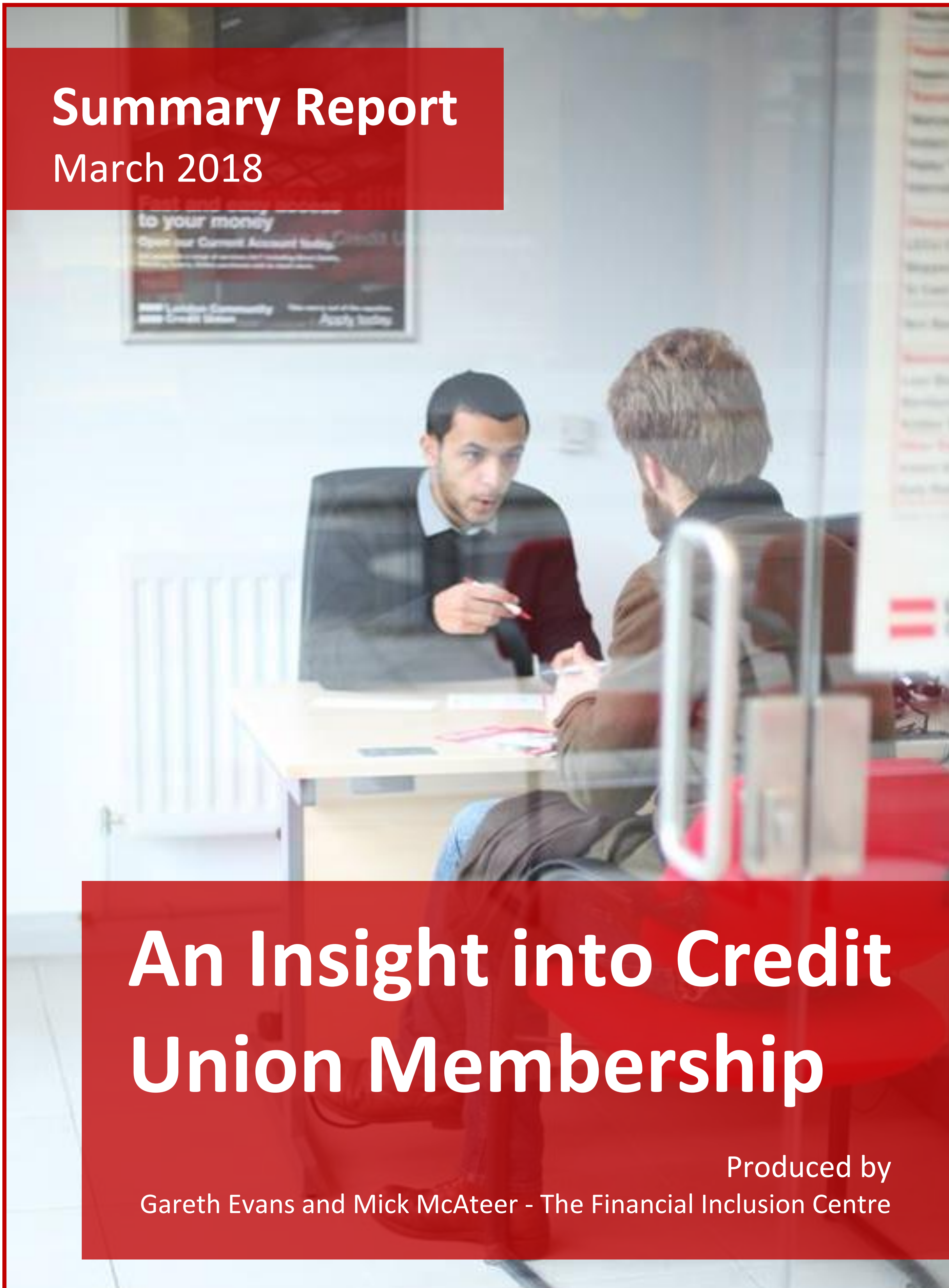

Summary Report

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An Insight into Credit Union Membership

Produced by
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Programme partners:

Barclays is kindly providing the funding as well as facilitating local/national staff participation and undertaking the programme management.

Toynbee Hall is delivering the financial capability training and support with the participating credit unions.

ACE Credit Union Services is jointly delivering the capacity building training and support with the participating credit unions.

UKCreditUnionsLtd is jointly delivering the capacity building training and support with the participating credit unions.

Full Report available:

Report cover photograph kindly provided by London Community Credit Union.

Overview

Barclays has been funding and operating a four year programme that: provides tailored capacity building support to selected credit unions; and helps them implement financial guidance and support for their membership. The aims of the programme are to encourage identification and sharing of best practice, and the development of key skills and operational practices to promote growth and improvement across the credit union sector. This in turn should allow credit unions to better meet the financial needs of their members and support more financially excluded and underserved households in managing their money, accessing and using appropriate financial services.

The programme has two parallel but interconnected strands:

- Financial capability interventions: sessions to improve the financial capability of the Directors/ staff and members of the participating credit unions; and
- Capacity building interventions: training and support to improve the overall operational and financial performance and sustainability of the participating credit unions

The theory of change underpinning the programme is that the financial capability interventions should improve the ability of members to manage their finances which in turn should reduce arrears on loans and so on. Similarly, improving the operational efficiency of credit unions should help them provide greater support to members thereby improving their financial management skills.

FIC is undertaking ongoing evaluation of the programme to measure the impact of the financial capability and capacity building interventions by analysing the performance of credit unions and members at different stages of their participation. We will produce a formal report at the end of the programme. However, in the process of gathering the data and undertaking surveys with members, we have amassed a huge amount of information that might be very useful and of interest to the credit union movement and others who are interested in promoting the wider community lending sector.

The analysis in this report is the largest ever insight into the use, attitudes, and financial capability of existing credit union members. The comparative analysis in this report is based on analysis of almost 12,500[1] completed surveys amongst the 29 credit unions from across the UK that have participated on the first three years of the programme. This equates to consultation with 11.5% of the potential 110,000 credit union members. As ever, we are conscious that those who respond to surveys are by definition self-selecting and that this can affect results. But, notwithstanding the limitations of survey based research, the sheer scale of this analysis should help to:

- Understand the profile, attitudes and financial behaviours and circumstances of membership to shape service delivery, improve customer service and develop financial products to better meet their needs and expectations.
- Benchmark performance and satisfaction indicators – for both individual credit union to measure themselves against their own development and wider sector.
- Demonstrate impact and show if credit unions are meeting members' expectations and needs.

[1] To date, we have actually received 14,931 responses once the post intervention surveys from year one credit unions are included. This equates to a response rate of 13.5% of adult members within the participating credit unions.

Key findings

Use of products and services

- Over the previous two years, 79% of credit union members had used their savings account with 24% stating that they had used a current account facility. Just over one in ten (11%) had used 'other' credit union product or service (outside of these core products).
- In terms of lending, 49% of respondents had taken out a loan from their credit union in the previous two years. To put this in context, according to the FCA, 46% of adults hold a loan product on which they revolve a balance.
- Of the 70% of respondents that had applied for a loan at some time previously, 59% had been accepted, 11% had been turned down. Another way of looking at this is that of those who did apply for a loan, 84% were accepted, while 16% were turned down. Although not directly comparable, according to the FCA, 12% of those with some form of credit had been turned down for a loan in the past two years.
- Around 1,300 of people who took part in the survey were turned down for a loan. If this refusal rate was representative of the credit union population as a whole, this would suggest that over 180,000 credit union customers have been turned down for a credit union loan (although, of course, we cannot guarantee that credit unions participating in this programme have exactly the same profile of credit unions generally but it does give an idea of the numbers involved).

Views on credit union services and customer service

- Amongst members who responded, there was overwhelming approval for the services that their credit union offers with 88% of respondents saying that their credit union provided good (38%) or very good (50%) value services. Just 1% said their credit union provided poor or very poor value services – a net positive score of 87%. Similarly, 85% of total respondents thought that their credit union's customer service was good or very good. Only 3% said the customer service was poor or very poor – a net positive score of 82%. These are clearly very impressive results.
- We also asked members about their experience if they had applied for a loan and how well they understood the application process. Of those who had applied for a loan, 83% of respondents said they found the application process good or very good. Only 4% said the process was poor or very poor, while 12% said it was fair. This equates to a net positive score of 79%.
- In terms of overall satisfaction levels, 81% said they were extremely satisfied or very satisfied with their credit union. Just 6% were slightly satisfied or not at all satisfied. This gives a net positive score of 75%.
- When asked if they would recommend their credit union to a friend, 84% of respondents said they would be likely or very likely to recommend with only 11% said they would be unlikely or very unlikely to recommend their credit union. This gives a net positive score of 73%.
- Again, we are conscious of issues relating to self-selection but to put these results in context, an EPSI survey gave UK banks a customer satisfaction score of 72%, while Which? found that banks average overall customer satisfaction score was 68% and the average product satisfaction score was 66% . Of course, these results are not directly comparable due to differing methodologies but do give an indication of how highly members regard the credit unions.

Self-reported financial behaviours

- Our study also explored the financial behaviours of credit union member. First we asked respondents whether they knew how much they had in their credit union savings account with 31% saying that they always knew exactly how much they had in their account. A further 49% said they usually had a rough idea; one in seven (14%) said they usually had no idea how much they had in their savings account. We also asked respondents whether they knew how much they had in their main bank account. 58% said they knew exactly how much they had in their account with a further 38% saying they had a reasonable idea. Only 3% said they had no idea of how much they had in their account. This suggests very strongly that these credit union members are very diligent at keeping track of their finances. Without having access to members' bank accounts to check, it is difficult to say whether so many do indeed know exactly how much they have in their account. But, by way of comparison, a survey by the Money Advice Service (MAS) found that 59% of working age consumers knew to within £50 how much they had in their bank account.
- We asked respondents about how they used their savings account. The single biggest answer (37%) given was 'I'm saving for the future'. However, it is clear that a significant number of these credit union members use their account to save up for something specific rather than a general ambition to save for the future. 31% said they were saving up for a specific event (such as a holiday) with a further 11% saving up for a specific thing (such as a TV).
- Next we asked whether respondents prepare and stick to a budget. Preparing a budget (and sticking to it) is an indication of financial capability. 11% said they strongly agreed with the statement with 37% saying they agreed (a total of 48% saying they agreed/ strongly agreed). 17% said they disagreed/ strongly disagreed. 35% said they neither agreed/ disagreed. As ever, care must be taken with self-reported responses. People don't always do what they say. Human nature being what it is means that some people will choose the response that makes them feel good about themselves (or makes them look good to others – even though the responses are confidential). It is sensible to mentally discount positive responses and knock a few points off the scores for strongly agree/ agree. This means that it is probably reasonable to assume that well under half are preparing and sticking to a budget.

Self-reported financial capability levels

- The responses to questions relating to financial capability were considerably more positive. Nearly two-thirds (64%) said they agreed/ strongly agreed with the statement 'I feel I have my finances under control'. There is a significant difference in the numbers who say they feel they have their finances under control and those who say they prepare and stick to a budget. Of course, it is possible to have your finances under control without making a budget – if you have not been hit by any major financial shocks. But, this does suggest a degree of cognitive dissonance.
- We also asked respondents how much they agreed/ disagreed with the statement: 'I am confident in dealing with money matters'. 69% said that they agreed (51%) or strongly agreed (18%). 22% said they neither agreed nor disagreed. Only 9% said they disagreed (6%) or strongly disagreed (3%). On the face of it, this is very positive and suggests that a good majority of respondents feel confident in dealing with money matters.
- To put this in context, 37% of consumers who were surveyed as part of the FCA's Financial Lives Survey (p14) rated themselves as having a high level of confidence in managing their money, with a further 39% rating themselves as having a moderate level. Whereas, a Money Advice Survey found

that 58% of working age households said they were confident in managing money , and 41% said they were confident in making a financial product/ service decision .

- It is important to note that the various surveys are not directly comparable. But, it seems safe to say that respondents from participating credit unions in this survey are not short of confidence compared to the general population. Whether this confidence is justified is another matter.
- We also asked whether respondents would be confident enough to help family and friends with money issues. The responses were again positive – but not as positive as for the questions above. A combined 54% either strongly agreed (11%) or agreed (43%) that they were confident enough to help family and friends with money issues. 16% strongly disagreed (4%) or disagreed (12%), with 30% neither agreeing or disagreeing.

Financial knowledge

- It is important that consumers know about their credit rating so that if they do have a poor credit score they can work to repair it. More than one in four (26%) respondents in this survey had never checked their credit score. 23% said they knew they had a good/ very good credit score. One in four (25%) said they had a poor/ very poor credit score with a further 22% saying they had an average credit score. It is worth participating credit unions considering these findings further as this could be focus for financial capability interventions. Fewer than one in four respondents say they have a good/ very good credit score. Nearly half of respondents say they have an average/ poor/very poor credit score and with one in four never having checked their score, this suggests interventions to raise awareness and help members repair their score would be worthwhile.
- A big majority of respondents (69%) answered correctly when asked 'what does APR stand for?' But it is worth pointing out that 31% either got the answer wrong or didn't know the answer.
- It is important that if things go wrong, consumers are able to exercise their right to complain and, if necessary, get redress. But for that to happen, consumers have to know what their rights are and who they can take complaints to. 63% of respondents knew that FOS is the organisation to complain to; this left 37% who didn't know or got the wrong answer.
- Self-reported answers can be a useful gauge of financial capability. But the best test are direct factual questions which test consumers' knowledge and capability. It is important that when consumers are considering borrowing money, they can 'look through' the advertised deals to work out how much borrowing actually costs. To test members' ability to do this we asked them to work out which one of four deals would cost them the most in interest payments. Interestingly, only 42% got the right answer when we tested them. This should be a cause for concern. Of course, we cannot make a direct comparison with the general population as we have not surveyed them. But, for context, 64% of consumers tested by the Money Advice Service correctly calculated the balance on their savings account after interest had been added, 60% were able to understand the effect of inflation on buying power.
- Respondents were also asked what they thought was the most important thing to consider when taking out a loan. The most popular answer (38%) was the interest rate. Technically, the 'correct' answer is the total amount to be paid back (chosen by 31% of respondents). It is important that borrowers understand that the total cost of a loan can include not just the interest charged but fees and other costs (the APR incorporates all costs). 27% chose the 'amount I will pay back each month/ week'. This is not a 'wrong' answer per se. It may well be that for many people; the most important thing is to understand the regular commitment as this can provide a sense of control.

Conclusions

- The most obvious standout point from this huge survey of credit union members is the high regard in which participating credit unions are held by their members – a very large majority were satisfied with their credit union, the services provided and customer service, and would recommend the credit union to a friend. This should provide a strong platform for these credit unions to build on in their local community.
- There have been concerns that credit unions are not generating sufficient revenue from loans to ensure the sector is sustainable in the long term. But, for those credit unions participating in this programme, a majority of members who responded had taken out a loan from their credit union rather than just opened a savings account. This suggests that, if there is a challenge in generating sufficient revenue to make credit unions sustainable and may be more to do with the *value* rather than *number* of loans made, creating economies of scale, and improving efficiency. This has implications for wider credit union sector and points to need to continue to diversify the membership base and improve targeting of larger value loans (such as car loans, holiday loans).
- The research shows that 11% of respondents had been turned down for a loan. If that proportion is representative of the wider credit union population, this would suggest that over 180,000 members have been refused a loan. This could, of course, be an underestimate. Presumably many people who are still members and refused a loan might not have been willing to participate in the research, or have stopped being a member if refused a loan. So, the numbers refused a loan across the sector may be bigger than we have estimated. It would be interesting to know what happens to people who are declined a credit union loan and do they receive support such as helping them to restore or repair their financial position?
- A large majority of respondents reported very positive financial behaviours – keeping track of finances, knowing how much they have in their savings and bank accounts, and making a budget and sticking to it. Looking at financial capability measures, again credit union members who took part in this survey do seem to score well compared to the general population saying they feel they have their finances under control and are confident in dealing with money matters. We can't reiterate enough that care must be taken with self-reported data, but looking at comparative data on the general population these results are encouraging and can be built on.
- However, analysis of the questions on actual financial knowledge (rather than self-reported answers), paints a more mixed picture - a large proportion of respondents either got the wrong answer, or didn't know the answer. A particular concern is the number of respondents who were not able to choose the best deal on a loan, or were unsure about what to consider when taking out a loan. This should be an area of focus for financial capability interventions.
- Nevertheless, the analysis in this report suggests that credit unions in this programme should in theory be able to thrive. They are held in high regard by their members, customer service generates high levels of satisfaction, and large numbers of loans are being made. Credit union members seem to score well in terms of self-reported financial behaviour and capability scores compared to the wider population – so that does not seem to present a barrier to success.
- Similarly, these results would suggest that the wider credit union sector has many positive attributes which should allow it to thrive. But, and it is a big but, it is clear the impact of credit unions (particularly in England and Wales) in meeting the needs of consumers and local communities has so far been marginal to say the least.