Understanding the role credit unions can play in tackling the protection gap

Introduction

The Financial Services and Markets Act[1] received Royal Assent[2] in June 2023. The Act enables credit unions to offer their members insurance products. It **provides opportunities for credit unions to expand their range of services**, which has the potential to reach members of the public who are less likely to have insurance.

In order to better understand this opportunity, the Aviva Foundation, in partnership with Fair4All Finance, commissioned KPMG – with support from the Swoboda Research Centre – to undertake research to explore what potential **role credit unions could play in the provision of different kinds of insurance products** to their members.

Research from Fair4All Finance highlights that three in four people (74%) in financially vulnerable circumstances have some form of insurance[3], compared with 84% of the national population[4]. The ***most financially vulnerable*** **segments identified in Fair4All's research are the *least likely* to have any form of protection**.

The right level of **insurance can play an important role in building financial resilience**.[5] It can help provide protection against financial shocks, manage risk and reduce worry about future uncertainty.

Through greater understanding of credit union members, their protection needs and what credit unions and the insurance sector needs to do to better meet them, this **research aims to provide actionable insights to inform credit unions and the insurance sector on how to tackle the 'protection gap' –** where people have inadequate insurance coverage**.**

The project took place between January and June 2024 and encompassed four stages of research:

1. **Comprehensive desk-based review** of relevant research, studies, models and insight.
2. **Quantitative survey of 3,000 credit union members** to better understand their motivation, needs and barriers around insurance.
3. **Qualitative depth interviews** across insurers, brokers, credit union leaders, credit union trade bodies, credit union membership and other key stakeholder groups.

[1] https://bills.parliament.uk/bills/3326
[2] https://www.gov.uk/government/news/rocket-boost-for-uk-economy-as-financial-services-and-markets-bill-receives-royal-assent
[3] 26% of financially vulnerable population have no insurance. Source: Updated insights into people in financially vulnerable circumstances (Updated January 2025), https://fair4allfinance.org.uk/our-resources/our-segmentation-tools-and-resources/ (slide 21 of 24). Full methodology provided: https://fair4allfinance.org.uk/our-resources/customer-segmentation/
[4] https://www.fca.org.uk/publication/financial-lives/fls-2022-general-insurance-protection.pdf
[5] https://assets.publishing.service.gov.uk/media/61ade301e90e07043f2b9808/Financial_Inclusion_Report_2020-21.pdf#:~:text=day,%20insurance%20plays%20an%20important%20part

4. **Focus groups** bringing together representatives from insurers, credit union leadership and the project team.

This paper provides an overview of the key insights from the research, and potential ways forward for credit unions, insurers and regulators.

Methodology and its limitations

Data from the Bank of England from 2023 suggests that there are approximately 232 credit unions in Great Britain, serving just over two million adult members.[6] The **size and scope of credit unions, and the profile of the members they serve, varies significantly**. At present, there is no comprehensive data source which profiles overall credit union membership. Therefore, when conducting research into credit unions in Great Britain, there is limited understanding of the total 'population' of members to help understand and shape the representativeness of samples of members. As such, **caution must be applied when making generalisations about credit union members**.

For this survey, purposive sampling – a non-probability method for obtaining a sample – was used. The project core team used its experience and expertise to select a range of industry[7] and community[8] credit unions to include in the research and, for the quantitative survey, an online survey was distributed to their members.

Project partners

The Aviva Foundation is a grant-making, charitable initiative that aims to build the financial resilience of those who need it the most. The Foundation is administered by Charities Trust under charity registration number 327489.

Fair4All Finance is a not-for-profit organisation, founded in 2019, to increase the financial wellbeing of people in vulnerable circumstances by increasing access to fair, affordable, and appropriate financial products and services.

The Swoboda Research Centre aims to support positive change and transformation in the credit union movement by providing action-orientated, sector-leading research and events.

KPMG are a leading consulting partner who are global experts in customer experience across all sectors. KPMG work with clients to solve problems by bringing in market best practice and expertise.

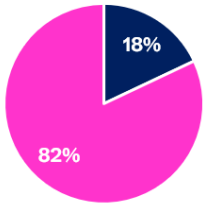
[6] https://www.bankofengland.co.uk/statistics/credit-union/2023/2023
[7] Industry: No1 CopperPot; Co-Op Credit Union (now The Money Co-op); Commsave; and Metro Moneywise
[8] Community: Enterprise; South Manchester; Stockport; and London Mutual Credit Unions.

Key Insights

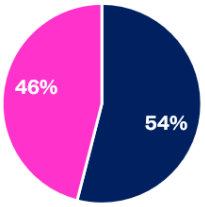
1. Credit unions, and their members, are not a homogenous group. There is unlikely to be a 'one size fits all' solution that works for all credit unions and their members.

This research spoke to members of 'community' and 'industry' credit unions. Community credit unions share a geographical common bond. Industry credit unions share an occupational/associational common bond. The **membership profile of credit unions varies significantly**: *"There is not a clear consensus on the target market for credit unions in Britain"* (ABCUL, 2024)[9].

82% of industry credit union members buy a form of insurance



46% of community credit union members buy a form of insurance



Yes
No

This research highlights that credit union members from **industry credit unions have significantly higher insurance cover** (82% - base: 1951 respondents, compared with 46% - base: 929 respondents that are community credit union members). This may reflect the fact that this research highlights that industry credit union members tend to have higher incomes, and are more likely to use their credit union for savings than loans:

- 24% (base: 1951) of industry credit union members, earn £4,000+ in monthly income before tax, compared with 10% (base: 929) of community credit union members;
- 52% (base: 1951) of industry credit union members work in full time employment, compared to 37% (base: 929) of community credit union members;
- 4% (base: 1951) of industry credit union members rent from a housing association or local authority, compared to 50% (base: 929) of community credit unions;
- 68% (base: 1951) of industry credit union members became members to help them save (compared with 59% - base: 929 of community members), and 49% (base: 929) of community credit union members became members due to the low rates on loans (compared with 38% - base: 1951 industry members).

Differences in the profile of credit union members **impact on their ability and appetite to purchase different forms of insurance, and the way in which they do so**. For example, 55% (base: 1561) of industry credit union members start their search for insurance on price comparison websites, compared to 40% (base: 426) of community credit union members. In comparison, 62% of all consumers across the general population consult a price comparison site when considering buying or

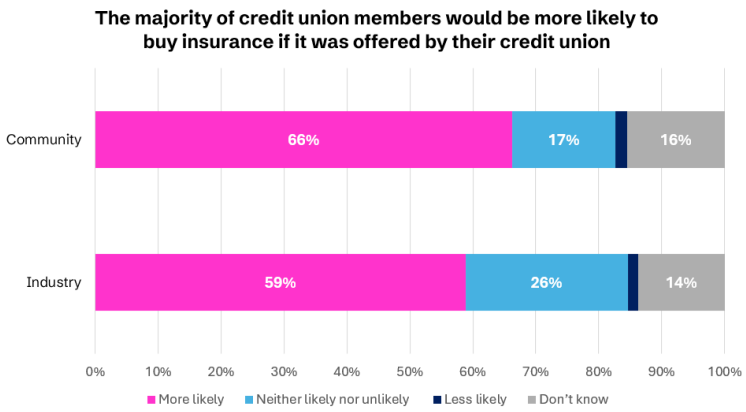
[9] ABCUL. (2024). *Vision 2025: A vision and strategy for British credit unions to 2025.* Available from: ABCUL-Vision-2025.pdf

renewing a general insurance product[10]. Potentially reflecting lower and more volatile incomes, 76% (base: 426) of community credit union members pay for insurance in instalments, compared with 51% (base: 1561) of industry credit unions members.

This research suggests that it might be easier to target members of industry credit unions with insurance as they have higher incomes, many already have insurance coverage, and their credit unions may have greater capacity to offer a broader range of services. However, **the membership profile of community credit unions is more likely to reflect people in the 'protection gap'** – those more vulnerable in society, where need is higher.

2. Many credit union members are interested in increasing their insurance provision and see their credit union as a trusted supplier. Credit union leadership and insurers are interested in exploring this opportunity, and there are examples of it working outside of the UK.

Over half (54% - base: 503) of community credit union members included in this research do not currently buy insurance, compared with 18% (base: 357) of industry credit union members. However, of this portion of community credit union members that do not currently buy insurance, only 37% (base: 503) of members *do not want or need* insurance. This suggests an **identifiable insurance need in community members.**



Credit union members who do not currently have insurance would be ***more likely*** **(industry 59% - base: 357, community 66% - base: 503) to buy insurance if it was offered by their credit union**.

Credit union leadership involved in this research expressed an **interest in increasing the financial resilience of their members through insurance**. For some leaders, insurance provision is primarily a way to increase the financial resilience of members, whereas others saw a potential opportunity to diversify their services; increasing the income and sustainability of their credit union.

Common across all stakeholder groups involved in this research, **insurance provision was seen as a *natural fit* to complement the current suite of services credit unions provide**. Some credit unions

[10] MINTEL Consumers and General Insurance - UK – 2023 https://clients.mintel.com/content/report/consumers-and-general-insurance-uk-2023?fromSearch=%3Ffreetext%3Dinsurance%25202023%26resultPosition%3D2

have historically offered a 'death benefit' – marketed as a 'member protection plan', which is similar to life insurance – however, a main provider of this product to credit unions has withdrawn it from the market. Some credit unions also offer members free loan protection insurance (so that 'the debt dies with you') and life savings insurance (where savings are increased in the event of death). In addition, some participants highlighted that insurance could be a relevant extension to existing offers – such as offering insurance alongside loans that members already take – such as car insurance with auto loans.

Representatives from insurers involved in the research noted that greater involvement of credit unions in the insurance sector provided the following potential benefits:

- **Customer knowledge**: credit unions offer the opportunity to really understand member needs, which may help to identify and/or design the right products.
- **Access and distribution**: insurers were interested in how they could adapt existing products to distribute through credit unions.
- **Access to new markets**: underserved credit union members present a potentially sizeable population to target.

The desk-based review and stakeholder interviews highlight international examples of distribution by credit unions such as in the USA, where there is a longstanding and significant relationship with CUNA Mutual (TruStage), and in Ireland, credit unions use firms such as CMutual, ECCU, Axa and Allianz for their product offers.

3. Members trust their credit union. This presents opportunities and threats to credit unions' role in providing insurance.

Members are **very positive about their credit union**. 82% (base: 1951) of industry and 90% (base: 929) community members would *recommend* their credit union. Reflecting their positive experiences, 80% (base: 1951) of industry, and 88% (base: 929) of community, members feel *very* or *extremely* supported by their credit union. *"The brand amongst the credit union is very strong", "I don't feel like I need to read the small print on my products because I trust my credit union to do that for me"* (credit union member).

Fairer Finance's Trust in Insurance Index[11] highlights declining levels of trust in insurers due to cost, customer service and other factors.

High levels of trust, and a close personal relationship with members, **presents a potential new route to market and intermediary for insurance through credit unions**. This could either be targeting essential coverage to those with none or ensuring more appropriate coverage for those with policies already in place.

[11] https://www.fairerfinance.com/insights/blog/the-fairer-finance-trust-in-insurance-index-spring-2024

However, this **trust is a double-edged sword**. Members trust their credit union to do the 'right thing', which puts pressure on credit unions to ensure insurance partnerships are right for their customers. Qualitative research with credit union members suggested they are likely to hold credit unions accountable for issues they may face with insurance companies, which has the potential to impact credit unions' trusted reputation.

4. The cost of insurance remains a major barrier. Increasing the role of credit unions in the insurance sector may not make a significant difference to the take-up of insurance products, without addressing affordability - particularly for community credit union members.

Of those credit unions members who *do not* currently buy any form of insurance, the **most common reason for not buying insurance is affordability** – 32% (base: 357) of industry and 30% of community members (base: 503) without insurance feel it is *too expensive*.

Price is not the only barrier. Members and credit union leadership also raised **barriers relating to access, complexity and understanding**. However, it was noted by members, credit union leadership and insurers that affordability is paramount: *"most important distribution considerations to me is cost… need to keep the costs down otherwise we are not solving the customer problem"* (Insurer).

Credit union members expect to see **better priced products offered by their credit union and are likely to need more flexible payment terms** – some stakeholders involved in this research felt it might be unrealistic for credit unions to be able to be able to provide this.

5. Credit unions can play a number of different roles in the process. It is important to understand the implications of different roles on credit unions' capacity, business model and their ability to meaningfully tackle the protection gap.

Credit unions have the potential to play a range of different roles in the insurance process. From being an introducer – referring potential customers to a regulated insurance firm, without engaging in any insurance activities/providing financial advice – right through to playing a broker role, which involves providing comprehensive advice and services to members.

In general, **the more involved role a credit union plays, the greater the potential financial and social benefits. However, this may be countered by greater regulatory requirements, strain on capacity, and higher levels of risk - all potentially increasing the financial burden**.

The **most 'light touch' role a credit union can play is as an 'introducer'**. In this situation, it would pass on members to a regulated insurer or intermediary. Such an approach is likely to be more light touch from a capacity and regulatory perspective. This approach was attractive to some credit union leaders who felt that, at this time, they didn't have the resources or expertise to be anything more than a introducer: *"cost and burden of regulation is way too much even for large credit unions – got to focus*

on just the introducer end" "Given our size and the additional initial resources required… the ongoing complaints and training … introduction may almost be too strong" (credit union leadership).

However, while an 'introducer' role is a relatively straightforward step for credit unions to take, arguably **it may present risks to the credit union**. In an introducer role, credit unions would pass on members to an insurer, and so would not be decision makers themselves on insurance pricing or claim outcomes. Should a member be unhappy with the service they receive from an insurer, this research suggests they may be likely to hold the credit union responsible. In addition, this research suggests that members need guidance and support in identifying their protection needs, and which products will serve them best, would this be possible in an introducer role?

Playing a more **advisory role in the insurance process would enable credit unions to provide financial advice**, supporting its unprotected members to understand their needs and the potential solutions. In addition, playing a more involved role in the process opens up the possibility of greater financial income for credit unions through commissions – which can be utilised to build the financial resilience of the credit union.

However, in an advisory role, credit unions need to be equipped with the right knowledge to hold meaningful conversations with their members. This requires **capacity building, and there is an opportunity cost to staff time** spent on identifying and serving insurance needs. In addition, **the more involved a credit union is in the advisory process, the greater the regulatory requirements**. At this stage, it is unclear whether the potential financial benefit to the credit union outweighs the resources required to deliver a more involved role in the insurance process.

In interviews with credit union leaders, they reflected that – at this present time, in a challenging market – credit unions have a number of competing priorities. **In the long list of credit union priorities, is insurance where they should focus**? Leadership wants to ensure they are offering the most important products and services for their customers' needs and **insurance may not be at the top of that list and may result in high dropout rates** *"Insurance isn't on our members list of important things, bills and paying for everyday life is above that"* (credit union leader).

6. To enable credit unions to help their members make the right insurance choices, the process needs to be simple, and some credit unions would need support. Many are concerned about the regulatory requirements.

It is clear from this research that, whatever role credit unions might play in the insurance process, there is a need for **capacity to be built, and support provided**. Some credit unions don't feel they have the insurance expertise to face tough regulations: *"Insurance is very complex industry – need people who understand the market and risk as well as underwrite"; "we need our hand holding"* (credit union leader).

The Labour Party signalled an intention to streamline the regulatory requirements on the insurance sector at the 2024 ABI conference[12], noting that a Labour Government would work in partnership with the sector to remove barriers affecting competitiveness and growth. This may be an opportunity to simplify the potential role for credit unions in the process.

The main areas identified in this research where further support may be needed include:

- **Understanding and navigating the regulatory environment:** credit union leadership noted a desire for greater understanding of the regulatory requirements on credit unions, or potentially the establishment of an umbrella regulated body to support credit unions. It must be noted that this is a dynamic environment, with the FCA recently launching a Market Study on Protection Products[13] to better understand whether the market is functioning well and whether consumers are receiving good outcomes, which provides an opportunity for regulatory change.
- **Expertise:** to be able to provide members with advice and knowledge around insurance products, some credit unions felt they would need additional training and support.
- **Set-up costs, administration and marketing:** although insurance was seen as a logical extension of the kind of support credit unions provide, leadership reflected that credit unions are likely to need help with setting up their approach in this area, technical administration of insurance, and how best to market it to members.

7. Insurance providers are already working with credit unions. Learning from their models and experiences provides an opportunity to better understand how to scale insurance provision in the sector.

This research highlighted that a number of **credit unions are currently in discussion with potential suppliers to explore how best they can provide insurance to their members**. Some existing suppliers are **already closely aligned to the credit union sector**, supplying products such as fidelity bonds and loan and savings protection insurance.

Existing credit union suppliers, with expertise in insurance, that are closely aligned to the sector, will potentially offer a straightforward way for credit unions to be involved in the insurance process.

8. At this stage, it is unclear whether there is a large enough commercial opportunity for credit unions and/or insurers to engage in this area.

While this research suggests that members would be more likely to buy insurance from their credit union, at this stage, **it is too early to judge whether the opportunity credit unions present in**

[12] https://www.insurancetimes.co.uk/news/as-labour-wins-general-election-what-has-it-said-about-insurance/1452381.article
[13] https://www.fca.org.uk/publications/market-studies/ms24-1-1-market-distribution-pure-protection

providing insurance to their members, will be financially attractive for credit unions and/or insurers. There are too many variables and too much uncertainty relating to the role credit unions can play in the process, the profile of their members that might be included, and the regulatory requirements, to make definitive judgements about the potential commercial opportunity.

For insurers, it's clear that **credit unions provide potential access to a sizeable population with low to no insurance coverage**. High levels of trust in credit unions, and their in-depth knowledge of members, also provides an opportunity to engage their members, potentially better understanding their needs, matching them to appropriate products. In addition, the member data that credit unions hold might enable insurers to create different risk profiles that might be more suited to customer needs. In general, insurers were keen to find solutions that could improve take up of insurance with credit union members, however, were **cautious about the commercial viability of bespoke propositions** for credit unions and for insurers.

For credit union leadership, motivations for greater involvement in insurance include both the commercial opportunity, and the social benefits related to improving the financial resilience of their members. In addition, there are two broad potential groups of members – those that already have insurance, who would need to be persuaded to switch; and those who do *not* have insurance and would need to be persuaded to make space for it in their budgets. This research underlines that, without a clear target audience in the diverse credit union membership, and clarity over the role a credit union might play (for example, an introducer or advisory role), **it is not possible to provide a clear indication of the potential commercial benefits for credit unions** and the impact on their business model. The more engaged role a credit union plays in the process, the more profitable it potentially becomes. However, when factoring in the impact on capacity, regulatory requirements, setup costs, opportunity cost, and the risk associated in working in a new, complex area, **at this stage, the research to date does not indicate a robust financial opportunity** for credit unions to expand in insurance.

While each stakeholder group involved in this research was cautious about the commercial opportunity, **from a social impact perspective, many recognised the potential for credit unions to support their unprotected members to identify and access appropriate insurance**.

What could this mean going forward?

This research demonstrates that many credit union members – particularly in community credit unions – are unprotected (54% - base: 503 of community and 18% - base: 339 of industry credit union members do not buy any form of insurance). For credit unions to play a significant role in tackling this protection gap, it can be argued that three aspects need to be true: i) there is sufficient appetite from members; ii) credit unions are able to break down barriers their membership currently face; and iii) there is a sustainable business model – for credit unions and insurers:

i. **Appetite from membership base:** this research suggests that members trust their credit union, and would be more likely to buy insurance from them.
ii. **Credit union's ability to tackle barriers:** the close, trusting relationship credit unions have with members may help to overcome barriers such as: the complexity of insurance products and level of trust in insurance. However, there is a risk that trust in credit unions may erode if their membership has negative experiences.
    Price remains a key barrier for membership, and at this stage, this research provides no evidence that credit union engagement in insurance can materially impact on affordability.
iii. **Sustainable business model:** while this research highlights that credit unions can provide insurers with access to unprotected groups in the market, question marks were raised about commercial viability. A number of issues need to be considered:
    a. *Will fragmentation enable the development of simple propositions?* Credit union customer bases are different and may require different solutions, this may lead to high setup costs.
    b. *Would there be high enough take up of insurance in the credit union market?* High take up would drive prioritisation for credit unions and provide insurers with the scale required for viability.
    c. *Are the regulatory requirements proportionate to the effort for credit unions?* The simplest way for credit unions to be more involved in is by playing a light touch 'introducer' role. However, a light touch approach may not provide enough support for unprotected members to fully understand their insurance needs, the pros and cons of different options available, and the potential impact on their financial resilience.

This research indicates that, at this stage, the cost of insurance and the business model, remain barriers to capitalising on the potential role credit unions can play in tackling the protection gap.

Four considerations are provided for further exploration:

1) Investment is needed to set-up, develop and monitor the opportunity – supporting collaboration in and between credit unions and insurers.

Taking into consideration the competing pressures and priorities that credit unions face, questions on the commercial viability of the opportunity, and the myriad of requirements needed to capitalise on this potential opportunity, it's unlikely that major transformation will happen without significant investment. Key areas to explore include:

What could this mean going forward?

- **Proof-of-concept:** embarking on change at scale should be grounded in a proof-of-concept to test the effectiveness of the different roles credit unions can play in the process, with clear outcomes relating to the credit union, insurer and, most crucially, the member. This would help validate the opportunity, build the case for change, and produce a fully tested, costed and proven concept.
- **Business model development:** based on insights from the proof-of-concept and data from credit union and insurance sectors, support to develop sustainable business models may be required.
- **Regulatory understanding and change:** insights from this research and the development of a proof-of-concept will help to inform credit unions of the regulatory requirements, which should be the basis for developing common guidance. Greater understanding of the regulatory environment, and overcoming barriers to engagement, is likely to require strong facilitation and greater input from the Government and the FCA to move beyond concept into reality.
- **Capacity building, administration and marketing**: it is clear from this research that, whatever role they play in the insurance process, credit unions will require support to increase their understanding of insurance, and the administration and management of this activity. Collaboration between credit unions to achieve economies of scale is a feature of credit union development in many countries, and could be an option to explore in this area.
- **Understanding and tracking impact:** if social impact is a key motivation for driving change, support is needed to meaningfully track the impact of increased protection for people on low incomes. This needs to go beyond tracking individual customer outcomes through the lens of consumer duty and compliance requirements, and to look overall at whether investing in supporting greater protection coverage is resulting in individual and societal impact. Data captured should inform any course correction needed to maximise outcomes for different parties involved. Capturing this impact is likely to be beyond the means of individual credit unions, and would benefit from being conducted independently from those involved in any pilot.

2) Greater clarity on the 'type' of credit union and audience targeted, and what needs are being addressed.

- This research highlights notable differences in the types of credit unions, and their membership. **Considering credit unions, and their membership, as a homogenous group may hamper progress at scale**. Members from community credit unions were more likely to be unprotected, when compared with industry members. Across Great Britain, there are c232 credit unions, represented by different trade bodies, many of which operate under different forms of common bond. It may be challenging for insurers to engage with the sector.
- The Institute and Faculty of Actuaries[14] highlight that many people feel ill-equipped to deal with the risks they face and need support with the complex decisions involved in managing financial risks

[14] https://ifoa-prod.azurewebsites.net/thought-leadership/thought-leadership-campaigns/great-risk-transfer/

effectively and affordably. Their **focus on *which types of insurance cover should be seen as essential for financial resilience*** may help to inform thinking in this area. In this research, life insurance was often cited as a product that credit union members would like to have but either cannot afford or don't currently have. This could be a good place to start, however, greater understanding about whether this is the highest priority need for people on low incomes is needed prior to piloting/promoting a particular product.

3) It is important to identify a champion, prioritise collaboration and build trust.

- This research highlights cautious interest from credit unions and insurers, however, based on discussions with those included in this research, **there is not a clear leader driving change in this area**. There is a risk that, **without a strong leader to champion progress and drive collaboration, progress will be, at best, incremental**. Arguably, this is a role where Government has a role to play, setting the ambition, and supporting action – however it is important that this includes advocates from credit union leadership, who are influential with their peers. The development of the government's Financial Inclusion Strategy, and its focus on insurance may provide an opportunity to drive progress in this area.[15]
- Forging a **coalition of credit unions** – or piggybacking on existing coalitions – could help **develop economies of scale** in different parts of the process, potentially increasing economic viability. In parallel a **coalition of insurers**, with the shared goal to see if industry collaboration could create opportunities to solve customer problems, may help to drive involvement across the industry.
- This research uncovered that, in general, there is **not a strong, existing relationship between credit unions and insurers**. It was evident through discussions with credit union leadership that, when selecting partners, alignment with their values and what they stand for, is key. As such, **space needs to be created to build relationships and trust between sectors** to underpin future collaboration.

4) Learn from initial progress of credit unions providing insurance. Use insights to identify, and work collaboratively, to remove barriers that prevent growth in this area.

- A number of credit unions are already in discussion with potential suppliers about offering insurance to their members. This is **likely to yield valuable insights into the viability and opportunities of this route of insurance distribution.** From a credit union perspective, insights on the regulatory and capacity requirements will help to identify barriers to growth. In addition, better understanding of the kinds of products that resonate with members, and who those members are, will help to identify opportunities for scaling approaches, and the potential pros and cons of the role of credit unions as 'introducers'.

[15] //www.gov.uk/government/publications/financial-inclusion-committee/financial-inclusion-commitee-terms-of-reference)