

FINANCIAL INCLUSION

working with credit unions

Barclays Bank is helping credit unions in the UK to improve their growth prospects in advance of regulation that will make it easier for the financially excluded to gain access to low-cost finance. The work is part of its wider support for those who have difficulty accessing financial services

Credit unions have long been regarded as the poor relation of the UK financial services world. As financial co-operatives owned and controlled by their members, they have tended to be regarded as community projects rather than as financial businesses in their own right.

But big changes are afoot. This summer the 700-odd credit unions in England, Scotland and Wales, which have a total membership of about 375,000 people, come under a new regulatory regime administered by the Financial Services Authority (FSA). This will require credit unions to keep a much tighter grip over their financial position than they have so far. It will also allow them to borrow money from a much wider range of sources than they can at present.

The new arrangements, which come into force on 2 July, will benefit the movement in other ways. For example, members will be able to receive dividends, and have access to a compensation scheme, if the credit union to which they belong runs into financial problems.

The government is keen to allow credit unions to have greater commercial freedom because it wants to make it easier for them to serve those who are

the company

Barclays is one of the largest financial services groups in the UK and has more than 20 million customers worldwide. Last year it made profits of £3.6 billion before tax on operating income of £11.4bn. It:

- is one of the UK's largest corporate donors. In 2001 Barclays made a global contribution to the community of £31.1 million
- has written off \$2bn of developing country debt
- directly supported six community development finance institutions during 2001, approving subsidized loan funding totalling £1.15m and grants of £165,000 for projects such as The Salford Money Line, which provides unsecured loans to people unable to borrow money from a bank or building society
- had over 115,000 customers with a basic bank account by the end of 2001
- provided £1.8m of funding for the free independent money advice sector in 2001.

the background Credit unions are active in more than 80 countries, and more than 100 million people internationally are members. With around 375,000 credit union members, Great Britain has fewer than Ireland (2.6million) and Romania (1.572m), according to the World Council of Credit Unions.

■ **Tower Hamlets Community Credit Union** is one of ten credit unions in England, Scotland and Wales that will benefit from Barclays help to improve its overall financial performance. The London borough of Tower Hamlets is the UK's sixth poorest local authority area, even though the Canary Wharf business development lies within its boundaries



financially excluded. Barclays Bank is helping the movement to achieve this goal. Working closely with the Association of British Credit Unions, which represents 80 per cent of the movement, the bank is providing more than £100,000 to help them measure their individual financial performance on a regular basis and to benchmark it against best practice in the sector.

The money will enable Abcul to provide ten credit unions – five in England, four in Scotland and one in Wales – with the specialist software needed to do

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this. The Pearls Monitoring System generates 46 financial ratios that enable credit unions to monitor their overall financial position, and check, for example, that they are making adequate provision for bad loans.

Abcul will also use the money from Barclays to employ a financial monitoring officer who will help the association's 492 affiliated members to interpret the ratios

that the software generates, enabling them to compare their performance with the sector as a whole.

'Before credit unions can shoulder the responsibility of more members, they need to have greater financial stability', says Abcul chief executive Shaun Spiers. 'Barclays is helping us to achieve this by providing the financial kick-start needed.'

The close relationship between the UK's third-largest bank and the credit union movement did not come about overnight. 'Barclays became involved early on', says Spiers. 'We've been talking to the banks for some time and we have not been able to secure support for national projects from any of the other "big four" banks. In monetary terms, Barclays is by far our biggest private-sector supporter ever.'

The support is co-ordinated by the Financial Inclusion Team set up by Barclays to improve access to financial services for individuals, businesses and social enterprises, particularly those in under-invested communities.

Peter Kelly, who heads the team, says: 'Whilst Barclays had already supported a number of external organizations that provide assistance to those who are excluded – for example community development finance institutions – we had done little to support credit unions.'

'We had made a limited number of small donations to individual credit unions and were offering all credit unions free banking facilities, but were looking for an opportunity to provide more extensive and valuable support. We saw Pearls as an ideal way of doing this.'

Kelly stresses: 'Barclays is not telling credit unions how to manage their business, but providing them

with a proven financial tool for use in strategic planning. Pearls is much more than just a number-crunching tool'.

For Barclays, sponsorship of the Pearls project means that, by helping credit unions operating in under-invested communities, it can indirectly support people who have difficulty accessing mainstream financial services. 'Reaching such people is a core objective of our Financial Inclusion Team,' says Kelly. 'Pearls does more than meet our social responsibility objectives – it also makes good business sense. It is helping us develop our understanding of credit unions, the issues impacting the movement and consequently where our future efforts should be focused,' he adds.

Both Barclays and Abcul are pushing at an open door in their bid to expand the movement. The UK government is keen to tackle financial exclusion and sees credit unions as an important part of its strategy to achieve this.

However, the government recognizes that it cannot tackle financial exclusion alone – any more than can Barclays or Abcul. This makes partnerships between the private sector and the credit union movement particularly important.

Pearls has already proved its worth in more than 20 countries, and has been 'instrumental in the expansion of the international movement', according to Arthur Arnold, the president and chief executive officer of the Washington-based World Council of Credit Unions, which has played an important part in the international growth of credit unions.

'Credit unions in Britain have lagged behind other countries', says Arnold, 'but now they're being promoted by the government and supported by the private sector. This is a great opportunity for the movement.'

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■ many credit unions operate in inner city communities where ethnic minorities and other social groups can find it hard to gain access to mainstream financial services

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BARCLAYS

Small credit unions are a proven way of providing loans to those who are excluded from more orthodox means of borrowing. Their accounting and regulatory systems are going to be improved in the near future to meet forthcoming regulatory requirements and to allow them to grow. They cannot afford the cost of upgrading. Barclays Bank is providing the means.

The outstanding features are:

- Credit union members and lenders will be assured of better accountability and governance
- Stronger and more stable credit unions will be capable of sound growth
- As credit unions grow, more of those who are financially excluded will be able to access the savings facilities and affordable credit offered by the movement
- Loan sharks are less likely to be required
- The support is extended to financial services organizations of proven social value.

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