafter.<sup>4</sup>

We believe that the Commission should consider the intrinsic value that credit unions create for the city region through their work promoting financial inclusion and financial wellbeing and the following means by which they might further catalyse the growth of GM credit unions:

- **Capital investment** – by investing in credit unions’ capital reserves growth can be catalysed and more people reached with significant leverage effects. The Lloyds Banking Group Credit Union Development Fund delivered by the Credit Union Foundation has invested (via grants) in capital reserves of credit unions a total of £5 million and has had a five-fold leverage effect in terms of expanded credit union lending – i.e. £5 million investment has generated £25 million of new lending. This demonstrates the power of capital investment in unlocking latent growth potential for credit unions under the pressure of ratcheting capital requirements and with limited current profitability (due to their excluded and underserved membership base).

Local government has a strong record of investment in credit unions in this way – a notable local example in recent years was a £500,000 deferred shares investment by Preston City Council to the Blackpool Fylde & Wyre Credit Union – now Clevr Money – to support their expansion into Preston.

- **Promotion of credit unions in GM workplaces** – as noted already above, credit unions play a strong role in supporting financial wellbeing in the workplace. This is primarily delivered via payroll-enabled savings and loans services which promote a transition from debt into savings and use through “nudge” techniques such as Save As You Borrow. A presence in workplaces is also a strong mechanism to support credit union sustainability as it provides credit unions with an efficient and secure route to new members. Therefore, promoting credit unions’ role in workplaces to GM employers – perhaps via the work ongoing to promote good work in the city region – should be a key element of efforts to support credit union expansion in the GMCA area.
- **Promotion of credit unions in the city** – low levels of awareness of credit unions and the services they offer remains a key barrier to credit unions having a more prominent role in the financial lives of British society. The CUfGM / SoundPound consortium has had significant success in raising awareness of credit union services in the city as a collective effort and has advertised widely on the GM transport network as part of this. GMCA could consider

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<sup>4</sup> <http://fairbanking.org.uk/wp-content/uploads/2017/02/Save-While-You-Borrow-web-1540217.pdf>

supporting this awareness-raising effort by providing subsidised opportunities for GM credit unions to promote themselves across the city's public transport network.

- **Support national policy initiatives** – ABCUL is leading a major Town Hall Consultation exercise which is seeking to establish a shared strategic vision for the British credit union sector to 2020 and beyond. This will conclude with a range of recommendations to be published at the ABCUL Annual Conference in March 2020. As the process is progressing, we have received strong support for two key national policy priorities which have been on the agenda for some time and we expect to be reinforced by the consultation:
  - *Reviewing capital requirements* – the Bank of England's capital requirements for the largest credit unions stand at 10% capital / total assets. This is very high by global credit union and domestic banking services standards and is a barrier to smaller, growing credit unions. We believe the Bank of England should review these requirements with a view to unlocking the growth potential of many credit unions.
  - *Reforming the Credit Unions Act* - the Credit Unions Act 1979 is in urgent need of reform as it limits credit unions' ability to diversify their services in order both to meet the inclusion needs of their communities but also in support of their sustainability. We are urging HM Treasury to review and reform the Credit Unions Act.

In terms of the specific themes of the consultation, we would like to highlight the following potential areas for credit unions to support the GMCA agenda:

- **Community-led housing** – credit unions partner extensively with housing providers to support the financial inclusion of their tenants, enhance their financial wellbeing and reduce the risk that debt or financial instability might lead to rent arrears and evictions. Credit unions in Manchester, as elsewhere in GB, have a strong track record in this area. A recent report by University of Sheffield into a homelessness prevention scheme in Lewisham with Lewisham Plus Credit Union showed how an investment of less than £100,000 to support the credit union to provide affordable credit to those at risk of eviction from rent arrears had saved the council around £1 million in avoided costs of evictions.<sup>5</sup> There is great scope in the GMCA area to expand the role that credit unions play in this area by subsidising the social lending that they undertake which generates value for the city's authorities and housing groups.
- **Transport** – in relation to transport, the same social lending risk sharing model might be considered in relation to meeting the costs of transport for those within the city region whose employability is hampered by an inability to afford the costs of transport. Credit unions, for instance, could potentially provide season ticket loans for the financially vulnerable to access long-term transport provision to enable their ease of access to the jobs market.

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<sup>5</sup> <https://www.sheffield.ac.uk/news/nr/homeless-reduction-loan-study-1.850188>

- **Digital self-employed & Co-operative Business Development** – since 2012, credit unions have had the legal power to lend to corporate members. This power has been, to date, under utilised through a lack of expertise within the credit union sector or support for credit unions from those seeking to boost employment through entrepreneurship. We believe that given the scale and maturity of the GM credit union sector, there is scope for credit unions to work together with the GMCA and its economic development work to finance start-up and expanding small businesses. This has the potential to blaze a trail for other credit unions elsewhere in the country to develop a similar model.

We would also once again highlight the role of credit unions in serving employees in the workplace. We know that GMCA has an ambition to ensure people have access to good work and supportive employers in the city region and credit unions' role in the workplace could provide significant support to this ambition.

The GM Co-operative Commission is a pioneering and far sighted initiative which is to be commended. We believe that the GMCA has an opportunity to lead the country in co-operative development policy for the benefit of GM residents but also the country at large. Credit unions have a huge amount to offer this agenda – both in their own right and in supporting the policy priorities of GMCA. We would be delighted to work with the Commission to explore the ideas presented here in more detail.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'm. Bland'. The signature is written in a cursive, flowing style.

Matt Bland  
Head of Policy & Communications