

## Towards Financial Inclusion

The expansion of credit union financial services for low-income households in Northern Ireland

### Executive Summary

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# Introduction

This research study explores how credit unions serve low-income communities in Northern Ireland (NI). It analyses the potential for product and service development in response to the needs of people who are marginalised from mainstream financial services.

The study was commissioned out of a concern for the detriment to the financial stability of low-income households caused by increasing levels of high-cost, sub-prime lending. It was conducted by Liverpool John Moores University and actively engaged 43 of the 176 NI credit unions in research discussions and via an online survey. It had the support of both the Irish League and the Ulster Federation of Credit Unions.

## Key findings

### A commitment to low-income communities

The study highlighted the strong commitment of NI credit unions to local communities. The emphasis on serving the entire community has resulted in an inclusive approach to product and service delivery. However, a lack of market analysis and segmentation can result in little marketing activity directed specifically at low-income or financially excluded groups.

Nonetheless, most NI credit unions are embedded within low-income communities and have experience in providing financial services to people excluded from mainstream providers. Over 50 per cent of credit union survey respondents regarded high-cost, sub-prime credit providers as their main competitors. 13 per cent said these were illegal lenders/loan sharks.

### Those served and unserved by credit unions

Credit unions serve around 34 per cent of the NI population in comparison to just 2 per cent of the population in Britain. However, despite the wide reach of credit unions into local communities, the study found evidence to suggest that certain sections of NI society are not being reached by credit unions. For example, only 4 per cent of Housing Executive tenants are credit union members.

### The demands of the low-income consumers

The study explored the financial needs of low-income consumers with tenants and residents on various social housing estates. Participants stressed the importance of having access to savings schemes and to affordable credit. Around 50 per cent of participants said they would like credit unions offer current accounts, for the receipt of wages and benefits, as well as bill payment and budgeting accounts to assist with money management.

Many participants stressed the importance of standardising product and service delivery across all NI credit unions. Concerns were expressed that there was too wide a diversity between credit unions in respect of the services offered to members.

Credit unions were regarded by participants as community-based institutions that were approachable, friendly and designed for ordinary working people. However, they also identified a number of barriers that prevented

some people on low-incomes accessing their services. These included practical issues such as having to be nominated for membership and having to save before borrowing.

### Credit union services for people on low-incomes

70 per cent of credit union respondents said that the financial needs and wants of low income households were different to those on moderate incomes or in less pressured financial circumstances.

All credit union interviewees regarded the promotion of saving as central to assisting low-income members achieve financial stability. They reported that people on low-incomes do save in credit unions, even though this may be a struggle. They also regarded the offer of low-value loans at 12.68 per cent APR as positive action in reaching out to these households.

### Expanding the product and service offer

Over 50 per cent of respondents were keen to develop new products and services to assist low-income households. These included: money and debt advice; benefit direct accounts; budgeting and bill payment accounts; a current account with debit/ATM card; bulk buying schemes for home heating oil, loans not linked to savings balances and home contents insurance. They also strongly identified the development of electronic payment channels as central to their future development in the low-income market. Credit unions felt that they were well placed to expand financial capability initiatives. Many stressed the importance of their work in schools.

### Reaching the hard-to-reach

If credit unions are to reach out to financially excluded groups, a new strategic approach may be required. 68 per cent of survey respondents identified the importance of working through partner agencies in order to achieve this effectively.

However, apart from schools, there was little evidence of credit unions working strategically through other organisations to reach financially marginalised groups. 45 per cent of survey respondents mentioned the Housing Executive and housing associations as potential partner agencies.

### Limitations and constraints

Credit union participants were aware of the challenges of expanding services within a more deeply financially excluded and vulnerable market. The challenges identified were: legislative constraints; financial, operational and reputational risk; operational capacity; financial costs; and the lack of external financial support.

### Conclusion

With their strong base in the community and their commitment to social justice, NI credit unions are in a strong position to further expand their product and service range to low-income and financially excluded communities. The study concludes, however, that credit unions need to think of this market within a strategic business perspective, rather than an element of a social mission that remains a continual cost to the credit union. Expansion in the low-income market merits a reconsideration of pricing for risk and cost.

The report concludes that credit unions have the potential to be a major strategic partner with the NI Executive and other stakeholders in the expansion of provision of financial services for low-income and financially excluded households. It offers 11 practical recommendations for credit unions and the NI Assembly aimed at supporting this expansion.

# Key recommendations

## For Credit Unions

1. Ensure that the credit union commitment to serve low-income and financially excluded individuals and households is clearly made visible in credit union statements of mission and purpose.
2. Undertake market research within low-income communities and develop strategies based on an analysis of member/non-member needs and wants.
3. Consider the barriers to credit union membership that exist for some people on low-incomes and endeavour to ensure that these can be overcome.
4. Prioritise the development of a wider range of financial products and services that meet the needs and wants of those on low incomes.
5. Introduce and widen access to modern electronic delivery channels for credit union financial services in Northern Ireland.
6. Consider the possible impact of the welfare reform agenda.
7. Expand and develop partnership working with agencies and organisations that engage directly with low-income and financially excluded groups.
8. Consider the cost implications of reaching out more deeply into the low-income market and how to meet these costs.

## For the NI Assembly

9. Increasingly engage with the credit union sector and regard credit unions as partners in revitalising and strengthening local communities.
10. Expedite the legislative reform of the credit union sector in Northern Ireland.
11. Take a long-term strategic approach to the development of the capacity of the credit union sector in Northern Ireland.

### For further information

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