



Filling the void left by bank closures and fighting the scourge of high-rate lenders

**Briefing Paper for the Committee for Enterprise, Trade and Investment,
Thursday 23 January 2014 - prepared by the Irish League of Credit Unions**

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Executive Summary

Credit unions (CUs) have the potential to fill the gap caused by wholesale bank branch closures across Northern Ireland – especially in rural areas – by offering full current accounts to local people. Enabling CUs to address this need would have huge benefits for ordinary people:

- Credit unions are locally-focused and are always run for the good of their members and according to a social mission, rather than for profit
- NI membership has doubled in the last decade, with 34% of people now holding a CU account
- Credit Unions were originally designed to address the needs of vulnerable people whose struggles were being exploited for profit, a situation replicated today
- Community standing with local people is unparalleled – surveys show huge levels of trust and satisfaction in our service, in acute contrast with the banking sector
- A payments system to suit credit unions' integration into current accounts – CUSOP – is already in development

With some financial assistance to cover start-up costs, credit unions will be able to widen their services and bring real benefits to the people of Northern Ireland.

However, multi-million pound funding schemes to help establish such services in Great Britain have not been extended to Northern Ireland.

The Irish League of Credit Unions (ILCU) is suggesting that funding be made available for local credit unions who want to offer current accounts to members - and anyone else who wants to join.

Our analysis shows that funding of £860,000 per year over the next five years could revolutionise the services offered by our member credit unions, and other credit unions, and give a huge helping hand to the Northern Ireland population – especially the most vulnerable and those in rural areas.

The ILCU also wants to engage with politicians, to explore ways credit unions can help tackle the scourge of payday lenders and loan sharks.

- Helping people whose financial worries are treated as opportune by other providers is central to credit unions' purpose, unlike profit-based financial service providers
- Poverty and disadvantage persist in many of the communities in which we operate - 42 credit unions are to be found operating in the 12 highest ranked wards in the Index of Multiple Deprivation for Northern Ireland
- Credit unions act for the benefit of those seeking access to credit, and are legally bound to charge no more than 12.68% APR on loans

We feel we are ideally placed to make a significant difference to the modern-day plague of high-interest lenders, and want to discuss with elected representatives how best we can move forward to improve the lives of local people.

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What are credit unions?

Credit unions are not-for-profit, locally-based financial co-operatives that are owned and controlled by their members. Anyone who meets the membership criteria for a credit union – usually by living or working in a specific catchment area, though the criteria can be defined on other bases, such as profession - can apply for membership and avail of the services offered.

First established here in the 1960s, there are now 168 credit unions serving members in cities, towns and villages throughout Northern Ireland. Membership has doubled in the past ten years and today 34% of the NI population save with a credit union, compared with just 2% in Great Britain. They range in size and capacity from organisations with tens of thousands of members and millions of pounds of assets to those that serve just a few hundred members.

How they can help

Credit unions can play a key role in filling the gap caused by the wholesale closure of bank branches across Northern Ireland by offering current accounts with card to access money. In Great Britain, the government has provided a fund to help offset both the high start-up costs of operating current accounts and the on-going costs of maintaining them.

A reason given for NI being excluded from these funds is that local credit unions are well established, unlike in GB. This is indeed the case, with credit unions operating successfully for more than 50 years across the province. However, credit unions are non-profit organisations, where all surpluses are returned to their members by means of a dividend, or directed to improve the services provided for members.

Whilst they are extremely robust, with statutory reserves in place, by their very nature they do not have the funds readily available to implement a project such as this. Credit unions in Northern Ireland can only generate income through returns on investments (which cannot be in property/high-risk investments, and hence generate a much lower rate of return), and through the modest interest generated from loans to members. Surpluses, unsurprisingly, have fallen in recent years, with a reduction in investment income, and increased outgoings. We are asking for your support in removing the disparity by implementing a similar fund in Northern Ireland, where CUs are well-placed to make big differences to people's lives.

We are also increasingly alarmed at damage to communities caused by high cost lenders and loan sharks and we want to engage with government here to explore how credit unions can help this problem and what role we can play in helping people to access affordable credit.

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The Irish League of Credit Unions (ILCU)

The ILCU is the largest trade and representative association for credit unions in Ireland, both north and south. There are 477 credit unions throughout Ireland affiliated to the ILCU - with 99 in Northern Ireland, comprising 425,000 members, representing 85% of total NI credit union membership.

This makes us a significant player in financial services: our latest figures for Northern Ireland show that we have £965 million in savings, with £449 million in loans to our members, and total assets of £1.1 billion.

The credit union movement is stable, trusted and well established and is already making an important contribution to peoples' financial well-being in Northern Ireland.

How we work

Credit unions were founded in order to give people a safe place to save their money, and access to affordable credit, providing low-income households with both a vehicle to make themselves more financially secure and a much-needed alternative to moneylenders.

In 1960 when the first credit union, Derry Credit Union Limited, was set up in Northern Ireland, banks did not advance credit without substantial collateral or guarantees. This made most ordinary people vulnerable to unscrupulous lenders whose exceptionally high interest rates perpetuated the cycle of hardship.

This pattern is being repeated today. We believe there has never been a greater need for our services in providing an alternative to banks, and in the provision of affordable credit. At the heart of our social mission is a desire to help people in economically deprived communities to save and access affordable credit and therefore avoid over-indebtedness and other money troubles.

How we differ from the banks:

- We exist for the benefit of members and do not make profits - all surpluses are returned to members or used to invest in new/improved services
- We are owned by members on the principle of one member, one vote
- Membership is open to people who have a "common bond", this usually means that they live or work in the same area
- Credit unions are independent in their own right
- We do not speculate with members' money – and cannot, by law, invest in the stock market or property
- Credit unions' interest rates are capped, by law, at a maximum of 1% per month (12.68% APR) – we are the only financial services provider in Northern Ireland with such a cap
- We can only lend for provident or productive purposes

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We strongly support local communities: we do so much more than other financial institutions because at the centre of our ethos is a commitment to helping people manage their money well, and our not for profit status. Credit unions undoubtedly contribute to social cohesion and financial well being.

We are asking for your support and help to expand our products and services so we can make an even greater difference to all communities across Northern Ireland.

Our standing in the community

A survey carried out by Amarach Research Group in August 2013 demonstrates our high public standing and the value of our work. 58% of adults in Northern Ireland believe that credit unions are more relevant today than ever before and 63% of members say the customer service they receive from us is better than what they receive anywhere else. 95% of members say they prefer face-to-face service, a testament to our personal approach.

This is powerful evidence to suggest that we are in a strong position to fill the gap left by banks who are involved in wholesale branch closures, leaving many areas in Northern Ireland unserved.

Credit unions are perceived to be more secure financially than the banks, and there is a huge appetite for us to expand the products and services we offer so we become a credible alternative to the banking system which is so widely unpopular

Branch closures

The banking crisis which led to the collapse of the global economy has left many people feeling let down and disillusioned. This collapse in public confidence has been compounded by wholesale branch closures across Northern Ireland. According to the Consumer Council, 53 bank branches have been closed in Northern Ireland in the past two years alone, with more on the horizon. Rural communities are the most heavily impacted.

This withdrawal of facilities will also exacerbate the problem of the unbanked. Northern Ireland has the highest proportion of unbanked households in the UK, 13% compared with the national average of 7%. Consumers who do not manage their day-to-day money using a bank account miss out on the convenience of having a choice of payment methods and, as a result, may pay more or miss out on opportunities to save money. For example, handling electricity and gas bills by direct debit generally enables consumers to make a saving.

We want your help in order to close that gap.

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Our contribution to the local economy

Aside from the financial standing of the ILCU's member credit unions in Northern Ireland, which continues to flourish against the backdrop of a difficult and delicate economy, credit unions' contribution to the local economy is significant.

Each year, millions of pounds are paid out for staff salaries, meaning considerable Employers NIC contributions alone. Our 99 credit unions in NI currently employ 283 full time and 323 part time employees, paying a total salary figure of £8.8M each year. These figures will increase if we are helped to provide additional services, such as current accounts, as it is estimated that an additional 1.5 members of staff is required to administer the current account system per credit union.

Furthermore, our member credit unions offer training, personal development and a sense of responsibility and community involvement to hundreds of volunteers all over the province, who are proactively involved in the running of their local CU.

The current tax regime in force in Northern Ireland does not recognise the unique contribution being made by credit unions in supporting growth in Northern Ireland and in promoting financial inclusion. Credit union members' savings are often invested in their own communities. Many members are non-taxpayers in any event (e.g. low income groups, elderly persons, single parents) and not sophisticated savers or depositors as in other financial institutions.

Currently credit unions in Northern Ireland are liable to pay corporation tax on revenue generated from investments. Year-end September 2012 figures show corporation tax in the amount of £3.75M having been paid by League-affiliated credit unions in Northern Ireland (this figure does not reflect monies remitted by other credit unions in Northern Ireland).

In addition to this, credit unions here are subject to a rates figure totalling more than £649,950 (again, this is only representative of our member credit unions). And, unlike our counterparts in Great Britain, who are able to apply for discretionary rates relief from their local authorities, credit unions in Northern Ireland are liable for the full amount.

We are not asking for special treatment, but simply for similar help to our counterparts in England, Scotland and Wales – help that will allow us to expand our services, with all the attendant benefits that would bring to local communities and also the NI economy.

The situation in Great Britain

In Britain, the Financial Inclusion Growth Fund enabled British credit unions to build infrastructure and to make loans to a value of £175m to financially-excluded people, most of whom had a history of dependence on high-cost credit.

The Association of British Credit Unions (ABCUL) has partnered with The Co-operative Bank to enable credit unions to offer transactional banking, fully under credit union control. Since 2006,

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British credit unions have been able to offer a Credit Union Current Account, with Visa ATM and debit cards and functionality for direct debits, standing orders and money transfer.

In June 2012, the UK Government announced that it would be investing up to £38 million in credit unions over a three year period, to modernise and upscale operations and to expand credit union membership by a further one million. It is an investment that applies to credit unions in England, Scotland and Wales but not in Northern Ireland. It has resulted in the setting-up of the Credit Union Expansion Project (CUEP), to be led by ABCUL.

Additionally in GB, enabling credit unions to offer instant access to credit has been seen as fundamental to reaching out to low-income and financially excluded groups, with the offer of instant credit a requirement to qualify for the Financial Inclusion Growth Fund.

By offering instant credit to new members, thousands of financially-excluded people have been brought into credit union membership. However, in the case of the Growth Fund, the British Government took on the risk of lending to high-risk and vulnerable groups through the provision of capital to credit unions to support lending in the low- income market. It would not be prudent for Northern Ireland credit unions to do the same without support because of the risk to members' funds.

It is manifestly unfair that credit unions in England, Wales and Scotland have received significant investment from Government, whilst we have received none. This seems even more anomalous when you consider that 34% of the Northern Ireland adult population are members of a credit union, whilst the figure for GB is just 2%. With help we can make an even greater difference here.

We want to see an equivalent of GB's Growth Fund and Credit Union Expansion Project (CUEP) implemented here as soon as practicable. **Credit unions are working in communities throughout Northern Ireland supporting thousands of people on low incomes to achieve financial stability. With Government support, or that of other agencies, much more could be done to reach out to those currently unserved by the credit union sector.**

Current Accounts for Credit Union Members

We want support from the Executive and Assembly in order to help credit unions offer current accounts to members - allowing us to fill the gap left by the shrinking bank network. Credit unions in Great Britain already get that support, which was denied to us due to a disparity when the relevant legislation was enacted.

There are essentially three elements to a current account system:

- Payments (inward and outward)
- Cards (to allow access to funds)
- Direct Debits / Standing Orders (to pay bills, etc.)

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Payments

Providing electronic payments is a vital component of economic activity that is being hurt by bank and post office closures. It has also been identified as a key requirement by credit unions, their members and potential members. The ILCU is currently engaged in the development of a payment services hub (CUSOP) that will allow credit unions access to the relevant clearing systems. For Northern Ireland credit unions, this access could be available in late 2014.

However, CUSOP is only one part of the payments infrastructure. There is also a requirement to link individual credit unions' member book-keeping system to CUSOP and for credit unions to have the ability to operate the payments process to the required standards to ensure that member and credit union funds are not put at risk. These standards cover financial stability, business planning, anti-money laundering, staffing and training and IT security / stability. Meeting these standards adds significantly to the cost of offering payments / current accounts.

CUSOP is an independent company; its payments service is available to all credit unions on the island of Ireland and is not limited to ILCU affiliated members.

Cards

Credit unions could provide an ATM card and / or a debit card to their members. There are a number of possible methods of providing debit cards. Whatever method is chosen will require membership of a card management company such as VISA. The VISA membership fee is approximately £10,000 and there is a transaction charge for each use of the card.

Proposed system

Our proposal is to offer the current account through our CUSOP programme, which is expected to be piloted in Q4 of 2014 in Northern Ireland.

What it will cost

CUSOP has an initial cost of €10,000. Thereafter it is estimated that the annual cost will be £7,900 (Stg equivalent of €9500). In addition, there is a fee to an individual credit union's IT supplier to set up the system at member account level, with costs dependent on the supplier. This currently runs at approximately €10k. Other than that there will be on-going transaction fees, and the credit union can choose how to charge members for these.

If the credit union wishes to offer a debit card, there will be fees and on-going costs for this service. The initial fee will be in the region of £10,000 and the licence will cost around £2,500 per annum. In addition to these direct costs, there will also be a staffing requirement, estimated to be 1.5 staff. Regulations dictate that there has to be a staff member available at all times. CUSOP is currently engaged in talks with an international card provider for their roll-out in Northern Ireland later this

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year. At this time there is only one credit union in Northern Ireland offering current accounts. The barrier preventing others from doing the same is high set up and maintenance costs.

We are asking for similar levels of support to be offered to our credit unions as to those being offered in the rest of the UK. Not all will immediately want to offer current accounts, but with funding in place, the demand will steadily grow.

It is important to note that we do not see the provision of banking services as a means of increasing surpluses. All that we require is support to cover the costs of providing such services on a break-even basis.

Analysis of projected costs has led us to believe that any credit union wanting to upgrade its services to offer current accounts would face start-up costs of £70,000 in its first year. This is beyond the scope of the vast majority of individual credit unions, due to their structure and how they are compelled to handle their own money.

If funds of £55,000 were provided to each credit union seeking to expand its services, we feel they would be able to cover the remaining start-up costs and also thereafter handle their own running costs – as well as offering enhanced services with a local presence indefinitely.

Not all credit unions will want to begin offering current accounts – some may feel it is not in their interests – and not all of them will want to do so immediately.

We are suggesting that a yearly fund be set up to allow several credit unions each year, for the next five years, to expand their services to meet the needs of local communities:

A total of £866,960 in the first year, followed by £856,960 in each of the subsequent four years, would provide for 75 CUs (15 in each of the five year project) to move to a current account service.

This would mean that 44% of the thriving Northern Ireland credit union movement would be able to offer expanded services to local people.

Spreading out the issuing of such funds over several years would also allow demand to be reassessed on a regular basis.

Please refer to Appendix 1 for a more detailed breakdown of the costs of this project.

What You Can Do to Help

We were delighted that in March 2010, the ETI Committee noted the disparity between what credit unions in Great Britain and Northern Ireland could do and considered a number of options for reducing the gap in flexibilities between them. The Committee rejected the option of maintaining the status quo and recommended “that Northern Ireland credit unions are permitted to expand their range of services to include, at the very least, those services, which credit unions in Great Britain can currently offer”.

Since then there have been positive developments but, while legislation is now in place allowing credit unions to offer current accounts, meeting the start-up costs is not necessarily straightforward

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for any given individual credit union, and therefore we are asking for help getting these vital services up-and-running.

We would now like to see further support in making progress on this important issue.

Further to this, the landmark Housing Rights Service Report, *Towards Financial Inclusion*, had three key recommendations in relation to the Northern Ireland Assembly, as follows:

- Increasingly engage with the credit union sector and regard credit unions as partners in revitalising and strengthening local communities – with a particular current emphasis on access to finance, especially for vulnerable people who currently might turn to payday loans
- Expedite the legislative reform of the credit union sector in Northern Ireland.
- Take a long-term strategic approach to the development of the capacity of the credit union sector in Northern Ireland.

We would like the help of the Committee in ensuring that these important objectives are met.

The ILCU has already given a detailed submission on the consultation paper issued by DETI on credit unions. Legislation covering credit unions is now more than 30 years old and needs to be updated urgently so we can build still further on our achievements and offer more products, and therefore better value, to all communities across Northern Ireland.

The problem of high-rate lenders

We regularly carry out surveys on family finance issues and the results in recent times have been alarming. Many households are at crisis point, according to our research - struggling to pay bills and falling victim to money lenders and illegal loan sharks. Our Tracker survey at the end of 2012 focussed in on the costs of high-cost credit, finding:

Moneylenders prove to be an unrelenting predator on those struggling financially, with those admitting to borrowing in this way rising to 6% of all NI consumers. This is an increase of 2% from January 2012, a worrying 85,000 people. With loans amounting to £1,510 on average, 11% of these borrowers are struggling to meet their repayments. Those turning to Moneylenders as a source of 'quick' credit could be paying as much as 272% interest on a loan of only £500, over the period of a year, and end up repaying nearly double what they borrowed, £910.

Payday loans

More than 86,000 consumers have taken a payday loan to cover essentials such as food and bills in the past 9 months - an increase of 29,000 people from the previous tracker survey in January. Of these, four out of ten are unable to meet their loan repayments on time, resulting in consumers having to pay higher interest charges. A typical payday loan taken to meet household bills amounted to £289. Average interest rate was charged at about 39% which means that NI Consumers total cost of credit on £289 is £403.

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A survey by Trading Standards of 29 loan companies in Northern Ireland revealed that the majority did not adequately explain the consequences of failing to repay a loan on time. Trading Standards also found that in every case the payday lender was unable to quote the Annual Percentage Rate (APR), as required under consumer credit legislation.

Fines and charges are commonplace. One survey of people who had taken out payday loans found that in the last 12 months, 45% were subject to unexpected charges and 56% incurred charges because of missed or bounced repayments.

Loan sharks

In addition, Northern Ireland has a problem with illegal loan sharks, who charge even higher rates of interest and prey on many working class communities. The Annual Report and Threat Assessment of Northern Ireland's Organised Crime Task Force (OCTF 2012) underlined the impact of the economic downturn on the finances of people on low incomes and with "less than perfect" credit ratings, also pointing out how Northern Ireland has become a "personal debt hotspot".

On the basis of analysis carried out by the Police Service of Northern Ireland in 2011, the OCTF report said that the activity of loan sharks - preying on victims most of whom are on benefits - is on the rise.

How we can help

In contrast to the crippling rates imposed by loan companies, our rates for loans are capped by law at just 1% per month, the only financial institution in Northern Ireland with such a cap. Our willingness and ability to offer low-value loans at a standard affordable rate of interest of 12.68% APR is a very real and positive action in reaching out to low-income households.

We are increasingly alarmed at the activities of loan companies here and we want to continue to engage with government to see what measures can be taken to address this problem and make affordable credit more widely available.

The reality is that poverty and disadvantage persist in many of the communities in which we operate. 42 credit unions, for example, are to be found operating in the 12 highest ranked wards in the Index of Multiple Deprivation for Northern Ireland. This is no coincidence, with the overwhelming need for access to affordable credit being driven by those communities. We are therefore continuously challenged by our mission to serve people on low-incomes and of offering people excluded from the financial mainstream a pathway into financial inclusion and stability. We regularly encounter people with insufficient income to make ends meet, who are struggling to pay essential bills, and who have become victims of high-cost credit providers.

We want to continue to engage in dialogue with government about how we can collectively help to alleviate this problem.

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APPENDIX 1 – Costs of set-up/delivery of a Credit Union Current Account

These costs are based on the ILCU's CUSOP programme, and take into account a 20% contribution from any credit union wishing to offer a Current Account to their members under this project.

Annual CUSOP Fee	€13860 on-going from year 1 *
Bank development fee	€10000 once off fee
VISA licence	€10850 once off fee and €2846 ongoing after year 1
IT Upgrades	€10000 once off fee
Staff reqmts(1.5)	€22500 on-going and increasing pending uptake
Admin/marketing	€5000 on-going from year 1
Policy dev/staff training	€10000 once off fee
Total in Euro	€82210
Total in STG	£68080
Less 20% funding by CU	£13616
Required funding from DETI per CU	£54464

DETI Project costs

Year 1/Start up costs

Project development	£50,000
15 credit unions in Yr 1 =	£816,960

Roll out:

15 credit unions in Yr 2 =	£816,960 plus £40,000 project delivery
15 credit unions in Yr 3 =	£816,960 plus £40,000 project delivery
15 credit unions in Yr 4 =	£816,960 plus £40,000 project delivery
15 credit unions in Yr 5 =	£816,960 plus £40,000 project delivery

Total fund provided by DETI over 5yr project cycle: £4,294,800

This will allow over 44% of credit unions currently in Northern Ireland (75 out of 168) to offer this service

Credit Union Project costs

Yr 1 start-up costs (subsidised by project)	£13,616
Yr 2 onwards annual cost	£38,828 (€44,206) – this figure is expected to increase for subsequent years with uptake

*CUSOP fee includes up to 50,000 transactions per annum