Building Strategic Sustainability within the Credit Union Sector

Contents

Purpose of the guide

This guide aims to give credit unions practical tools and resources to achieve growth and success, drawing from expert advice and experiences from the credit union sector and lessons learned during the Covid-19 pandemic.

It balances the mission of credit unions, to serve its members and communities with affordable, high quality and ethical financial services, with the strategic imperatives of good governance, a strong capital base, profitability and investment for the future.

The guide may not contain new information for some organisations, although we hope, where this is the case, it reinforces the excellent strategic planning and development already under way.

The heart of the document is about supporting credit unions to develop robust strategic plans. Before establishing a strategic plan for sustainable growth, a critical first step should be a wide ranging review of the credit union, including detailed analysis of its operations.

This guide focuses on **six financial and organisational challenges and related opportunities**, which are key to sustainability and could be considered when reviewing business performance, as well as provides tools that could be used to assist the review.

Some of the credit unions we have worked with in developing this range of tools have shared their experiences below:

> 'The business financial planning tool was an intense process. It incorporated a plethora of internal reporting processes into a single reporting and financial tool. It has needed updating and minor reworking but is now in regular use by our Board and management. Regular use and support and training internally have made the tool a core tool for us.'
>
> **Martin Groombridge, LCCU Chief Executive**

> 'We were slightly nervous working with people from outside the credit union on the business plan but need not have worried. We ended up with a strategy that we felt belonged to our organisation and was much more practical.'
>
> **Peter MacDonagh, Operations Manager, Riverside Credit Union**

Navigating this guide

To help you make the most of this guide, we've divided it into six sections, each relating to one of the **financial and organisational challenges and related opportunities** identified through our research.

Throughout this guide you'll see a status bar like the one below that'll let you know where you are. You can click each section to be taken to the relevant part of this guide.

This guide should be used alongside the following resources that have been specifically developed by Fair4All Finance, in consultation with credit unions, to support them to establish, implement and monitor their sustainable growth strategies:

- **DRAFT Strategic Business Plan Template** – providing a framework for credit unions to produce their strategic business plan
- **DRAFT Strategic Business Plan Template Guide** – guidance on how to complete the Strategic Business Plan Template, with example text and graphs and helpful planning tools
- **DRAFT Generic Forecasting and Reporting Tool** – helping credit unions to determine and monitor their financial performance

Please note, these three resources are published in draft format currently, subject to further testing with credit unions. Once this testing is complete we'll provide more guidance and training on using the Generic Forecasting and Reporting Tool in particular.

Introduction

Overview

In England there were 151 credit unions in Q3 2022 that have the same legal status and ethos but are different in terms of size, maturity, product range and ambition. Nevertheless, they all face similar challenges in achieving growth and staying financially stale. There are common steps that could be taken to improve sustainability.

Bank of England credit union statistics[1] covering Q3 2017 to Q3 2022 provide an insight into the growth and financial health of the sector in England.

Table 1 – English Credit Union Statistics

Information on:	Credit Unions in England Q3 2017	Credit Unions in England Q3 2022	Δ 2017 – 2022 (£/#)	Δ 2017 – 2022 (%)
No. CUs submitting returns	193	151	-42	-21.8%
No. adult members	752,459	886,954	134,495	17.9%
Total assets (£'000)	£882,878	£1,501,689	£618,811	70.1%
Total capital (£'000)	£109,476	£181,786	£72,310	66.1%
Total shares (£'000)	£747,593	£1,295,167	£547,574	73.2%
Total loans (£'000)	£493,636	£ 860,972	£367,336	74.4%
Total income (£'000)	£73,913	£116,950	£43,037	58.2%
Total expenditure (£'000)	£63,822	£102,050	£38,228	59.9%
Total profit (interim) (£'000)	£10,092	£14,900	£4,808	47.6%

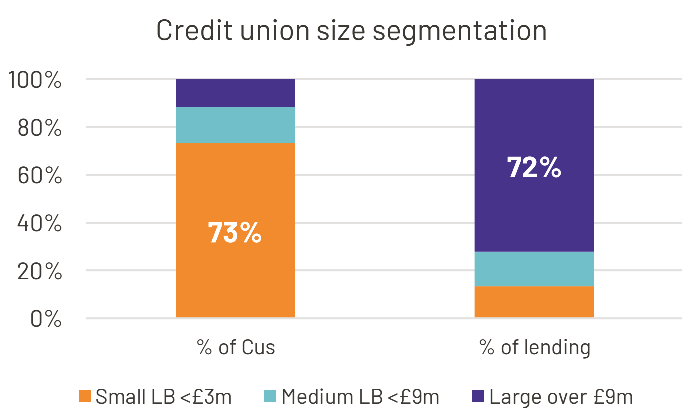
Table 1 above shows that over the last five years, adult membership, assets, lending, income and profit in credit unions have continued to grow. The biggest increases were in total loans (74.4%), shares (73.2%) and assets (70.1%). Membership growth at 17.9% was modest. Total income grew at 58.2% and total profit at 47.6%.

Segmentation analysis carried out by Fair4All Finance (see Chart 1 below) shows that small credit unions (loan book < £3m) make up most of the credit union industry (73%), but only provide 13% of lending. Medium credit unions (£3m < loan book > £9m) account for 13.35% of the sector and provide 14.6% of lending. Large credit unions (loan book > £9m) make up 11% of the sector but provide 72% of lending.

[1] Bank of England Credit Union Quarterly Statistics Q3 2017 (updated 31 Jan 2018) and Q3 2022 (updated 31 Jan 2023)

A very significant contribution to growth was made by one credit union operating online, which is estimated to have contributed almost one-third of the total increase in adult membership and half the lending growth in England.

Chart 1: English Credit Union Segmentation by Loan Book Size



Membership and lending growth in credit unions is now supported by digital implementation. Credit unions are investing in new back and front office systems to improve member experiences and make lending decisions.

This can help them be more productive, freeing up capacity to focus on growth and service delivery. However, it can be a Catch-22 situation in requiring funding from profits, grants, social or commercial investment.

How could the cost of living crisis impact credit unions?

Many households will face economic challenges in the coming years as their incomes are squeezed, leaving them with limited options: reduce their spending, default on bills and credit commitments, and/or borrow more. This will continue to make the operating environment for credit unions extremely difficult, affecting their services and sustainability.

Research[2] on the impact of the cost of living crisis on the UK affordable credit sector found that:

1 **Decline rates have increased by 7 to 15% since the start of the crisis:** Loan application volumes have increased but most lenders are seeing a higher number and proportion of applications being declined

2 **Lenders are facing increasing difficulties in assessing loan applications:** Living costs and customer behaviours change quickly, making it harder to rely on traditional underwriting methods. More borrowers are declaring bankruptcy immediately after getting a loan and undeclared or unrecognised Buy Now Pay Later credit

[2] Vik Pål and Wallace Aundrew; The Impact of the cost-of-living crisis on the UK affordable credit sector; Community Finance Solutions, University of Salford; Commissioned by Fair4All Finance, September 2022

3 **Market penetration is impacted** as most lenders see stagnation or lower than projected growth in the value and demand for loans, often with a significant difference of around 10 percentage points between target and actual growth rates

4 **Savings growth is reversing or slowing** as members withdraw more and deposit less. More people are using savings to subsidise living costs. This is particularly important in terms of **liquidity risks**

5 **Increased costs** from staffing and credit reference agency searches mean that credit unions will have to simplify loan approval processes and invest in technology

6 **The nature of approved loans is changing** with a focus on smaller average loan sizes to cover daily expenses, which makes lending riskier and less profitable for credit unions. This may result in more top-up consolidation loans, as well as higher delinquency levels, bad debt, credit control costs, and write-offs.

Credit unions generally experienced a rise in saving deposits during Covid-19 but now report a gradual decline due to members reducing savings in response to the cost of living crisis:

> 'We have found in last few months that our members' ability to save has fallen…We are now seeing growth…which is 20% lower. This is because household bills have increased. For many people the rainy day has arrived…'[3]

Leeds Credit Union's[4] membership survey (April 2022) found that 28% of 2,111 respondents expected to save nothing in the next year, 43% expected to save less than last year and 41% experienced a financial decline in the past 12 months. For most credit unions the reduction in share balances is likely to be appreciated, at least in the short-term, but for others it will cause liquidity problems.

In addition, credit unions will face rising operational costs due to inflationary pressures, including rent, utilities, staffing and supplier expenses. This, combined with stagnant or decreasing incomes, will reduce profitability and highlight the need for sustainability measures.

How can credit unions build more sustainable growth?

Drawing on insights from financial modelling and business planning work commissioned by Fair4All Finance and undertaken in collaboration with two credit unions in England, this guide considers key areas, best practice and resources that can support the establishment of a sustainable model within the credit union sector. It highlights **six main financial and organisational challenges and related opportunities** that credit unions face in relation to financial planning and sustainability:

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[3] The research drew on interviews with managers and staff of 25 credit unions and CDFIs and an online focus group with CDFI and credit union loan officers

[4] https://southleedslife.com/consumer-confidence-survey-lays-bare-financial-hardship-facing-local-families/

1 **Achieving a balanced membership:** Ensures diversification of income streams, reduces reliance on demographic characteristics or product and mitigates risk from over exposure

- Improves decline rates, market penetration and savings growth

2 **Diversified lending and customer growth:** Mobilises deposits, can increase margins and returns on assets, broadens risk exposure across products, risk appetites and demographics

- Impacts on decline rates, market penetration and savings growth

3 **Optimise capital position:** Frees up credit unions' capacity to invest and grow, while meeting regulatory capitalisation requirements

- Supports investment and growth

4 **Digital implementation:** Improves member experience, lending decisions and productivity, mitigates cyber security risks and scams, increases efficiency and frees up capacity to invest in growth and service delivery at scale

- Reduces decline rates and costs and improves risk management, increases income and surpluses

5 **Effective governance, skills development and risk management:** Essential for prudential and regulatory requirements, protection of member interests, risk mitigation and strengthening organisational resilience

- Reduces costs and improves risk management

6 **Proactive consolidation and collaboration:** Part of the DNA of credit unions, which can deliver a range of strategic and operational benefits

- Early engagement can provide time, space and resources to develop shared strategies and reduce operational costs and increase efficiency

Under each of these themes the guide highlights the challenges that credit unions face and describes key practical actions and tools/resources that they might choose to apply in response while also setting out the key indicators to help monitor progress.

Importantly, the guide is designed to be used alongside the following resources:

- **DRAFT Generic Forecasting and Reporting Tool** – Fair4All Finance has worked with credit unions to create a reporting tool in Microsoft Excel that can be used to support business plan development and to monitor financial performance against the plan. This has been tested with a group of early adopter credit unions, who have been commissioned to test migration and implementation of the tool. Once this is complete, we'll provide a documented user guide and video user guide
- **DRAFT Strategic Business Plan Template** – Fair4All Finance has also worked with credit unions to create a strategic business plan template

- **DRAFT Strategic Business Plan Template Guide** – guidance on how to complete the Strategic Business Plan Template, with example text and graphs and helpful planning tools

Together these resources should provide practical support that can help credit unions who are considering how to improve their sustainability.

Embarking on strategic planning

Understanding current position

Before establishing any strategic plan for sustainable growth, a critical first step should be a wide ranging review of the business, including detailed analysis of its operations. This enables the development of an understanding of the credit union's current position, as a precursor to determining its strategic direction and goals.

At this stage, involving key internal stakeholders – employees, volunteers, and Board of Directors - as well as obtaining feedback from members and other key external stakeholders (such as funders and employer partners) through consultation is important.

Areas that could be considered when reviewing business performance include:

Macro environment

- How do you review economic pressures on your members, such as inflation benefits changes, interest rate changes, and consider their impacts on your products, services and risk appetite?
- What is the return on savings deposits offered by the wider market compared to your expected dividend?
- What is your relationship with Councils in your common bond?
- How do you review your investments holding excess member share deposits and their risk and return profiles?

Market and competition

- What is your target market and customer base?
- What is your current brand awareness in your target market?
- What is your current market share?
- Who are your competitors (credit unions and other financial institutions)?
- What are your competitors' strengths and weaknesses, in comparison to yours?
- What strategies have worked for you and for other credit unions in growing customer base?

Strategic considerations

- What are your key resources as a credit union and how do they need to be strengthened to support your strategy?
- What are the components of your financial model and how are they interrelated? What are the risks to those components and how can the risks be mitigated?
- What is your revenue model; how do you price your loans and set and monitor your target return on each loan product?
- Who are your key stakeholders; members, funders, payroll and other partners, volunteers including directors and external stakeholders? How can you manage and strengthen those relationships?

Products and services

- What products and services do you offer?
- How do you ensure that the products and services are meeting your members' needs? What feedback do you have from your members?
- What level have the loan parameters been set at eg are minimum values, minimum terms, administration fees, rescheduling fees appropriate?
- What are your key performance target metrics for each product? When are they reviewed and when and how do you decide whether to maintain, amend or withdraw products which are not delivering?

Expenditure

- What are your major cost categories and how do you review and manage them?
- What reporting systems and technology are employed by the credit union? How do they compare with your competitors? Are there other alternatives that will better serve the business?
- How can suppliers be reviewed to enable cost reductions and/or improved service?
- How can processes be streamlined and automated so that staff time can be spent on more important, customer facing tasks?

Effective governance, skills development and risk management

- How is the credit union governed and who has the responsibilities prescribed by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA)?
- What range of skills, financial sector and community experience, diversity, equality and inclusion does the Board have in relation to its common bond?
- What is the management team's range of skills and experience, and how committed are they to the credit union's ethos and values?

Collectively determine future priorities

- The Board and senior team of the credit union should come together to **review and discuss the values, mission and strategic issues and opportunities facing the credit union**. An external facilitator can help guide the process and ensure that all members of the credit union feel empowered to voice their opinions and contribute to the collective discussion
- The outcome of this consultation should be the agreement of the credit **union's priorities which will shape the roadmap towards sustainable growth**
- The credit union can use the DRAFT Generic Forecasting and Reporting Tool and the DRAFT Strategic Business Plan Template and Guide to input the proposed growth targets and develop scenarios which will form the basis of the credit union's three year financial forecasts. Ultimately the goal is **to ensure that the credit union can make decisions and develop plans that are both strategic and empathetic**

Case study: London Capital Credit Union

Originally formed in 1997 for employees of Islington Council, London Capital Credit Union (LCCU) has undergone substantial expansion and now serves around 16,000 members across nine boroughs of London with assets totalling over £16 million.

During 2021 the credit union worked with Fair4All Finance to embark on a strategic business planning exercise over a six-month period. Through a series of focussed, one to two hour facilitated online sessions, it brought together its entire Board and team to undertake its planning exercise:

- LCCU collectively examined its delivery infrastructure and reviewed its existing membership and financial data. Historic data was exported into the newly developed Generic Forecasting and Reporting Tool to enable a better understanding of the current position and to support the preparation of more accurate business forecasts
- The group then revisited LCCU's social mission and determined their key growth aspirations needed to achieve sustainability and agreeing the appropriate priorities for delivering the required change. Using the Generic Forecasting and Reporting Tool, it then continued to test and further refine these growth forecasts to ensure the proposed assumptions and targets were realistic
- Finally, it produced a three year Strategic Business Plan setting out the ways in which the credit union will build on its existing financial and operational strengths to expand the business in a financially sustainable way while driving improvements in its offer and fulfilling its other objectives. Three key priorities - diversifying the growth of lending growth, expanding membership, and furthering digital implementation and automation – were agreed

Achieving a balanced membership

Achieving a balanced membership | Diversified lending and customer growth | Optimising capital positions | Digital implementation | Effective governance and risk management | Proactive consolidation and collaboration

Overview

Government[5] and financial regulators recognise the role that credit unions play in providing savings products and affordable loans to their members, including those who would otherwise be financially excluded and exploited.

Social impact reports by credit unions[6] including Hoot, HEY Credit Union, Serve and Protect CU and Clockwise Credit Union evidence impacts including lower interest costs, increased savings levels, strengthened local economies and the delivery of social value.

Credit unions are rated highly by their members for fairness, affordability, inclusivity and social impact. Planning for a balanced and diverse membership supports credit unions to deliver long-term sustainability and social impact.

For sustainable growth, credit unions should aim for a diverse membership across its common bond, avoiding overreliance on one demographic or product. A diverse membership minimises the risk of over-exposure to specific market segments and diversifies revenue streams, offsetting the impact of less profitable activities.

A balanced product mix is also essential, as an imbalance between savings and lending portfolios can result in regulatory challenges and limit potential income. Credit unions should first identify and understand any imbalances within their membership before executing plans to draw in new members. They should develop a targeted strategy that focuses on acquiring new segments and offering right products to meet their needs.

Fair4All Finance undertook a comprehensive customer insights programme which offers [information on customer segments](#) (focused explicitly on those in vulnerable financial circumstances) their needs, preferences, marketing preferences and purchase decision pathways, which can help credit unions design and deliver effective products and marketing strategies to serve different groups of members.

[5] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1125329/Financial_Inclusion_Report__002_.pdf
[6] https://www.abcul.coop/members-area/cu-social-impact-report

Implementation

The key strategies for implementation are:

- **Establish new payroll schemes**
- **Increase penetration with existing payroll partners**
- **Increase visibility across existing common bond**
- **Enhance member experience**

Establish new payroll schemes

The cost of living crisis has increased employers' awareness of the financial concerns of their workforces and of the support that they can provide. Payroll partnerships enable cost effective customer acquisition within the workforce, while payment collection via salary deduction reduces costs and lowers default risk.

Credit unions, with their mutual ethics, experience working with employers, and holistic savings and loans offer, are well positioned to present themselves as important contributors to financial wellbeing.

Currently, only 850 employers in Great Britain use a payroll deduction scheme with a credit union. Despite the increasing competition from salary finance and wage advance firms, there are still vast opportunities for expansion by acquiring new payroll partners.

Although initiating a payroll acquisition campaign may seem overwhelming, it can improve the credit union's resilience and capacity to serve its members. The approach should be phased, working with existing contacts first, and using their networks to expand outreach to manage demands on resources sensibly.

Key actions

- Plan and commit available staffing resources to attract new payroll partners
- Work with credit unions and membership organisations, Councils and other partners to provide training and support for those staff involved
- Use existing evidence to make the case to new employers
- Use template documents/materials[1] to tailor engagement and broker discussions with prospective employers

Increase penetration with existing payroll partners

For most credit unions, take up of payroll deduction is extremely low outside a limited number of their longest established partnerships. Recent research on payroll schemes estimates that across the sector, only one in nine existing members is making deposits using this method, with the majority relating to saving deposits rather than loan repayments.

Key actions

- Allocate time and resources to implement an engagement strategy with key contacts across each existing partner, with a similar level of focus as other marketing channels:
  - Attempt to establish relationships with multiple contacts, securing awareness, buy-in and membership at a senior level
  - Keep partners updated on impact, including take-up figures and staff feedback/case studies
- Produce simple annual communication calendars for each partner:
  - Work with current members to advocate for the credit union among their family, friends and colleagues
- Provide appropriate promotions to staff designed around customer needs

Increase visibility across existing common bond

Most credit unions have expanded their common bond beyond their original footprint. This provides a significant opportunity to diversify membership and increase penetration levels.

Credit unions can use external communication and promotional activity to target, engage and attract new member cohorts. These will need to be prioritised according to capacity to deliver and marketing budgets.

Key actions

- Encourage members to advocate for the credit union. This can include loyalty schemes, refer a friend, real customers talking about great service, customer ambassadors online/in communities, and customer reviews
- Develop partnerships with key stakeholders, particularly each local authority and the main social landlords, to improve collaboration, awareness raising and referrals
- Produce a comprehensive communication and promotional plan, incorporating key marketing measures, and review and refine it periodically
- Grow mutually beneficial relationship with local and regional media outlets together with council and community newsletters to secure coverage, eg offering regular comment on finance related stories
- Price comparisons and financial information websites are very influential in the purchasing journey, so where it is possible credit unions should consider having a presence there to attract new members

Enhance member experience

One of the credit union's unique selling points is a strong service ethos, encouraging service provision that is both personal and responsive. This could be leveraged more effectively to generate growth.

Key actions

- Issue regular internal member communications that segment and target tailored information and products and encourage multi product holdings
- Conduct annual membership surveys to benchmark satisfaction levels and address the key findings as soon as possible
- Improve member experience through investment in digital technology enabling new functionality

Key Performance Indicators

Table 4 below provides potential key performance indicators that might be adopted by credit unions to measure the impact of the actions implemented from the business plan. Each indicator should be linked to the business plan's strategic objectives.

Table 4 – Potential KPIs to measure progress on 'Achieving a balanced membership'

Key indicators to measure progress:	Strategic objectives	Example Industry Goal[7]
Brand awareness and sentiment within common bond/target customer base[8]	• Greater visibility across existing common bond • Enhancing member experience	-
Common bond penetration levels	• Increasing penetration with payroll partners • Greater visibility in common bond	-
Membership growth	• Establishing new payroll schemes • Increase penetration with payroll partners • Greater visibility in common bond	**>15%**
Member satisfaction metric (net promoter score) collected via membership survey	• Enhancing member experience	**>75%[9]**
Payroll membership growth levels	• Establishing new payroll schemes • Increasing penetration with payroll partners	-
Proportion of credit union borrowing by payroll deduction members	• Establishing new payroll schemes • Increasing penetration with payroll partners	-
Penetration levels within individual payroll partners (as a percentage of their total workforce)	• Increasing penetration within payroll partners	-

Further Tools and Resources can be found at Annex 2.1: Achieving a balanced membership

[7] Industry Goals – throughout the key indicators to measure progress, relevant credit union sector targets have been highlighted. Unless otherwise specified, these are taken from World Council of Credit Union (WOCCU) 'goal' for the particular measure
[8] This is considered optional/nice-to-have due to the costs associated with collecting the data
[9] Average credit union NPS satisfaction levels – taken from almost 12,500 completed member surveys amongst 29 credit unions from across the UK - using membership survey questions on either overall satisfaction with credit union or likelihood of referring to a friend. Source: https://inclusioncentre.co.uk/wp-content/uploads/2018/03/An-Insight-into-Credit-Union-Membership-Barclays-CU-Programme-Full-Report-120318.pdf

Diversified lending and customer growth

Overview

Most credit unions are experiencing an increase in savings deposit and a decrease in demand for loans, a trend reinforced by the impacts of Covid-19 (the period from mid 2020 and 2021). This has resulted in a decline in the proportion of credit union assets lent to members, putting further downward pressure on returns on assets.

However with the end of Covid restrictions, there is an opportunity for credit unions to diversify their loan products and distribution channels to meet the changing needs of borrowers. By mobilising their share assets in a sustainable and responsible way, credit unions can broaden their risk exposure and reach a wider range of demographics.

Additionally, prospective legislative change should allow credit unions to diversify their products and service offerings, including hire purchase and conditional sale agreements for car financing loans and insurance services.

Plan lending diversification and attract new members

A full review of credit union loan books can help to identify the more profitable products and customer segments to inform lending strategy. Credit unions may choose to adopt more risk-based pricing, within the limits of the credit union interest rate cap.

Retrospective review also offers an opportunity to evaluate the effectiveness of current loan processes, administrative resources, interest rates charged and underwriting policy to design improvements that will increase both customer satisfaction and profitability.

This approach helps credit unions to grow their loan book and membership base sustainably, while continuing to serve vulnerable customers. For example, research[10] on 'Deduction Lending: Does it Add Up for

[10] Deduction lending research, The Financial Inclusion Centre, Swoboda Research Centre; funded by Fair4All Finance; March 2023

Low Income Borrowers' demonstrated that payroll and benefit lending are very popular with borrowers, who see them as affordable, contributing to confidence in managing money and increasing satisfaction with financial circumstances. Participating credit unions found that deduction loans are easier to administer, reducing costs, have higher approval ratings and perform better in terms of loans.

Key actions

- Review your current loan book and analyse by loan type and customer segment. Identify which customer segments are well-served by your range of financial products and where there are gaps
- Research and learn from credit union peers to find new or amended loan products that could serve to diversify the loan book and membership
- Calculate the net loan profitability of each loan product, taking into account estimates of administration costs alongside the impact of delinquency, using the Cost of Loan Calculator tool
- Using these insights, develop a lending strategy that focuses on diversifying and growing the loan portfolio and membership profitably

Increase the proportion of members borrowing

Credit unions encourage their members to save, but many net savers also have expensive loans with other providers (eg overdrafts and credit card debt).

To encourage members to borrow from the credit union instead, lending offers need to be communicated effectively. This involves branding and promoting loan products through available distribution channels.

Credit unions can develop marketing calendars around key borrowing needs or events, such as consolidating other debts, buying or repairing a car, furnishing or improving their home, as well as seasonal borrowing, such as birthdays, holidays, and back to school.

Key actions

- Undertake an annual or bi-annual (online) membership survey to understand who they are borrowing from and why. Learn and use statistics and positive feedback throughout future lending materials
- Use data to strengthen the internal communication strategy to promote lending directly to non-borrowing members
- Advertise pre-approval or reapplication offers to members who have had a loan with the credit union in the past
- Develop a comprehensive annual promotional plan for lending activity that incorporates seasonal campaigns as well as key borrowing events

Expand low value lending via payroll and benefit deduction loans

An increasing number of credit unions are delivering small value loans that are repaid via non means tested Child Benefit payments directed into the borrower's credit union account.

If delivered properly, this product can both widen access to affordable credit and provide greater certainty of repayment, since Child Benefit loans appear to have lower default levels than similar loans.

For example, one of the credit unions taking part in the Fair4All Finance strategic planning work had delinquency levels of 3% on its Child Benefit loan product compared to 8% on similar loans. This means lending can be extended to borrowers with higher risk profiles, whose applications might otherwise be declined.

Credit unions should note that the automatic nature of loan repayments poses potential risks for customers if this product is not delivered appropriately. Proper affordability and credit assessments must be undertaken in all circumstances.

Key actions

- Research by The Financial Inclusion Centre and Swoboda Research Centre, funded by Fair4All Finance has been published to improve understanding and set out best practice on lending based on benefit deduction
- Research Child Benefit lending good practice taking place in other credit unions, including using templates and resources [1]
- Develop a Child Benefit loan product with a streamlined application process to enable remote end-to-end loan approval and disbursement, ensuring credit assessment and affordability checks take place for good customer outcomes

Key Performance Indicators

Table 5 below provides potential key performance indicators that can be adopted by credit unions to measure the impact of the actions implemented from the business plan. Each indicator has been linked to the strategic objectives.

Table 5 – Potential KPIs to measure progress on ‘Diversified lending and customer growth

Key indicators to measure progress:	Strategic Objectives	Example Industry Goal
Total adult membership	• Growth in number of adult membership • Growth in penetration rate	**>5%** **>2%**
Total loan book value	• Increasing the share of members borrowing • Expanding low value lending via Child Benefit loans	**-**
Delinquency levels	• Increasing loan portfolio profitability • Expanding low value lending via Child Benefit loans	**<5%**
Total bad debt written off (as a percentage of total loans[11])	• Increasing loan portfolio profitability • Expanding low value lending via Child Benefit loans	**≤10%[12]**
Bad debt (more than 3 months in arrears) as a percentage of total loans	• Increasing loan portfolio profitability • Expanding low value lending via Child Benefit loans	**≤5%** **≤20%[13]**
Loan to asset ratio	• Increasing the number and value of borrowing • Expanding low value lending via Child Benefit loans	**70 – 80%**
Loan income over 12 months (as a percentage of total loans)	• Increasing loan portfolio profitability	**>6%[14]**
Proportion of eligible members (18-66) who are borrowers	• Increasing the share of members borrowing	**-**
Unit cost per loan	• Streamlining loan process and administration to reduce costs	**-**

Further Tools and Resources can be found at Annex 2.2: Diversified lending and customer growth

[11] The total amount outstanding at the relevant date on all loans to members (irrespective of when such loans were made). This includes any loans written off during the period
[12] PRA Indicative Ratio - https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2020/ss216-update-march-2020.pdf
[13] PRA Indicative Ratio
[14] PRA Indicative Ratio

Optimise capital position

Overview

Credit union capital consists of:

- Audited reserves
- Interim net profits
- Deferred shares
- Subordinated debt that meets PRA requirements
- Revaluation reserves

The PRA Rulebook[15] gives further details in Rule 8.5 on the definition and requirements for each type of capital. Credit union capital requirements depend on the value of their total assets:

- Those with assets less than £5 million must hold capital of at least 3% of total assets
- Those with assets between £5 million and £10 million must hold capital of at least 5% of total assets
- Those with assets between £10 million and £50 million must hold capital of at least 8% of total assets
- Those with assets above £50 million must hold capital of at least 10% of total assets

Credit Unions are required to maintain the minimum capital requirement as defined above. However, the PRA may pay particular attention to small credit unions whose capital ratio is under 5%.

And Rule 8.1 of the PRA Rulebook for Credit Unions requires credit unions to consider whether additional capital should be held over the minimum requirement 'taking into account the nature, scale and complexity of their business.'

For example, those that are growing rapidly, providing mortgages, corporate loans or credit cards need to assess the additional risks to which they are exposed and adapt their capital requirement accordingly.

[15] https://www.prarulebook.co.uk/rulebook/Content/Chapter/320147/27-07-2023

Meeting the capital requirement can be a key financial challenge facing credit unions of all sizes, which can restrict their ability to grow if operating surpluses and other income (including grants) beyond this regulatory capital minimum are insufficient.

Credit unions can consider accessing special forms of capital support from supporters, stakeholders or social investors to ensure that periods of low capital are not a limiting factor to growth and innovation.

Planning for capital

Credit unions have come through two extraordinary and difficult period from 2020 onwards, with Covid-19 and the cost of living crisis. In addition to losses from the economic environment and the challenges of regulatory compliance, many credit unions need to finance strategic internal investments, such as system upgrades, new product development and support for membership growth.

To build non-member capital, credit unions first rely on surpluses from their operations or other sources of capital funding, such as capital grants.

If a credit union's retained earnings and other funding are not enough to meet regulatory capital requirements, they are permitted to include valuation of their property (up to 25% of required reserves) and to secure capital investment from supporters, stakeholders or socially motivated investors through either specially defined deferred shares or subordinated debt agreements.

The PRA provides clear guidance on how it rates the quality of different types of capital:

- **Retained earnings:** These are considered high quality capital, as they do not have features of other types of capital that make it less able to absorb losses
- **Deferred shares:** These are not repayable except in special circumstances and there is a very limited secondary market for these shares. They may be interest-bearing deferred shares, where there is a requirement to pay non-discretionary interest payments or dividend-bearing deferred shares. The PRA considers that deferred shares may be seen as lesser quality capital if there is a requirement to pay non-discretionary interest payments, as opposed to dividend-bearing shares
- **Subordinated debt:** This is considered by the PRA to be lower quality capital, given that the principal needs to be repaid, (which carries refinancing risk) and coupons (annual interest payments) are paid to service the debt, rather than being returned to members as dividends
- **Revaluation value on property:** A credit union may include gains in value on property assets towards their regulatory capital up to a maximum of 25%, recalculated annually. The total property portfolio must be revalued, rather than cherry-picking certain properties

External Investment

The PRA highlights concerns 'that the use of material amounts of subordinated debt and interest-bearing deferred shares could have the potential to threaten the sustainability of a credit union if not used appropriately and prudently.'

Credit unions must demonstrate that they are acting in the best interests of members, particularly if operating profits are largely being used to service the debt, rather than providing returns to members.

A further concern is that external capital may influence the business model and have conditions attached that give preferential treatment to the external investor.

Credit unions with assets over £50m should hold no more than 50% of their minimum capital requirement as subordinated debt and no more than 75% of their minimum capital requirement as subordinated debt and interest-bearing deferred shares.

The PRA will review the credit union's arrangements for managing the associated risks before proceeding to raise external capital above those limits. The PRA will consider the following factors in assessing these plans:

(i) whether the capital arrangements provide investors with external influence over the credit union

(ii) evidence that the interest rate and liquidity risks are being managed adequately

(iii) the reasonableness and credibility of the credit union's plans for growth (including how it would service the capital investment through distributable profits as opposed to raising further capital to pay coupons)

(iv) whether the credit union is contractually able to defer coupon payments and/or whether such payments are cumulative

(v) whether the investment (for example, the rate of interest offered) represents a reasonable and justified risk-reward proposition

(vi) whether the credit union has provided a robust and credible plan for reducing reliance on external capital investment

Further details can be found in the PRA"s policy statement of July 2023[16].

Strategic planning for raising external capital.

Before accessing external capital, it is important that a credit union prioritises developing its strategic business plan with a clear understanding of assumptions and risks to future income and retained earnings. This will help the credit union make an informed decision about the best way to finance its future growth.

Credit unions typically access investment capital under specific, time limited periods of expected lower surpluses (or increased losses) or periods of faster asset growth that creates a temporary gap in regulatory capital. Periods of lower surpluses or increased losses may be necessary to deploy additional resources to lower operating costs, reduce bad-debt exposure or develop new income channels that will improve the credit union's sustainability and services over the long term.

[16] https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2023/july/ss223-supervising-credit-unions.pdf

When considering external capital, it is essential that the credit union plans for scenarios that will ensure return to a stronger capital position in the future and which also unlocks sustainable scale and/or higher-quality service to members.

Key actions

- Undertake a holistic review of the credit union's delivery structure, including an analysis of existing delivery channels over a fixed period and a survey of members' preferences
- Develop a comprehensive plan that incorporates income projections, proposed internal investments to support sustainability and growth, and expected external investment inflows

Capital finance management to support capital reserves.

After analysing and strengthening the credit union's business strategy, the next step is to execute a capital raising programme. This requires:

- **Understanding the terms of any grants, external loans or deferred share offers:** To understand each type of capital, how they align with future income and how it may support or hinder the credit union's sustainability during difficult times. Carrying out a range of scenarios for future performance will help the credit union make informed decisions about new investments
- **Planning for future payments:** To plan for payments to investors that meet the PRA's requirements and may be higher than dividends or interest paid to its members. The payments negotiated with investors should be aligned with the future income potential of the credit union, its ongoing expenditure and investment requirements and a cautious approach to growth predictions
- **Strategic capital management:** When it comes to financial risk and return as well as expected social impact, supporters of credit unions have a wide range of expectations. Actively managing these capital supporters and investors through investor reporting and meetings helps ensure that expectations align with the credit union's business strategy. This builds trust and transparency with investors and they will be more likely to support the credit union during difficult times. It can also help to minimise strain on resources when administering investments

Key actions

- Develop an investment management strategy that includes appropriate allocation of internal resource to support fundraising and engagement with new external support and investment

Key Performance Indicators

Table 6 below provides potential key performance indicators that can be determined and adopted by each credit union to measure the impact of the actions that have been taken over the timeframe of the business plan. Each indicator has been linked to the strategic objectives.

Table 6 – Potential KPIs to measure progress on 'Optimise capital position'

Key indicators to measure progress[17]:	Strategic Objectives	PRA Rule	Example Industry Goal
Capital to assets ratio: • **Less than £5 million in assets or less than 5,000 members** • **£5 million in assets or 5,000 members** • **£10 million in assets**	• Securing external investment	**3%** **5%** **8% (+2%)**	**≥10%**
Liquidity ratio	• Securing external investment	**≥10%**	**15–20%**
Non-earning assets (as a percentage of total assets)	• Strategic business adjustments	**-**	**<5%**
Operating expenses	• Strategic business adjustments	**-**	**<5%**

Further Tools and Resources can be found at Annex 2.3: Optimise capital position

[17] In their recent consultation (2022) the Prudential Regulatory Authority (PRA) suggested additional parameters for Credit Unions pursuing riskier additional activities or with more than 15,000 members. Further details can be seen at Annex 2.3

Digital implementation

Achieving a balanced membership | Diversified lending and customer growth | Optimising capital positions | Digital implementation | Effective governance and risk management | Proactive consolidation and collaboration

Overview

While some credit unions have led the way on digitisation, the sector has generally been slower to adopt new technologies and innovation due to a range of issues including legacy platforms, lack of expertise, the need for specialist IT teams and funding.

The Covid-19 pandemic highlighted the importance of technology in improving member experiences and enabling digital processes such as onboarding, end to end loan application and decision making, and loan servicing.

While digital technologies can reduce costs, simplify processes, and improve security, implementing them can be challenging for credit unions with limited technical capabilities. Building internal capacity through IT will be crucial to mitigate cyber security risks and scams that target members, and to support technology adoption. By embracing technological developments, credit unions can simplify processes, reduce costs and invest in growth and service delivery at scale.

Credit union teams must be supported in their efforts to apply digital technology and view it as an ongoing process, not just a one-off event.

Further detail of the challenges and opportunities for credit unions presented by digital technology can be found at Fair4All Finance's Understanding the role of technology in Community Finance.

Determine and implement new core IT operating system

Much of the sector relies on legacy loan management and peripheral systems, but there are new developments and entrants coming to market, providing affordable modern platforms. Each credit union should develop its own digital strategy, which will help to establish whether its existing IT platform is fit for purpose and enable implementation of its business strategy.

The supplier market for new technology is evolving as existing suppliers set out plans to refresh their core systems and new entrants develop core systems for credit unions. The transition to more flexible and modern technology over the coming years will be crucial for the ongoing sustainability of some credit unions, and those needing an IT update will benefit from new available systems.

However, deciding to change a business's core IT requires time, resources and expertise. While many credit unions may not have the necessary in-house IT expertise, there is a growing body of resources and experience available to support decision-making.

Key actions

- Develop internal knowledge and understanding – Fair4All Finance's Technology 101 provides a good grounding
- Develop or evolve a digital strategy - all credit unions should know where they're going with technology. The Digital Strategy toolkit will help to develop a proportionate digital strategy
- Assess current core systems and determine what functionality and integration are needed. Swoboda Research Centre has produced a helpful paper exploring guidance on new core systems
- Identify potential suppliers and engage with the market. Many of the suppliers are referred to in the survey of Fair4All Finance's technology survey in 2020

Further develop online and mobile offering

Given rapidly changing consumer expectations, particularly among younger consumers, credit unions must prioritise the development of online and mobile engagement and the adoption of technology that improves member experience and reduces manual processing for staff.

Credit unions should continue to capitalise on the step change in digitisation and process improvements delivered in response to the pandemic. Specialist suppliers have emerged in the past few years who can help credit unions to make this transformation towards digital consumer engagement.

Open Banking technology provides a significant opportunity to obtain instant income and expenditure data on loan applicants to determine affordability and identify potential problems[18]. Using Open Banking in decision making has helped credit unions to make better lending decisions. It can also reduce delinquency and administrative costs by automating assessment of bank statements.

Emerging payment innovations can also give members better control of their payments while lowering payment processing costs.

Key actions

- Provide online loan application services, with support for those digitally excluded through branch and telephone access and outreach through office sharing or pop up branches to reduce costs
- Adopt Open Banking and payment facilities as well as further digital developments and new functionality
- Train senior team in project management and implementation of product development processes

[18] See Open Banking and Credit Unions research

Key Performance Indicators

Table 7 below lists potential key performance indicators that can be determined and adopted to measure the impact of digital implementation as part of the business plan. Each indicator has been linked to the strategic objectives.

Table 7 – Potential KPIs to measure progress on 'Digital implementation'

Key indicators to measure progress:	Strategic objective	Example Industry Goal
Percentage of members registered for access online/mobile app.	• Further developing online and mobile offering	-
Proportion of loan applications made via online or mobile app.	• Further developing online and mobile offering	-
Proportion of collection payments or withdrawals made online	• Further developing online and mobile offering	-

Further Tools and Resources can be found at Annex 2.4: Digital implementation

Case study: Riverside Credit Union

Operating for over 30 years, Riverside Credit Union (RCU) is a community based credit union that serves almost 4,000 adult members primarily living in Speke and Garston, two of the most deprived areas of Liverpool. 98% of its membership live in some of the most deprived postcodes in the country.

The onset of Covid-19 was a catalyst for its Digital implementation journey. Before this point, like many smaller credit unions, its adoption of technology had been limited to the introduction of an informational website and it relied entirely on its branch office to serve its membership.

The closure of its branch office during the first lockdown in March 2020 forced the credit union to move totally online. Within the space of two months, it had selected and implemented an off the shelf solution, including a mobile app that enabled members to join and apply for loans, which enabled it to move away from a paper-based to a full digital system.

At the same time, it overhauled its lending processes to reduce manual intervention and decision time, while also delivering efficiencies and improvements in applicant experience.

This change required careful planning, in particular the design of a programme of support for staff and volunteers seeking to build their understanding of, and confidence in using, the new technology and processes. This was followed by an education programme and take up drive aimed at members.

By September 2020, RCU had already encouraged 65% of members to register for its online services and, notwithstanding the reopening of its branch, 24% of withdrawals and 100% of loan applications were still being made via the app. The transformation has also paid dividends in terms of lending, with volumes by the end of 2020 already surpassing the levels for the same period pre-pandemic.

Peter MacDonagh, Operations Manager explains the impact of their Digital implementation:

'Members can now access their savings and apply for a loan 24/7 rather than wait until the branch is open. Loan applicants now tend to receive their loans in less than two days, sometimes on the same day.

'There is also greater engagement through email and via our app. In addition, more staff work from home means we have been able to downsize our office space, saving us a significant rental cost.'

'One of the credit union's strategic business objectives for the next three years is to further embed this digital first approach so that it does not revert to old practices and builds on the rapid transformation already achieved.

'It will continue to adopt and integrate new technologies to improve the experience of its members deliver greater productivity throughout the business.

'Online will be retained as the primary method for member engagement, but this will be complemented by in branch technology and support as well as the option of telephone application for those who are digitally excluded.'

Effective governance, skills development and risk management

Achieving a balanced membership | Diversified lending and customer growth | Optimising capital positions | Digital implementation | Effective governance and risk management | Proactive consolidation and collaboration

Overview

The demanding regulatory and prudential regimes are driving the requirement for strong governance in every credit union. The Financial Conduct Authority (FCA) has directly raised concerns about ineffective governance and the need for proper monitoring and oversight to every credit union.

To reduce risk, credit unions must have measures in place, such as succession planning, key person insurance, updated policies and procedures, and strengthened organisational resilience.

The board should lead the development of the strategic plan and oversee its implementation through internal systems, controls, and risk management.

Credit Unions should aim to create a culture of governance that empowers senior management, focuses on strategic leadership and oversight rather than operational details.

Undertaking skills audit and targeted recruitment exercise

Improvements in governance start with a Board and team composition that delivers the balance of knowledge and expertise needed to effectively oversee the running of a successful financial business.

A credit union can improve its understanding of customer needs by recruiting employees and Board members from diverse backgrounds with broad experience. This understanding then can be applied in designing relevant products and services, as well as approaches to engaging the membership.

This requires planned recruitment with a view to elect new members at the Annual General Meeting/Special General Meeting. If necessary, individuals who meet skills gaps and reflect the experiences and aspirations of the membership can be co-opted.

Key actions

- Conduct a review of Board skills to identify key competency requirements and any gaps in expertise or representation
- Implement a proactive recruitment and development process to identify and attract suitable candidates for Directorships, to fill the gaps and improve diversity

Improving Board governance and effectiveness

Credit unions need to maintain effective governance in order to have a successful business. This includes having a robust governance arrangement enhanced through a sustained programme of professional development, training and coaching. The Board should also be able to scrutinise management decisions effectively with timely management information.

- Plan for the future, in particular by implementing succession planning that strengthens employee and Board resilience

Key actions

- Review good practice research on governance within credit union sector and principles of credit union governance
- Adopt and work towards the Code of Good Governance
- Establish effective Board management information and action log
- Create annual programme of Board agenda items
- Task a Supervisory Committee with undertaking an annual review of governance
- Design Director and employee training and professional development programme to meet regulatory requirements
- Plan for the future, in particular by implementing succession planning that strengthens employee and Board resilience

Review of internal systems and risk management

Effective organisational performance requires policies and procedures that are robust, effective and compliant with PRA/FCA regulations.

Credit unions will need to ensure that their internal systems and controls are up to date. This will enable them to manage the adoption of new products, services, and delivery channels effectively while adapting to continued changes to the regulatory environment.

Equally, it will be important to keep mechanisms for identifying, quantifying, and managing risks and opportunities relating to strategic and financial goals under regular review.

Key actions

- Review current policy and procedure manuals and the related systems and controls to determine whether they have been fully implemented and the extent to which they need to be updated/amended
- Adopt relevant best practice and external templates for the risk management register and ensure it is reviewed and kept updated
- Schedule regular reviews and make necessary changes to procedures and policies, ensuring any new legislative and regulatory requirements are embedded

Key Performance Indicators

Table 8 below provides potential key performance indicators that can be determined and adopted by each credit union to measure the impact of the actions that have been taken over the timeframe of the business plan. Each indicator has been linked to the strategic objectives.

Table 8 – Potential KPIs to measure progress on 'Effective governance and risk management'

Key indicators to measure progress:	Strategic Objectives	Example Industry Goal
Number of Governance Code standards achieved[19]	• Undertaking skills audit and targeted recruitment exercise • Improving Board governance and effectiveness	**Required Standards - 30** **Gold Standards - 15**

Further Tools and Resources can be found at Annex 2.5: Effective governance, skills development and risk management

[19] ABCUL Governing for Success - A Code of Governance and Good Practice for credit unions in Great Britain

Proactive consolidation and collaboration

While not applicable to every credit union, consolidation and co-operation can enable them to achieve greater scale and address operational limitations. Forms of consolidation and co-operation include:

- **A merger**: to create larger credit unions with a more diverse membership base or loan book (examples include Great Western Credit Union, Pennine Community Credit Union and Boom Community Bank)
- **A partnership**: to strengthen or complement membership reach, products or human or technological capacity and capability (examples include the partnership between credit unions in Greater Manchester called Sound Pound)
- **Collaboration** across specific back office functions, such as shared marketing and communications, financial systems, HR or debt collection (examples include three credit unions in the Southeast supported by Credit Union Solutions, a shared credit union support agency)

Benefits of collaboration

Successful co-operation can generate a range of strategic or financial benefits:

1 Strategic benefits

- More effective strategic leadership, focused on growth and development, from the CEO and other senior team members
- Unified product design and innovation, focusing on development of the optimal portfolio of loans, savings, and other financial services
- De-risking of portfolios and more thorough due diligence on the merging loan books
- Greater specialisation and a reduction in the number of staff with multiple roles, increasing efficiency

2 Financial benefits

- Delivery of significant savings and efficiencies

- Faster growth and more rapid realisation of economies of scale
- Cost savings achieved through increased purchasing power and efficiencies in combined marketing, IT, and infrastructure systems as well as sharing of specialised staff
- Increased funding to support investment in customer analytics, marketing and IT and infrastructure systems, including through the release of resources and generation of additional income

Merger motivations

While most partnerships and collaborations are proactive, most formal mergers are still driven by financial distress and the need to avoid financial failure rather than a strategic decision to grow and improve the business and provide better products and services for members.

This is reflected in recent research[20], which indicated that 82% of surveyed credit unions merging in the last 10 years referenced financial sustainability as a key reason for the decision to merge.

By focusing on service to current and potential members, credit unions can respond proactively to governance and financial pressures and ensure that they continue to serve and support their communities and communities of interest.

Key actions

- Review good practice resources from ABCUL and Eastside Primetimers
- Formulate a long term strategy and determine whether consolidation is an enabler and appropriate strategic direction for the credit union to pursue
- Ensure initial buy in and support of key internal stakeholders for this process

Further Tools and Resources can be found at Annex 2.6: Pro-active consolidation and collaboration

[20] Association of British Credit Unions (2021) - Towards a Strategic Approach: Mergers in the Credit Union Sector

Conclusion

Due to the pandemic, some credit unions had to implement significant changes to their products and service delivery methods, which could serve as a catalyst for further transformation and growth.

However, in other cases, the challenging trading conditions resulting from the Covid-19 pandemic worsened existing financial and operational frailties.

As a result of the current cost of living crisis, the subsequent recovery following the lifting of Covid-19 restrictions will now likely give way to a much more difficult environment.

The current challenge for credit unions is to be agile enough to achieve both the prudential levels of sustainability required by the regulator and the accelerating growth necessary to long term sustainability.

Achieving robust organic growth will require adjustments to credit unions' previous financial models, allowing them to become more profitable and well capitalised, as well as to make necessary investments in digital technology, further product diversification and strong leadership.

There may also be opportunities for greater cooperation in back office delivery and for achieving greater efficiency and customer reach through mergers, which should be explored.

Annex 1: Credit Union Statistics 2017 -2022

Table 1 – English Credit Union Statistics

Information on:	English credit unions Q3 2017	English credit unions Q3 2022	Five-year change 2017-2022 (%)
Number of credit unions	193	151	-21.8%
England Adult Population members	752,459	886,954	18.0%
Adult population penetration (%)	1.8%	1.98%	32.0%
Total assets (£ thousands)	£882,878	£1,501,689	70.1%
Total capital (£ thousands)	£109,479	£181.786	66.0%
Total shares (£ thousands)	£747,593	£1,295,167	73.2%
Total loans (£ thousands)	£493,636	£860,972	74.4%
Total Income	£73,913,	£116,950	58.2%
Total expenditure (£ thousands)	£63,822	£102,050	59.9%
Interim Profit	£10,092	£14,900	47.6%
Loan/Asset ratio (%)	55.9%	57.3%	0.03%
Loan/Share ratio (%)	66.0%	66.5%	0.01%
Income/Asset ratio (%)	8.4%	7.8%	-0.07%
Percentage of loans outstanding in arrears	6.10%	7.9%	0.30%

Annex 2: Further Tools and Resources

Annex 2.1 Achieving a balanced membership

The list below identifies further tool and resources offering guidance on achieving balanced membership growth:

- **Illegal Money Lending Team: Payroll Deduction Toolkit**

  Visit the link to learn about a government funded initiative aimed at combating illegal money lending in the UK, and to find information about payroll support for employers impacted by loan sharks, as well as answers to common questions about the scheme
- **Barclays CU Capacity Building Programme: Payroll Deduction Resources and Templates**

  Follow the link to access materials developed as part of the Barclays Programme, including Payroll Deduction Payment Form, Payroll Deduction Policy and Procedural Guide
- **Fair4All Finance: Segmentation model of people in financially vulnerable circumstances**

  Access the link to obtain resources such as webinars, reports and insights about the Fair4All Finance segmentation toolkit, which is designed to help financial services providers better understand the financial needs and behaviours of under-served communities in the UK
- **Financial Inclusion Centre: Getting Workforces Saving - Payroll Schemes with Credit Unions**

  The report provides recommendations and insights on implementing payroll savings schemes with credit unions to improve financial wellbeing of employees
- **Heriot-Watt University: Implementing payroll deduction for Scottish credit unions**

  The report provides insights into the role of credit unions in promoting financial inclusion in Scotland. It highlights the benefits of credit unions and provides recommendations for policymakers and stakeholders to improve access to credit union services
- **Local Government Association: The role of councils in improving access to affordable credit and financial services for low-income households**

  See the publication to obtain insights and case studies on how local authorities can work with partners to develop and support affordable credit initiatives for their communities
- **Campbell Tickell: Unlocking tenant financial resilience**

  Visit the link to learn about the challenges faced by tenants in accessing affordable credit and obtain insights on potential solutions for promoting financial resilience among this group
- **Financial Inclusion Centre: An Insight into Credit Union Membership**

  Access the link to obtain largest ever insight into the use, attitudes and financial capabilities of existing credit union members

Annex 2.2 Diversified lending and customer growth

The list below identifies further tools and resources offering guidance on diversified lending and customer growth:

- **Barclays CU Capacity Building Programme: Child Benefit/Family Loan Resources and Templates**

  Follow the link to access materials developed as part of the Barclays Programme, which include Family Loan FAQ template, Family Loan Letter to Child Benefit Office template, Family Loan Application Form template, Family Loan Agreement Form template

- **Barclays CU Capacity Building Programme: Cost of Loan Calculator**

  By accessing the link, you can find a Loan Cost Calculator, Loan Application Process information, and a Debt Recovery Flow Chart

- **Swoboda Research Centre: Borrowing from a Credit Union - Messages from Members**

  This paper summarises survey and focus group data from two large credit unions on borrowing experiences of members, with mini case studies of five credit unions that have achieved success in lending, making it worth a read

- **Swoboda Research Centre: The Revolving Credit Opportunity for Credit Unions**

  A think and do paper that represents revolving credit as an opportunity for credit unions in Ireland and Great Britain and suggests that it has the potential to replace the current top-up lending practice with greater convenience for members and lower administrative expenses for credit unions

Annex 2.3 Optimise capital position

The list below identifies further tools and resources offering guidance on optimising capital positions:

- **PRA Rulebook: Credit Unions (8 – Capital)**

  The link provides access to the Prudential Regulation Authority (PRA) Rulebook, which outlines regulatory requirements regarding capital

- In their recent consultation (2022) the PRA has suggested the following additional parameters to Credit Unions pursuing riskier additional activities or having larger numbers of members:

Term – applied to 'additional activities' and over 15,000 members	Additional invest-ments	Additional lending	Mortgages	Trans-actional accounts	Indicative ratio
Credit union's borrowings as percentage of total asset	Y	Y	Y	Y	<5%
Total shares as percentage of total assets	Y	Y	Y	Y	>70%/ <90%
Total bad debt written off as percentage of total loans		Y	Y	Y	<10%
Net assets as percentage of sum of total shares and juvenile deposits	Y	Y	Y	Y	>105%
Bad debt (more than three months in arrears) as percentage of total loans	Y	Y	Y	Y	<20%
Non-earning assets as percentage of total assets	Y	Y	Y	Y	<10%

- **Social Finance: Building the case for social investment in credit unions**

  The research paper on 'Building the Case for Social Investment In Credit Unions' by Social Finance, ABCUL and Big Society Capital, provides insights on how social investment can help in creating a more equitable and inclusive financial system

- **Good Finance: What is Social Investment?**

  The website provides a guide to understanding social investment, including what it is, who it is for and how to access it. It also includes case studies and resources to support organisations in exploring social investment as a funding option

Annex 2.4 Digital implementation

The list below identifies further tools and resources offering guidance on digital implementation:

- **Swoboda Research Centre: When It Hurts More to Stay Than to Leave - Time for a New Core System?**

  The paper provides an overview of the challenges faced by credit unions in relation to their legacy core systems, and explores potential solutions and benefits of upgrading to a new core system

- **Finance Innovation Lab: Open Banking - An introductory guide to credit unions**

  The paper discusses the potential benefits of open banking for credit unions, and provides practical guidance for credit unions to implement open banking in their operations. It also highlights case studies of credit unions that have successfully leveraged open banking to improve their service offerings

Annex 2.5 Effective governance, skills development and risk management

The list below identifies further tools and resources offering guidance on effective governance, skills development and risk management:

- **Association of British Credit Unions: Code of Governance for Credit Unions**

  Visit the link if you are interested in understanding the governance structure of credit unions, how they ensure quality service, protect members' assets and serve members' needs

- **Barclays CU Capacity Building Programme: Risk Management resources and templates**

  Follow the link to access materials developed as part of the Barclays Programme, which include:

  - Credit Union - Basic Risk Register
  - Credit Union - Mid Range Risk Register
  - Credit Union - Advanced Risk Register
  - Introduction to Risk
  - Risk and Governance Committee Terms of Reference
  - Risk Framework - Categories of Risk
  - Risk Framework - Roles and Responsibilities
  - Risk Management Policy Contents Page

- **Barclays CU Capacity Building Programme: Governance resources and templates**

  Follow the link to access materials developed as part of the Barclays Programme, which include:

  - Governance Principles for Credit Unions
  - Credit Union Responses - Key Threats Priority Areas
  - Cash Management Considerations

- **Swoboda Research Centre: Reflections Series Insights and Experience from Practitioners: Managing Risk in a Credit Union**

  By accessing the link you can find insightful reflections by the CEO of No 1 CopperPot Credit Union on embedding a risk management framework throughout the credit union

- **Swoboda Research Centre: Top Performing Credit Union Boards - The US Experience**

  The report provides insights into the best practices of top-performing credit union boards, offering useful guidance for credit union board members seeking to improve their governance and leadership skills

Annex 2.6 Proactive consolidation and collaboration

The list below identifies further tools and resources offering guidance on proactive consolidation and collaboration:

- **Association of British Credit Unions: Towards a Strategic Approach Mergers in the Credit Union Sector**

  Access the report to understand how strategic mergers could be better facilitated in the sector

- **Eastside Primetimers: Good Merger Guide**

  Follow the link to access a comprehensive guide on how to navigate the complex process of mergers. It offers practical tips, resources and case studies to help organisations make informed decisions and successfully execute a merger

- **Joseph Rowntree Foundation: Building better credit unions**

  Read the study which seeks to identify the development patterns of credit unions, measure their performance and pinpoint the factors that make some credit unions more successful than others