

Dormant Assets Consultation
Culture, Sport, and Tourism Division
Welsh Government
Cathays Park
Cardiff
CF10 3NQ

28th February 2024

Dear Culture, Sport, and Tourism Division,

Future spending purposes for dormant asset funding in Wales

We welcome the opportunity to respond to this consultation. The Association of British Credit Unions Limited (ABCUL) is the primary trade association representing credit unions in England, Scotland, and Wales, with around two thirds of credit unions in Great Britain, including seven Welsh credit unions, 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 primarily offer safe savings, affordable loan, and support to members in managing their financial lives. Credit Unions in Wales are defined by their four statutory objects:

- Promotion of thrift among their members by the accumulation of their savings
- Creating a source of credit at fair and affordable rates of interest
- Use of members' savings for their mutual benefit
- Educating members in the wise use of money

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 Credit Union Act 1979 and provide credit in competition with high-cost lenders.

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They are numerous, with nearly 250 credit unions active in Great Britain today with more than 1.4 million members and £2.3 billion in assets under management. They range from mid-sized businesses of up to 50 staff to small voluntary organisations.

Overview of Response

This response will express our view that the dormant asset funding in Wales should be used to support measures to promote financial inclusion. Financial inclusion is crucial for individuals to have a meaningful participation in society through access to appropriate and affordable financial services, as well as the knowledge and ability to make good financial decisions, improve financial wellbeing, and build financial resilience.

The Financial Conduct Authorities Financial Lives 2022 survey report, conducted in May 2022 found that 47% (or 24.9m) of UK adults showed 1 or more characteristic of vulnerability, unchanged from 48% (25.1m) in February 2020. It also found that 26% of adults in Wales had low financial resilience and 9% are in financial difficulty.

Q1. Do you believe that money from the Dormant Assets Scheme in Wales should also be used to support measures to promote financial inclusion?

Strongly agree;

Whilst we recognise that the consultation is not looking to address the specific use of funds, we must give an indication as to the potential projects and impact that further support for the credit union sector could have on financial inclusion through funding from the dormant assets fund.

ABCUL strongly believe that the money from dormant assets should be used to promote financial inclusion. Credit unions are founded on ethical and affordable ways to encourage savings habits and allow greater access to credit, allowing Credit Unions to support to facilitate and support financial inclusion within their communities. Credit unions are inherently a highly effective vehicle to promote financial inclusion, with the provision of affordable credit and promotion of good money habits sitting at the core of their business model.

However, credit unions are not-for profit organisations and are often supported by volunteers. This means they have limited capital to undertake projects outside of the day-to-day running of the credit union. For this reason, grant funding can provide extra resources to enable projects that would expand the credit union's reach and ability to offer inclusive and affordable financial services.

The rate of credit union membership in Wales is much lower than in many other countries, where credit union membership is common – only 2.3% of the Welsh population is a member of a credit union compared to 39%, 43% and 63% in Northern Ireland, Canada, and the United States, respectively.

In England dormant assets funds are currently ring-fenced for initiatives focused on youth, financial inclusion, or social investment. The financial inclusion aspect of the funds has been facilitated through Fair4All Finance who have received in excess of £145m to invest in organisations, like credit unions, already serving those in vulnerable circumstances well to help them grow and reach more individuals within their communities. Through this funding credit unions and CDFI's in England have been able to apply for grant or subordinated debt funding for a variety of uses including investment in new products development, technology and services, and capital investment to better serve their members.

We must emphasize that our support for financial inclusion to become a spending purpose for the Dormant Assets Scheme is underpinned with the need for a robust strategy for supporting credit unions with this funding. We would also call for the application process to obtain/apply for funding is a simplified process without highly selective terms and criteria attached, which we have seen previously with the initial application process for credit unions in England when applying for grant funding from Fair4All, this has now been reviewed and simplified for their most recent funding opportunity, the Community Finance Resilience Fund.

Credit unions must receive a proportionate level of support and investment opportunities that will function as a catalyst for true financial inclusion all across Wales.

Q2. Are there any specific financial inclusion issues that you think are particularly important for dormant assets funds in Wales to address?

There are a number of ways in which the dormant asset funds can be utilised to enhance financial inclusion in Wales. We have listed a few examples of the kind of projects that could support scaling up the credit union sector in Wales which in turn will increase financial inclusion:

Funding for marketing and raising awareness: There is need for more awareness of credit union in Wales and across the UK. Credit unions struggle to have the resource both financially and physically to be able to support substantial marketing projects. Effort to improve awareness of credit unions, whether through marketing or targeted outreach projects through partner organisations, could help more individuals join a credit union and take the first steps to improving their financial wellbeing and resilience.

Funding for enhancing their services and systems: Credit unions have enhanced their technology and services that they have available for their members, this was mainly due to the COVID-19 pandemic which accelerated the need to be able to offer more online facilities and Apps. However, there is a variety across the sector in what is being provided to their members this is mainly due to financial constraints or the in-house expertise required to adopt different service channels. Having access to funding could unlock more streamlined, faster and more accessible services for their members and local communities.

Funding to offer banking facilities for community groups: Credit unions can also offer a Community Account for community groups, businesses, or charities looking to bank deposits or grant cheques with an ethical, flexible, and community-based organisation. A number of credit unions are already offering this service to local community groups to help support due to being let down by the high street banks. With many community groups and charities who have had accounts closed. This is also partly due to the loss of branches in local communities and the loss of knowledge about offering often unique requirements of small local community groups. Credit unions could help to support these organisations by working alongside community groups to help facilitate accounts to meet their needs. Not only would this provide a vital service in the community, but it would also be a gateway for collaboration and could lay the path for more joined up services between the credit union, local organisations, and voluntary councils.

Funding for lending product innovation: In 2022 the Welsh Government loan expansion scheme allowed credit union to support more financially vulnerable people to access fair and affordable credit through underwriting loans for borrowers who would be seen as riskier due to this creditworthiness e.g. poor credit history or no credit history at all. Allowing those individuals to not only improve their financial resilience by helping to improve their credit score but by building financial resilience, starting savings habits and lending from a responsible lender instead of the alternative high interest loans providers or illegal money lenders like loan sharks. Enabling credit union in Wales to expand this initiative to more people would enable the credit union sector to help support those who are in financial difficulty or are financially vulnerable.

Funding for financial education: Focusing on spending dormant assets on financial inclusion through credit unions can have positive externalities on other areas, such as children's education and community action. Welsh credit unions have implemented programs to teach children financial literacy and encourage saving from a young age. One such program is the School Savers program, offered by some credit unions in Wales. Bridgend Lifesavers, a school savings scheme provided by a credit union, is an excellent example of this program. This program has expanded to include student and junior savers. In collaboration with Bridgend College, the student savers program aims to build saving habits and educate young adults on financial management. The School Savers program works directly with schools and emphasises the importance of financial education combined with family learning within the community.

Access to affordable credit is a major concern for lower-income households due to the high cost of living. These households are often declined credit from mainstream lenders and many have to resort to high-cost, buy-now-pay-later, or illegal lenders. A Policus survey has shown that interest-free social fund budgeting loans are the most popular form of borrowing for such households. Additionally, according to a report by the Joseph Rowntree Foundation, up to 6.2 million low-income people aged 16-64 in the UK cannot meet fairly modest expenses without borrowing. In one year, 1.8 million people borrowed money commercially, and 750k had to use a high-cost lender due to their limited access to credit.

One of the best ways to address the increased demand for affordable credit is through not-for-profit providers, such as credit unions. Public-private investments could be used to support these organisations, which would help reduce costs and make sustainability easier to achieve.

At present, there are approximately 76,000 members who are part of credit unions in Wales. This number is slightly lower than the peak of 85,000 members reached in 2018. Injecting monetary funds into the credit union sector would significantly benefit potential members in Wales and allow them greater access to affordable credit.

Please get in touch should you wish to further discuss our response.

Yours sincerely,

A handwritten signature in dark ink, reading "Natalie McQuade". The signature is written in a cursive, flowing style. The first name "Natalie" is written in a larger, more prominent script, and "McQuade" follows in a similar but slightly smaller script. The signature is positioned on a light-colored, possibly white, background.

Natalie McQuade

Head of Advocacy and Regulatory Affairs, ABCUL