Empowering lives

The social impact of Merseyside credit unions

October 2023

Contents

Sacha Romanovitch OBE, CEO of Fair4All Finance

At Fair4All Finance, two key areas of focus are increasing the availability of affordable credit and developing the market to provide products that meet the needs of all customers. Credit unions play an important role in both of these.

We commissioned research into the **social and economic role of credit unions across Merseyside** and, more specifically, the impact of being a member of trusted, stable, reliable community finance organisations, especially at a time of considerable uncertainty for many households.

This work demonstrates the significant difference credit unions make to the people they serve across Merseyside, particularly for those in financially vulnerable circumstances. It also draws out the different aspects of impact that credit unions can measure and report to provide their members and wider stakeholders with confidence and insight into the difference they make. The key metrics of loans made (volume and value) and money retained in communities (as people move away from higher cost credit) complement the qualitative measures of people's sense of wellbeing and support at times of need.

> **'They were a really massive relief [...] when you are really struggling and someone comes along and offers you this diamond, that's basically what it felt like**.'

The key themes are summarised in these pages and more extensively reported in the companion report. It is worth your time; these themes are a blueprint for the way financial services need to support people across all incomes and tenures to improve lives and be integral to communities.

1 **Affordable credit availability**: Credit unions increase the availability of affordable credit. They provide straightforward loan products, often small-sum loans that are highly valued by thousands of people, especially those in vulnerable financial situations. This access to credit improves their quality of life and provides a sense of control

2 **Savings and financial stability:** Credit unions encourage the development of a savings habit among their members, often for the first time. This helps individuals build resilience, a financial safety net, enhancing their overall financial stability. Members can accumulate transformational savings and have access to loans that mainstream finance providers may not offer

3 **Retaining money within households**: By offering lower cost lending options, credit unions save households significant sums in interest that would be otherwise paid to higher cost alternatives. Research showed a shift from higher cost credit among borrowers. Members in Merseyside, who previously used higher cost lenders, are collectively better off by as much as £23.5m annually

4 **Positive social Impact**: Credit unions go beyond financial services. They provide support and assistance to their members with dignity and respect, especially those with limited choices

elsewhere. This results in very high degrees of loyalty, trust and goodwill from members

5 **Improved wellbeing**: Membership in a credit union has a positive impact on members' wellbeing, both physically and mentally. Nearly 80% of members reported experiencing less anxiety and a greater sense of control over their finances, highlighting the importance of peace of mind

6 **Financial performance**: Credit unions within our research demonstrate financial robustness and sustainability by consistently lending more of their capital, experiencing lower bad debt, and growing their members' savings whilst returning a profit, benchmarked against their peers across the country, even as they serve vulnerable populations

7 **Mission-driven values**: Merseyside credit unions uphold strong, mission-driven cooperative values. Members overwhelmingly acknowledge the personal and human relationships they have developed and the support they have received. They feel engage and understood. Staff feel part of a movement to improve lives, working for and with their community

8 **Digital engagement**: Credit unions are adapting by shifting to increasingly digital services empathetically while still offering personalised services to those members who need more time. They are committed to delivering quality service without relying heavily on grant support

9 **Growth potential**: Credit unions have the potential to reach even more people, among existing and new members, there are possibilities to extend geographically and with new products, whilst investment in technology could help them expand their impact further

This was a collaborative project, and we are grateful to the strong credit union leaders prepared to step forward and collaborate with enthusiasm and patience, to the experienced authors of the report who compiled and gathered the data and undertook extensive interviews, and to key colleagues who provided the support needed to successfully conclude this project.

In summary, credit unions in Merseyside demonstrate their positive social impact by providing affordable credit, promoting financial resilience and stability, reducing interest costs, and improving the overall health and wellbeing of their members. They do this while maintaining strong mission driven values, personal relationships and financial sustainability, making them a vital resource for the communities they serve. Proactively reporting on the difference credit unions make plays an important part in attracting and retaining members, staff and other support to enable them to grow and thrive.

Acknowledgements

Our thanks go to Nick Hopkins and Alistair Grimes for conducting the research that informs this report.

We're grateful to the five inspiring credit unions we worked with for giving us their valuable time and support, and to Kayleigh Cunoosamy, Hanadi Al Saidi and Niall Alexander for their Fair4All Finance contributions to the research and this report.

Lastly, our thanks go to all the members that shared their experiences with the researchers to enable us to showcase the incredible impact credit unions are having across Merseyside.

Introduction

Financial exclusion can be particularly felt by people in left behind communities and on low incomes. They may be unable to access safety nets others rely on like affordable credit or savings. This can lead to use of harmful alternatives, especially with current cost of living pressures.

Credit unions can be a lifeline

Many people still don't know what credit unions are, what they do and the difference they can make. Fewer than 1 in 50 adults in England are members.

We commissioned research to further explore and explain these community-based institutions' social impact, focusing on Merseyside in the Northwest of England.

We wanted to learn more about the people using these credit unions - the members.

Who are they and why do they join? What products do they use and what service do they receive? What difference are credit unions making to their lives?

We also wanted to learn more about the credit unions themselves. How sustainable are they as businesses? What are the risks to their continuation? What opportunities are there to develop and expand?

Exploring credit union impact

Researchers Nick Hopkins and Alistair Grimes surveyed nearly 1,000 credit union members across Merseyside and held in depth interviews with credit union members, staff, directors, volunteers and local stakeholders.

We hope this research will:

- **increase** understanding of the **impact** of credit unions and the people they serve
- **inform** the policy, funding and investment environment for credit unions
- **identify** opportunities and challenges facing credit unions that the sector and its supporters can seek to tackle together

You can access the full research report findings with case studies **here** fair4all finance

Merseyside credit unions

Central Liverpool CREDIT UNION

ECU Enterprise Credit Union

LCCU

Lodge Lane and District Credit Union

RCU Riverside Credit Union Ltd

This research focuses on five credit unions operating across Merseyside. Founded in the late 1980s and early 1990s, these organisations provide borrowing and saving services to over 55,000 people across the Northwest.

	Central Liverpool Credit Union	Enterprise Credit Union	Liverpool Community Credit Union	Lodge Lane Credit Union	Riverside Credit Union
Initial Base + Core Area	Toxteth and Liverpool City Region	Merseyside, including Huyton and Knowsley and St Helens	Norris Green	Toxteth	Speke and Garston
Adult Members	13,000	27,000	8,700	3,400	4,000
Loans (Volume)	6,200	23,000	1,700	850	3,400
Loans (Total value)	£7m	£23m	£2.3m	£1m	£2m
Loans (Average value)	£1,100	£1,000	£1,300	£1,200	£800
Savings Held	£9.6m	£30.7m	£4.8m	£3.8m	£3.6m
Staff	21	25	8	6	8
Assets	£11.7m	£39m	£5m	£4.6m	£4m

Source: Data collected between October 2022 to March 2023
Annual loan figures based on financial year 2021/2022

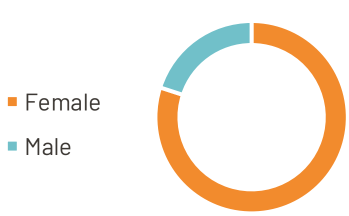
Credit union members

Who are they?

Across the Merseyside credit union members we surveyed:

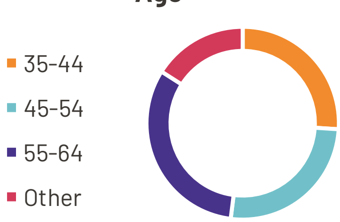
- 80% of members were women
- A quarter were 35-44, a quarter were 45-54 and a third were 55-64
- Seven in ten had an average household income after tax of under £500 a week, placing them in the lowest four income deciles
- 65% of respondents were in employment, either full time, part time or self employed
- Nearly four in ten reported getting more than half their income in benefits or tax credits
- Just under two thirds (63%) of respondents were renting their home, 46% from a social landlord and 16% from a private landlord
- Nearly half of respondents were in single adult households, just under half of those were in single parent households
- Just over a third reported having a disability or long term condition

Gender

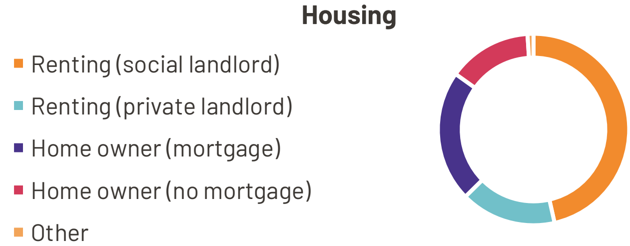


Average weekly income

Age



Housing



Money as a source of worry

Despite many challenges, the vast majority of survey respondents **self-reported that they are managing well financially or are getting by**, and that they have at least some control over their finances.

However, further survey questions and the more in-depth **interviews presented a more concerning picture**:

- One third of low income survey respondents were behind on at least one bill
- Interviewees reported being **under more financial pressure than ever before**, with a small minority taking drastic steps to cope, including cutting back on eating
- Over eight out of ten were **worried about affording fuel bills** in the coming year, over six out of ten about affording food

Money was a significant source of worry for many interviewees, though some were avoiding thinking about it.

There was a **lack of optimism** amongst interviewees about the financial future, and an expectation that things will continue to be tough financially.

At the time of joining a credit union many interviewees were **struggling financially, due to being out of work or in low paid work**, and facing spending pressures, often associated with having children. Many were also dealing with health or relationship challenges.

'It doesn't feel in control. You don't know where the next loaf of bread is coming from.

I've not had to use a foodbank… it could definitely happen in the future.

I'm behind on rent and things. I keep on top of gas and electric because you've got to … but I am in arrears with rent and council tax and things.'

Tina, 25-34

'They were a really massive relief when I needed them, you know when you are really struggling and someone comes along and offers you this diamond, that's basically what it felt like.'

Jenny, 45-54

Prior use of credit

Prior to joining **members had much higher usage of non mainstream credit** than the UK average, for example: catalogues 42% vs 11%, doorstep credit 32% vs <1%, pawnbrokers 17% vs <1%[1].

Members had **higher use of some mainstream credit** in the form of bank overdrafts (36% vs 20%), although credit card use was lower than the UK average (47% vs 64%).

For many, use of non mainstream credit was an unpleasant experience, for some it was felt to have served a purpose. Most commonly people had accessed home credit or catalogues. There were occasional reports of use of informal moneylenders or loan sharks.

There is little evidence that refusal of credit elsewhere is a common trigger for joining, but interviews suggest **many members had self excluded from mainstream credit**. Some interviewees had consciously avoided credit in the past.

Some interviewees had **experienced problem debt**, sometimes associated with youth and/or trying to live independently. Very few had been savers in the past. Those who had saved reported accumulating little.

Reasons for joining

Members join their credit union because of **recommendations from people** they see as being like them. Word of mouth is overwhelmingly the route through which people hear about their credit union, particularly from family, followed by friends and neighbours. It is not clear whether the marketing activity from the participant credit unions has yet had an impact.

The vast majority of **members joined to both borrow and save** (82%). **Loan affordability was the key driver** for survey respondents, followed by being able to save and borrow, the interest rate charged and the speed of access to loans. About a quarter focused on ethical and community issues, and a small minority on the simple ability to access loans or no other options.

'When I used to go into a bank my knees would go. They're like, it's as though they are the law, they are all suited and booted. The credit union they are just sound people like yourself. I found the credit union more relaxing, I was more at ease with them.' **Maureen, 55-64**

'I tell people to join it all the time. A lot of my friends are probably ones who couldn't get credit easily, people with kids can join and they will be able to get a family loan, using their child benefit … A lot of people have got bad credit, and it's from when they were younger, and now they are older and more responsible it gives them a chance.' **Caroline, 25-34**

[1] c.f. UK average in FCA (2023) Financial Lives Survey - Catalogue:11%; Overdraft:20%, Home Collected 0.6%; Pawn:0.6%

Borrowing and saving

Members take out **higher value loans over time**, as savings grow. About half (55%) of survey respondents' initial loans were under £500, but only about a fifth (21%) of their most recent loans were under £500.

Just under half of most recent loans were still for less than £1,000 which is a **market not typically served by mainstream lenders**. Some average income, as well as lower income, respondents continue to borrow smaller amounts.

The **automaticity of payment** (often through Child Benefit being paid directly to a member's credit union account) is **seen as the major benefit** of borrowing and saving with the credit union. This simplifies the process of repayment and helps to begin the savings habit.

Fair4All Finance produced a **report on deduction lending** that expressed the positive behaviours that grew from such loans[2].

Borrowers tended to be younger than savers, and levels of repeat borrowing custom are high. Many interviewees reported an annual borrowing pattern of Christmas plus a summer loan.

By some distance, **Christmas is the most common reason for borrowing**, followed by home decoration, holidays, appliances and furniture, carpets or flooring. There is also borrowing for unexpected expenditures on cars and household goods. Credit union loans allow members to smooth the cost of these high expenditure items or events over a longer period.

Borrowing to deal with everyday financial pressure is much less common. **Few experience difficulties in repayment** or need forbearance.

Member **savings grow steadily through regular payments**. Half of members are making regular payments of £20 or more. Some save much less, but still regularly. Interviewees were not always aware of their level of savings. **Most interviewees do not touch their savings**, where withdrawals are made they are often of small amounts to cover immediate financial pressures. In general, savings became habitual.

Saving is overwhelmingly done **for safety and security or a rainy day**, or to guarantee access to credit, rather than for specific purchases.

Restrictions on withdrawal of savings are generally seen positively, as this enables savings to build up. A minority find restrictions irksome in the context of pressured finances.

[2] Fair4All Finance (2023) Deduction lending – does it all add up for low income earners?

> 'It's the way they split things up, the Child Benefit goes two ways [into loan repayments and savings]. It just happens, there is no reason to worry about it. It's very helpful, it's just straightforward, the statement shows you what you are getting paid off and what is being saved.'
>
> **Karen, 35-44**

> 'This is the first time [saving], because obviously being on my own with three kids in the house, and only my income, it's hard because everything was going on the kids or into the house, being on my own with the kids meant there was no extra money, so literally every penny was spent.'
>
> **Heather, 45-54**

> 'I think it's good [certain restrictions on taking money out], otherwise I would [spend the money]. My son wants a games console, I've struggled to get one. I can't pull it out of thin air, but if I could he'd have got that £500 out of the credit union and I'd be £500 out of pocket. Stupid things like that, he knows that I can't get it so he's not harassing me for it, he's just waiting till I can afford it.' **Laura, 35-44**

Satisfaction and engagement

A majority of survey respondents **wanted all three channels of engagement** (online, phone, in person) available. Longer standing members were particularly likely to want to keep face to face engagement.

Customer **satisfaction is extremely high**, across survey respondents and interviewees, and across different channels and products. Interviewees valued the ease and speed of online engagement, although some maintained a preference for face to face contact.

Interviewees **valued the delivery of a friendly service** by people they see as being like them, who had gone the extra mile if that had been needed.

Conversations between members and credit unions **focus quite tightly on affordability**. There is little promotion of other products, some promotion of other services in the community, some referral if support on debt or benefits is needed, and some internal provision of more in-depth support if problems arise with repayment.

Credit union impact

Financial impact

Credit unions can often provide **better accessibility and availability of credit** for their members, as well as **better rates** than many other credit providers.

Collectively, the participant credit unions made **more than 35,000 loans valued at more than £35m** in 2021/22.

In financial year...
2021-22

More than
35,000
loans

More than
£35m
loaned

The biggest lender, Enterprise Credit Union, made **23,000 loans worth £23m**. The smallest lender, Lodge Lane, issued **850 loans worth £1m**.

We estimate that the participant credit unions are **saving borrowers between £5.6m to £23.5m per year** in interest payments on loans. This is the potential savings from not borrowing in higher cost credit markets.[3]

£5.6m → **£23.5m**
interest savings per year

Looking ahead, and even if participant credit union lending holds steady rather than grows, we estimate this could mean **an extra £28-£118m of benefit** for low to average income borrowers in Merseyside over the next five years.

£28m → **£118m**
interest savings over 5 years

This money is likely to circulate in the local economy, increasing demand for local services and employment.

[3] Calculated based on average credit union rates on a one year loan against known high cost credit rates. Methodology in full report.

Social impact

It means people can afford goods and services that might otherwise be out of reach, or in reach only with stress or at greater cost. It means Christmas is 'saved' and memorable. It means house expenditures are covered, whether expected or unexpected. It means providing certainty and control in uncertain times

Members see a significant impact not just on their financial situation, but on their broader lives:

- Over two thirds of survey respondents reported a transformative or **significant impact on their financial situations**, feelings about money and way they manage money
- Around eight out of ten reported a **positive impact on wellbeing, mental and physical health** and family life

Credit Unions deliver impact for people who are both financially included and excluded. Their positive impact is seen on women, across the income spectrum, on renters and owner occupiers, on disabled people and on ethically and community motivated members.

The impact of having access to credit and savings is also seen in feelings of greater security, reassurance, **greater ease and peace of mind,** and reduced stress, including for those experiencing anxiety and depression. Being a member with savings behind you may also be a **boost to self esteem and confidence.**

The biggest change in relation to money management comes from **establishing a savings habit**. Benefits reported included the **ability to plan** spending for the months and year ahead.

Many reported thinking differently about their money, along with being **more disciplined** and **less impulsive** in spending.

Membership significantly **reduces use of non mainstream credit** and reduces use of mainstream credit. Members feel **very positively about their credit union** compared to non mainstream providers and to banks.

'I would have been able to do holidays and Christmas, it just helps a lot. It gives you a positive thing, if you never had that you would be struggling off your normal money and then you would end up going three weeks without money. That takes an effect on you.' **Natasha, 25-34**

'It's definitely changed the way I manage money. I've had a lot of debt in the past when I was younger, I had pay day loans and that and I didn't bother to pay them back. Now it's like control. The money's there.' **Chloe, 25-34**

'Everyone I know who uses credit unions says they don't know what they would do without them sometimes. Because people who have got two or three kids, they are the ones who actually depend on them.' **Natalie, 25-34**

Credit union sustainability and growth

Credit unions improve people's financial circumstances. Credit union's reduce financial stress, increase members' sense of financial security, and improve money management, particularly people's willingness and ability to save.

The participant credit unions are, and increasingly have potential to be, financial institutions which can deliver **excellent and relevant products and services** for the whole of the largely working class communities they serve.

They **deliver for all people, but the greatest impact may be on those who are financially excluded**, for women, disabled people, renters, and people on low incomes; for those that have the least but may need the most help.

This impact is **delivered without significant, ongoing grant funding**. These organisations are effectively self-sustaining, though sometimes operating on tight margins. Fair4All Finance swiftly acknowledged this at the start of the pandemic, offering a **Covid-19 resilience fund to preserve lending capacity** for people in vulnerable circumstances.

They are **lending amounts smaller than mainstream providers** will lend, at **lower rates** than alternatives. In most cases this depends on automaticity of loan and savings payments, and mild restrictions on access to savings.

Each participant credit union is currently **generating a surplus**, although some operating margins are tight. Most are confident in the quality and diversity of their Board's experience.

Some credit unions face challenges around staffing, absence and illness. Some have recruited specialist IT or marketing expertise.

Participant credit unions have the **key foundations for sustainable success**:

- **high levels of member satisfaction** with service quality
- **strong, shared values** and long term staff recruited from the communities they serve
- high levels of interest in **continued loyalty** and member willingness to recommend to others
- deep knowledge and **understanding of their simple core products**, their members and the service they need

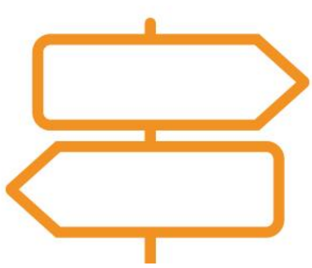
There was almost universal interest amongst survey respondents and interviewees in remaining active members and almost **universal willingness to recommend** membership to others. Many interviewees reported that they had already recruited family or friends.

Credit unions have growth opportunities, with existing members, new members, new demographics and new areas.

Opportunities

There are ongoing **opportunities to grow the membership** and impact of participant credit unions, through:

- generating **more custom from existing members** (eg ethically motivated members and those who currently only save)
- generating **income from new customers**:
  - reaching **more affluent customers**
  - tapping into **new markets** and underrepresented customers
  - **building on existing markets** in their communities
  - expanding their **geographical reach**
- further **refining marketing strategies**, including engagement with trusted partners such as social landlords, and reaching out to targeted groups such as lower income employed customers and young people
- developing the **opportunities that new legislation provides for new products** around insurance, credit cards and car finance



Challenges

However, there are also **risks to credit union financial health**, and for some, their sustainability.

The **cost of living crisis** is the major business risk faced by each credit union, presenting an even bigger challenge than the pandemic. Members are experiencing real financial pressures, often to the extent of worrying about the affordability of financial basics.

To prosper, credit unions must face their varying **organisational challenges** head on:

- planning for the **succession to existing charismatic leaders** who have been in place long term
- for some, **working with 'thin' staff structure** and outdated policies in the context of the impact of the pandemic and other drivers of staff absence
- managing and further embedding the transition to delivering **more services online** to retain existing members and attract new ones via social media and app use
- growing into new geographies will mean **funding the expanded loan book** through attracting new deposits from members or attracting new funds from stakeholders
- making appropriate investment in **external capacity to deliver marketing and IT** developments

Future questions to address

Beyond immediate opportunities and risks, wider questions exist for the sector and its supporters to test and tackle. Insights from our research suggest the following merit priority attention:

- **How to make savings do more work for members** in the context of real household financial pressures which raise the opportunity cost of saving for lower income members, and how far the traditional model of guaranteeing loans through savings is always necessary in the context of payment through benefit assignation
- How they can play their full part in **helping members ride out the cost of living crisis,** and any future turmoil, by developing their role as community financial hubs offering forms of wraparound care via debt and money support and protection policies
- Which forms of marketing, and **what marketing content will be most successful** with which groups, and how lessons from word of mouth or peer to peer engagement can be incorporated into formal marketing
- How to ensure that, **in the move online, credit unions sustain what is valuable** in their relationship with customers, and how they can grow their online offer in a way which is additional to, not at the expense of, face to face capacity

'When people have a **financial partner who genuinely cares about their wellbeing**, it **creates a ripple effect of positive change**.

By prioritising **people over profits**, and providing **quality inclusive products**, we can enhance the lives of our members and improve the communities we serve.'

Eileen Halligan
CEO, Central Liverpool Credit Union

'I would like to give thanks to Fair4All Finance for supporting this research – it's been a **positive and worthwhile experience**.

This **research proves what we have always known** and underpins **our mission of providing quality inclusive products for our members**.'

Karen Bennett CBE
CEO, Enterprise Credit Union

'At the heart of our credit unions lies **a commitment to enhancing lives and nurturing communities**.

Every step we take is a testament to the **positive social impact** we create together.'

Participating Merseyside credit unions

Research recommendations

For credit unions

#1

Take action now on organisational vulnerabilities

- Begin, speed up or deepen succession planning
- Update HR policies and procedures where necessary
- Develop five year plans for implementation of an attractive online service offer
- Sharpen up every aspect of procedures to assist with and tackle bad debt
- Integrate more wraparound care services

#2

Revitalise marketing and identify new priority markets

- Complement the spread of positive messages about credit unions with the development of clear marketing plans, using external expertise as necessary, and sharpening social media messages
- Reinvigorate any pre pandemic work with trusted partners, and identify and engage with other partners with an interest in tackling financial exclusion amongst the people they serve
- Explore how more effective work can be done to reach young people, including people making the transition from being child savers, lower income employed households and more affluent, ethically motivated members, perhaps with home improvement/green banded loans
- Work with employers and social landlords to create payroll savings schemes and targeted products
- Assess the opportunities that new legislation will permit around insurance, car finance and credit cards

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#3

Become a Community Financial Hub

- Directly provide and link members to information and tools to support benefit claiming, better external deals and more effective financial management
- Be (even) more proactive about referring to advice services in the community, including, but not limited to, referring people facing problems repaying loans
- Consider how to facilitate or give support to informal groups looking to organise around money issues within the community

For credit union supporters

#1

Develop better understanding of business models

Across both their current and potential situations, including:

- what metrics truly capture the impact of credit unions
- what are the best forms of investment to grow and expand the credit unions
- that investment in overcoming specific organisational barriers to growth is likely to be more critical than providing lending capital
- that there may be short term risks to profitability or even sustainability resulting from the cost of living crisis

#2

Invest in reducing organisational risk and facilitating growth

This could be through overcoming barriers to growth or creating capacity for growth, delivered through focused grant programmes with clear success metrics.

#3

Invest in protecting against short term challenges

Through support for specific activities to manage risks, or creation of a mechanism for insulating credit unions against temporary exposure to increased risk.

#4

Support the development of credit unions as financial hubs

Through investment in work that goes beyond the core provision of savings and loan products, and in the process contributing to reducing the risks they face.