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THE POTENTIAL FOR IMPACT OF CREDIT UNIONS ON MEMBERS' FINANCIAL CAPABILITY

An Exploratory Study

Noreen Byrne, Carol Power, Olive McCarthy and Michael Ward

Combat Poverty Agency

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Abstract

This study evaluates the role of credit unions in building financial capability among members. The research found that most credit unions are engaged in some form of financial education in the community, although some are restricted to what could be described as low-commitment activities. A few individual credit unions and, to a lesser extent, networks of credit unions, have pioneered innovative schemes targeted at members of the community who are financially vulnerable due to low levels of financial capability.

In a two-phase survey of new members, most individuals did not report that the credit union had a significant impact on their financial behaviour; however, they did highlight some key features of credit union business practice which help them to manage their finances.

Finally, we argue that credit unions need to remain cognisant of their original goal of ensuring financial inclusion for all, particularly in the context of economic recession, which is likely to stimulate demand for financial capability-enhancing measures. However, it must be remembered that credit unions are only one element in any financial capability strategy for society and other players such as MABS, Government, regulators, banks and the educational system must also play their roles.

It should also be remembered that financial capability is only one strategy, albeit an important one, to tackle the broader problem of financial exclusion. Other approaches must include regulation of the banking sector, the whole issue of income adequacy, and the removal of barriers to access for true participation in financial services starting with the development of basic bank accounts. Hence, any discussion of financial capability should sit within this broader context.

Key words

financial capability, credit unions

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Abbreviations

CUDA – Credit Union Development Association

IFSRA – Irish Financial Services Regulatory Authority

ILCU – Irish League of Credit Unions

1 Background to the study

1.1 Introduction

Since the 1960s, credit unions have come to occupy a prominent position in communities throughout Ireland. The credit union ethos is governed by co-operative principles, which contrast strongly with the profit-oriented business model of conventional financial institutions. Given that members' interests, and the promotion of thrift and prudent use of credit, are primary considerations for credit unions, it might be expected that they would perform an important role in enhancing members' financial capability.

The main aim of this study is to examine the potential for impact of credit unions on members' financial capability. Firstly, the study will review credit union initiatives that aim to tackle issues associated with low levels of financial capability. Secondly, based on a survey of new members in two selected credit unions, and a follow-up survey one year later, the influence of normal credit union business practices on the financial capability of these members will be assessed.

1.2 The wider context of financial exclusion

Before we discuss financial capability, it is first necessary to frame our discussion within the wider context of financial exclusion. Kempson et al (2000) indicate that financial exclusion is primarily concerned with lack of access to a bank account and other services such as 'affordable credit, savings, home contents insurance' (Devlin, 2005).

Financial exclusion has become a key element in the National Action Plans against Poverty and Social Exclusion (NAPs/Incl) of many EU member states (Corr, 2006). As Corr indicates, recognition of financial exclusion as an important part of social exclusion has only been recently recognised in Ireland. However, policy has quickly moved towards a financial capability focus. It must be pointed out that financial capability is only one strategy for tackling financial exclusion. Other approaches must also include regulation of the banking sector, the whole issue of income adequacy, and the removal of barriers to access for true participation in financial services starting with the development of basic bank accounts.

When we discuss financial capability we wish to stress that the focus should not be primarily on the individual, with a ‘blame the consumer’ approach, but should equally be on the practices of financial services and their potential impact on financial capability. The following definition of financial exclusion from Burkett and Sheehan (2009) incorporates the elements of access, need for structural change, and financial capability, and summarises very well our understanding of financial exclusion and its relationship with financial capability. They state that financial exclusion is:

> a process whereby a person, group or organisation lacks or is denied access to affordable, appropriate and fair financial products and services, with the result that their ability to participate fully in social and economic activities is reduced, financial hardship is increased, and poverty (measured by income, debt and assets) is exacerbated. Addressing financial exclusion is not merely about service provision; it also includes capacity building and structural change.

1.3 The importance of financial capability

Financial capability has featured increasingly in both academic and policy debates over the past 5-10 years. In the United States, it has been part of the policy agenda for longer, although it has tended to deal with the much narrower concept of financial literacy, focusing on knowledge and skills rather than behaviour (Dixon, 2006). Johnson and Sherraden (2006) suggest that financial capability is a more desirable term than financial literacy. The UK Treasury has defined financial capability as ‘a broad concept, encompassing people’s knowledge and skills to understand their own financial circumstances, along with the motivation to take action. Financially capable consumers plan ahead, find and use information, know when to seek advice and can understand and act on this advice, leading to greater participation in the financial services market’ (HM Treasury, 2007).

Blake and de Jong (2008:39) state that those who are financially capable are more likely to ‘want and make the best use of available products; cope with financial pressure and avoid financial trouble; know where to turn in a crisis; budget well, making their income go as far as possible; and use savings and insurance to plan for the future’.

Recent years have witnessed increasing recognition of the need for greater financial capability among consumers. It is recognised that individuals have to assume increasing

responsibility for their finances, being expected, for example, to finance their further education and retirement (Blake and de Jong, 2008). Furthermore, the need for financial capability is driven by the increasing range and diversity of financial products (Servon and Kaestren, 2008). Transactions that were once relatively straightforward (such as saving for retirement or buying a house) are now increasingly complex. Within this context, O'Donnell and Keeney (2009:5) highlight the increased 'scope for the general public to make costly mistakes in assessing and choosing fairly standard financial services'. Consequently, the importance of financial capability as 'a broad life skill' has increased (Fessler et al., 2007:50).

The need for financial capability at an individual level has further increased in the current context of worldwide financial crisis. O'Donnell and Keeney's (2009) report indicates that 'the financial turmoil of 2007 and 2008 [will cause] the financial capability of consumers [to] be severely tested'. Financial regulators and governments in several countries, including the UK and Ireland, and international organisations such as the OECD, have become increasingly concerned with the need to build the financial capability of citizens. The Irish Financial Services Regulatory Authority (IFSRA) has commissioned two reports on financial capability in recent years (www.ifsra.ie) and has developed a special division with sole responsibility for consumer advice in relation to financial affairs.

Dixon (2006) argues that inadequate levels of financial capability can have serious repercussions for individuals, for society, for business, for the economy and for the financial services industry.

1.4 Measuring financial capability

A detailed research methodology, developed by the Personal Finance Research Centre (PFRC) at the University of Bristol and used by the IFSRA Study on Financial Capability in Ireland, measures financial capability along five dimensions:

- *Making ends meet* refers to the ability to control expenditure so that it does not consistently exceed income. In its baseline study the UK's FSA identifies a number of key characteristics that make an individual competent in making ends meet. These include an ability to keep up with financial commitments without difficulty; a cautious attitude to credit; and an ability to make money last to the end of the

week/month.

- *Keeping track of finances* includes monitoring expenditure to ensure that one remains within budget; checking bank statements carefully; and budgeting to cater for occasional expenses such as TV licence, home/car insurance, and so on.

- *Planning ahead* includes making provision for foreseen events such as retirement, as well as unforeseen circumstances such as loss of income due to redundancy or ill health. The FSA (2006) report finds significant levels of failure to provide for the future, in the form of pensions, insurance cover and 'saving for a rainy day'.

- Competency in *choosing financial products* wisely is an important component of financial capability. Good decisions are based on the ability to research the products available, the ability to assess and spread investment risks – or 'the trade-off between risk and reward' (FSA, 2006:17) – and knowing where to go for independent financial advice.

- *Staying informed* involves monitoring changes in financial indicators, such as the housing market, stock markets and interest rates, as well as having a reasonably good level of applied financial literacy.

The Financial Services Authority (FSA) in the UK commissioned the PFRC to carry out a study of financial capability, the results of which were published in 2006. The study estimated that two million UK households struggle constantly to keep up with their bills and financial commitments. Moreover, 3 per cent of the population had serious financial problems and had fallen behind on many of their bills and credit commitments, while 9 per cent always ran out of money at the end of the week or month. More than two in three people had made no personal provision to allow for a drop in income.

A similar study of financial capability in Ireland, using the PFRC Methodology, was commissioned by the Irish Financial Services Regulatory Authority (IFSRA) and written by O'Donnell and Keeney from the Central Bank. The study was carried out in late 2007/early 2008. It revealed that people are generally competent in managing their money on a day-to-day basis. However, almost half the population exhibited some weaknesses in relation to financial capability, particularly with regard to planning ahead, choosing financial

products, and staying informed. Among the most vulnerable groups were those on lower incomes and those with lower levels of education. They were more likely to be in rented local authority housing, single, female, and with limited participation in the financial services market.

1.5 Financial capability and low income

Lack of financial capability has particularly serious consequences for those on low incomes, for whom costly mistakes can have grave consequences. Connolly and Hajaj (2001) state that low levels of financial literacy have been closely linked with financial and social exclusion, resulting in increasing levels of wealth inequality in society. Lyons et al. (2006) emphasise the critical importance of basic financial management skills, particularly for low-income households. However, while keeping track of finances is particularly important for those on low income, a UK study notes that people on higher incomes can also experience difficulties in ‘making ends meet’ and, proportionately, are equally inclined as individuals on lower incomes to run out of money before payday (FSA, 2006).

Therefore, while low levels of financial capability may create difficulties in relation to financing basic needs for those on low income, for higher-income groups lifestyle spending may exhaust their budget towards the end of the week/month; hence the need for measures to enhance financial capability throughout all social strata. However, it must be remembered in particular that with regard to those on low income, financial capability can only be one of the policy approaches to tackle the wider issue of financial exclusion and poverty. Policy approaches must also focus on adequacy of income levels, banking regulation and access to banking services.

1.6 Motivating financial capability

Although individuals express concern about financial matters, they often lack the motivation to build their personal financial capability. Dixon (2006:2) refers to this as ‘the motivation gap’, where there is a difference between ‘what people say is important and their actual behaviour’. Dixon (2006) identifies two main approaches in motivating financial capability. The first and most common approach is financial education, advice and guidance which, Dixon argues, has tended to dominate the policy agenda. The second relates to infrastructure, which involves ‘providing the best possible structures to make it

easier for people to act in more financially capable ways, thereby [enabling them to become] more engaged and interested in improving their financially capability' (Dixon, 2006:10). This is in line with sustainable consumption research (Cohen, 2007; Jackson and Michaelis, 2003) which indicates that there has been an overemphasis on individual motivations and behaviour, and less on the infrastructure that enables people to act in a particular way.

1.6.1 Motivating financial capability: financial education

> Financial education can include any program that addresses knowledge, attitudes, and/or behaviour of an individual toward financial topics and concepts (Fox et al., 200:195).

Much of the focus to date has been on building financial capability through the provision of financial education via formal courses and seminars (Blake and de Jong, 2008; Dixon, 2006, Cohen, 2005). However, it is difficult to assess the degree to which financial education initiates positive changes in behaviour (Lyons et al., 2006) and, consequently, this may be one of the reasons that evaluation of such programmes is often neglected (Fox et al., 2005). As a result, there is considerable scepticism regarding the usefulness of financial education in enhancing financial capability (Willis, 2008; 2009; de Meza et al., 2008). Gloukoviezoff (2009) expresses concern about the funding of financial education initiatives where post-evaluation is limited and often based on levels of attendance.

Another concern related to an exclusive focus on financial education is that it shifts the blame for financial incapability to the consumer and away from financial providers (Cohen, 2005). Such a focus, as Byrne (2009) notes, absolves service providers from the need to change their core business practices. Cohen (2005:132) argues that 'to fend off calls for new controls on their lending activities, banks have sought to define the problem of insolvency in terms of inadequate financial literacy and the industry has launched a series of educational programs to improve public understanding of topical issues'.

Questions have also been raised regarding the appropriateness of certain categories of individuals or organisations as educators. For example, financial services advisors may be motivated by profit and lack impartially (Byrne, 2009). Truly impartial advice would not promote particular financial products or services.

In the context of ‘financial questions [that] are too difficult and countervailing forces [that] are too strong for people’s capability to be strengthened meaningfully . . . [critics of the financial education approach argue that] the answers lie more in changing the context in which people make decisions’ (Blake and de Jong, 2008:41).

1.6.2 Motivating financial capability: service provision infrastructure/environment

Dixon (2006) emphasises the importance of the financial infrastructure within which people have to operate and make decisions. Jackson and Michaelis (2003:32) indicate that at the ‘point of everyday decision, the ordinary consumer will have little or no control over most of this decision architecture’. They indicate that ordinary consumers can find themselves ‘locked in’ to unsustainable patterns of consumption, either by social norms which lie beyond individual control, or else by the constraints of the institutional context within which individual choice is executed. Sanne (2002:286) indicates that these circumstances are ‘often deliberately created by producer and business interests’.

Similarly, Blake and de Jong (2008:39), writing from the perspective of financial capability, highlight the need to address ‘the environment in which decisions are made’. They argue that publicly-funded financial education campaigns face significant challenges in terms of encouraging individuals to make sound financial decisions in a financial services market that is profit-driven and characterised by an increasingly complex array of products.

These various researchers suggest a number of ways of improving the financial service infrastructure so as to facilitate financial capability. They are listed here:

- **Regulation:** De Meza et al. (2008) and Willis (2008) call for greater regulation of the banking sector. De Meza et al. (2008) indicate that the banking sector exploit people’s tendency towards procrastination and that regulation needs to protect the consumer in this regard.

- **Simplification:** The ever-increasing range and complexity of financial services often causes consumers to avoid making decisions in relation to their finances. Dixon (2006) argues that many people may benefit from being offered a more limited range of products. Furthermore, he argues for the simplification of tax and benefits systems. De Meza et al. (2008) highlight that complexity leads to confusion

and procrastination. They also argue that simplification of financial products and communications may be useful.

- **Challenging established wisdom** – rethinking savings hierarchies – For those who have debts, established wisdom maintains that it is better to focus on clearing debt before building up savings. However, Dixon argues that, for many individuals, it may be more prudent, in the longer term, to pay off debts regularly, but more slowly, while simultaneously cultivating a savings habit.

- **A new model of debt management** – Dixon (2006) argues that social welfare recipients who have debt problems should be given the option of having their repayments deducted automatically from their benefit payments, thus reducing the risk of default. This is already occurring to some extent in the UK, but there are some concerns in relation to its welfare implication, where it may help to reduce default but may also push people below the poverty line. The work of the Vincentian Partnership for Social Justice on Budget Standards highlights the potential problems with this approach.

- **Empowerment through commitment** – Commitment to particular goals represents a key influence in changing behaviour. Dixon (2006) emphasises that mechanisms to support people in making and keeping commitments are of critical importance. De Meza et al. (2008) highlight the role of commitment devices in helping overcome procrastination.

- **Save more tomorrow accounts** – Dixon discusses current accounts where any salary increase would automatically generate an increased direct debit to a dedicated savings account. For greater discussion of these accounts see: http://www.anderson.ucla.edu/faculty/shlomo.benartzi/savemore.htm

- **Basic bank accounts and development of credit unions**: Corr (2006) recommends that consideration should be given to the universal provision of basic bank accounts which are a ‘no-frills basic bank account’. This account would act as a gateway to other services. While the credit union offers a simple account with savings and borrowing facilities, many do not have EFT services. This limits the use of a credit union account in terms of social welfare payments and so on. However,

with the forecasted closure of local bank branches, credit unions may well be the only on-site financial service available in many communities across Ireland. Hence, if we are serious about financial inclusion, there is a need to further develop Irish credit unions. The state should consider, in consultation with the credit union movement, what role it can play in contributing to the future development of Irish credit unions.

- **Extending default approaches** – De Meza et al. (2008) discuss the important of setting up default options. They base their reasoning on the role of procrastination and inertia among financial services consumers. Based on the company pension model, where automatic enrolment is widely accepted, Dixon proposes that other areas of finance may benefit from a similar approach.

- **Creating new 'mental accounts' to encourage certain kinds of spending or saving** – Dixon suggests that banks could incentivise new customers to save by offering them savings accounts with a small initial deposit provided by the bank.. Additionally, he suggests that a small pension contribution could be made for all schoolchildren who undertake work experience, thereby creating a psychological link between paid work and pension savings.

These suggestions are particularly relevant to this report; as will become apparent, credit unions in Ireland already operate a number of these principles.

1.7 Financial capability-enhancing measures in Ireland

This section presents the overall environment for building financial capability in Ireland, dealing with the statutory sector and the financial services sector.

1.7.1 Statutory sector and financial education

The primary players in financial education in the statutory sector include the Financial Regulator, the Department of Finance, and the Money Advice and Budgeting Service (MABS).

Department of Finance/Government initiatives

In recent years, two key government initiatives, focusing on savings and pensions, have sought to improve the infrastructure for financial capability in Ireland. In 2001, the government initiated the Special Savings Incentive Account (SSIA). This was a 5-year initiative, designed to incentivise citizens to develop a regular savings habit. The scheme encouraged people to save an agreed monthly amount (subject to a minimum of €12.50 and a maximum of €254), which was 'topped up' by 25 per cent of the value of the savings contributions, given in the form of a tax credit. SSIAs were offered by the mainstream banking sector as well as by credit unions and building societies. The scheme remained open for new entrants for one year and, during that period, 1.1 million accounts were opened, and matured in 2006/2007.

In 2006, to coincide with the maturity of SSIAs, the government introduced a further scheme to incentivise lower-income SSIA holders (defined as having an income of less than €50,000) to transfer part of their SSIAs into a pension account. Under the scheme, a bonus of €1 was offered for every €3 transferred, subject to a maximum bonus of €2,500, and the exit tax on interest received on the SSIA was reduced in proportion to the amount invested in the pensions account.

Internationally, concerns have been raised about the ability of the world's advanced economies to support a rapidly ageing population. In Ireland, the Central Statistics Office projected a rapid increase in the dependency ratio between 1996 and 2026. A report by the National Pensions Board (1998) attributed the low uptake of personal pension provision to a number of key factors. These included problems of access, lack of information, charges associated with small personal pensions, control of investment and management of risks, and lack of flexibility in the transfer of pensions for a mobile workforce. Based on the recommendations of this report, the government introduced Personal Retirement Savings Accounts (PRSAs) in 2003 to encourage individuals who did not have access to an employer/company pension plan (including employees, self-employed, homemakers and carers) to save for their retirement. Although employers are not obliged to contribute financially, they are required to enter into a contract with a PRSA provider, thereby allowing them to offer a PRSA to their staff. PRSAs are designed to be flexible and transferable in the context of high employment mobility. To reduce the cost of pension plans, tax relief is given at an individual's highest rate of tax, and charges are subject to certain restrictions.

While SSIAs provided an attractive incentive to encourage saving, and PRSAs have enhanced the infrastructure for pension provision, both schemes have been criticised as being oriented towards the middle classes and as not having contributed to the wellbeing of lower-income groups. It should be highlighted at this point that the Combat Poverty Agency (CPA) and the Money Advice and Budgeting Service (MABS) jointly proposed a more targeted scheme, which would be confined to MABS clients and aid their transition from 'previously indebted low-income clients into independent financial managers' (Corr, 2006:126). As Corr indicates, these proposals were rejected by the government.

The Financial Regulator

The IFSRA, while not having a statutory remit for financial education, has incorporated this responsibility under its consumer division. One of its first major initiatives was to develop a jargon-free consumer information and educational website (www.itsyourmoney.ie). The website publishes cost comparisons, monitors and makes available up-to-date information on interest rates, and offers 'handy tips' to help people in making decisions about financial matters. Although the website provides a convenient source of information for large sections of the population, it excludes people who do not have internet access and those who are not computer literate. A formal evaluation of the site and its contribution to the building of financial capability would also be useful.

The IFSRA has also been involved in research and strategy development. Most notably, the office was responsible for commissioning the first major study on financial capability in Ireland (section 1.5). In December 2006, the IFSRA formed the National Steering Group on Financial Education, comprising representatives of the following organisations: Financial Regulator, Financial Regulator Consultative Consumer Panel, Irish League of Credit Unions (ILCU)[1], Irish Insurance Federation, Irish Vocational Education Association, The Pensions Board, Irish Banking Federation, Institute of Bankers in Ireland, National Adult Literacy Agency, Department of Finance, Department of Education and Science, National Council for Curriculum Assessment, MABS, and FÁS. The group, which met over a two-year period, reported its findings and recommendations in 2009.

One of the key outcomes of the group was the development of a financial competency framework, which identifies the critical elements that determine financial capability,

[1] Established in 1960, the Irish League of Credit Unions (ILCU) is the primary representative organisation for credit unions in Ireland, and has a membership of over 500 credit unions across the Republic and Northern

including relevant knowledge and skills, and personal and social influences. Furthermore, a series of commitments was made by each of the stakeholders to further the agenda to improve financial capability in appropriate ways. Among the key recommendations were that the government should establish structures to co-ordinate the implementation of these commitments. This would be enabled by a financial capability fund, which would support the development, delivery and evaluation of personal finance education initiatives, particularly those directed at disadvantaged groups and those identified as having low levels of financial capability.

In terms of the school curriculum, the Report of the National Steering Group on Financial Education (2009) highlights the tendency for elements of personal finance education to be confined to elective subjects. The group recommended the development of a national standard for personal finance education, and the incorporation of personal finance into appropriate compulsory subjects in the school curriculum. In the UK government financial capability strategy, financial literacy will be a compulsory part of the SPHE curriculum for children aged 5 to 16.

The Money Advice and Budgeting Service

The Money Advice and Budgeting Service (MABS) is the primary debt advice and counselling service in Ireland. Modelled on a scheme operated by the Lough Credit Union in Cork City, the service received government funding in the early 1990s under initiatives to combat moneylending. Through its national network of 65 offices, MABS works with individuals experiencing debt problems and helps them to devise a strategy to manage their debts. More recently the service has developed a role in preventive measures through its community education division. In conjunction with the Financial Regulator, MABS has developed a transition-year module that aims to educate young people about personal finances. However, in general its community education role is poorly resourced and remains a small part of MABS's overall function. It should be highlighted that MABS is now under the aegis of the Citizens' Information Board which has a wider information role.

1.7.2 The Irish financial services sector and financial education

The financial services sector in Ireland comprises commercial banks, and the co-operative/mutual sector which includes building societies and credit unions. The role of

credit unions in financial education will be discussed in Section 3. The remainder of this section outlines the role of commercial banks and building societies.

The commercial banking sector

The commercial banking sector includes, among others, Allied Irish Bank (AIB), Bank of Ireland (BOI), Ulster Bank, Anglo Irish, National Irish Bank, Royal Bank of Scotland, and until recently, Postbank. Postbank was jointly owned by Fortis, a Belgian commercial bank, and by the Irish state-owned postal service. This represented an interesting new development in the commercial banking sector in Ireland. It promoted itself as a community bank offering a more accessible banking service to those excluded from the general banking sector, such as the elderly and the unemployed. However, just before publication of this paper, it ceased operations in Ireland. This highlights that its claim to be a community bank was probably more about optics than reality, when its decision to close was made on the basis of economics rather than community need.

At the present time, Irish banks too have indicated that they will be reducing their physical presence in local communities. Hence, unless any business, be it a financial institution or otherwise, allows some input from those its serves in the decision-making process, the main decision criterion to locate or stay in a community will usually be confined to profit. Credit unions are one of the few examples of organisations that are owned, controlled and funded by the community themselves and hence are there for the long term.

Within the framework of the National Steering Group on Financial Education, the key banking representative organisations – the Institute of Bankers in Ireland and the Irish Banking Federation – have made commitments to work with stakeholders to promote and develop financial education and awareness. It is expected that banks benefiting under the recapitalisation schemes, announced by the government in December 2008, will bear particular responsibility for financing education initiatives. One of the conditions of the scheme is that recapitalised banks must ‘provide funding and other resources, in cooperation with the Financial Regulator, to support and develop financial education for consumers and potential customers’ (http://www.finance.gov.ie). Furthermore, the scheme requires banks to ‘continue to improve the transparency of the terms and conditions of products, of charges, of marketing and of sales processes and procedures’ (http://www.finance.gov.ie).

The building society sector and financial education

The Educational Building Society (EBS) and the Irish Nationwide Building Society (INBS) are the last remaining building societies in Ireland. However, the INBS has spent many years gearing itself towards demutualisation and has not actively promoted itself as a mutual. The EBS, in contrast, widely promotes itself as a mutual and has been to the forefront of financial service sector initiatives to build financial capability. In partnership with the National Adult Literacy Agency (NALA), the EBS has sponsored research on financial literacy, and has also developed a 'plain English' guide to finance, titled the *A to Z of Financial Terms*. This booklet is not designed to promote EBS products; it could be widely used by other financial institutions, community groups, citizens' information offices, MABS and so on. The EBS uses the services of NALA in the design of its promotional literature to make terminology more easily understandable for consumers. The EBS also supports an annual National Savings Week, a public awareness campaign designed to educate people about the importance of saving and to promote awareness of the different savings options available.

1.8 The study

Any discussion of financial capability must recognise the importance of adequacy of income levels. Income inadequacy is a major issue and, particularly as a result of the recession and real reductions in disposable incomes, a growing number of people do not have enough money to cope with the various demands on them, no matter how they try; financial capability alone will not resolve their problems. However, we still recognise that the ability to live within one's means and manage one's finances is a key determinant of financial, and ultimately overall, wellbeing.

Despite the critical importance of this issue for individuals and society, the development of financial capability is often left to chance. The education system in Ireland, in general, neglects this important skill. The National Steering Group on Financial Education highlights the relative absence of financial education in the school system's core curriculum, meaning that many young people complete their full-time education having received little or no education in relation to personal finance. Financial capability is often regarded as an innate skill – one is either 'good with money' or 'bad with money' – rather than something that can be fostered through appropriate instruction and environment.

The credit union movement has penetrated virtually every community in Ireland. Two of the key operating principles of credit unions involve a self-imposed obligation to enhance the financial capability of members and acting in members' interests:

> Credit unions actively promote the education of their members, officers and employees along with the public in general . . . the promotion of thrift and the wise use of credit, as well as education on the rights and responsibilities of members, are essential to the dual social and economic character of credit unions in serving member needs
>
> (Credit Union Operating Principle No.8).

Furthermore,

> Credit union services are directed towards improving the economic and social wellbeing of all members, whose needs shall be a permanent and paramount consideration, rather than towards the maximising of surpluses
>
> (Credit Union Operating Principle No.7).

As a result of their adherence to these principles, credit unions are held in a position of high trust and esteem by their members. Other studies indicate a strong belief in the integrity of credit unions (Amárach Research, 2009). Furthermore, unlike commercial financial institutions, the range of services offered by credit unions is far less complex, more transparent and, in general, easier to understand than the more segmented, targeted services offered by banks. Credit unions in Ireland concentrate on generic, simplified savings and loan products. This approach has been advocated by Dixon (2006) as a means to increasing accessibility to financial services for those with limited financial capabilities.

For some, the credit union forms just one component of their dealings with financial institutions; others, however, rely exclusively on the credit union. Whichever the case, given that they are member-oriented rather than profit-driven, credit unions are ideally positioned to enhance the financial capability of their members.

However, Corr (2006) indicated that some of the respondents in her research felt that credit unions were becoming more focused on meeting the needs of middle-class members. A particular issue highlighted by Byrne et al. (2005) was that communications and marketing material is generic and is not targeted at any particular group. This may be a particular issue for low-income groups, as Ashley (1983) indicates that such material

may be their only source of financial information. However, while there may be a perception that credit unions are becoming more middle-class, it should be pointed out that almost half of credit union loans issued are for less than €1,000 euro (Byrne et al., 2005).

This study seeks to evaluate how credit unions, through specifically designed initiatives and through normal credit union business practices, impact on members' financial capability. The key objectives are:

- To describe and assess credit union initiatives that focus on financial education and the promotion of a prudent approach to personal finance.

- To evaluate the impact of standard credit union business practice on the financial capability of new members, in terms of saving, use of credit, budgeting, and use of financial advisory services.

1.9 Layout of the study

Section 1 has provided a background to this research by situating it within the context of academic and policy-based literature and practice, and by outlining the recent and current financial education environment in Ireland. Section 2 presents the methodology employed to collect information for this study. Section 3 describes some important initiatives that credit unions have introduced to promote financial capability among existing and potential members. In Section 4, standard credit union business practices are outlined before evaluating the extent to which these practices impact positively on members' financial capability. Section 5 presents the conclusions and recommendations of the research team.

2 Research methods

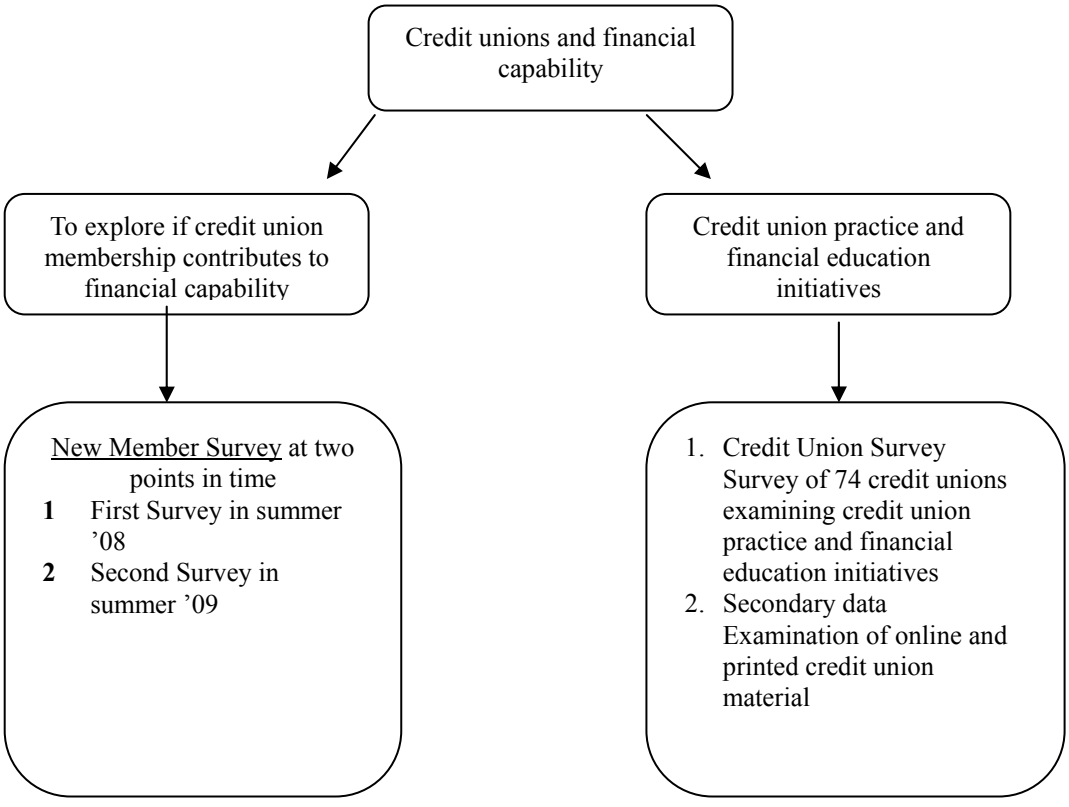
2.1 Introduction

The key objective of this study was to examine the role of credit unions in enhancing members' financial capability through standard credit union business practices and targeted initiatives. This section outlines the research methods employed in the study.

2.2 Collection of data

The collection of primary data involved four separate strands, *viz.* survey of new credit union members, survey of credit unions, interviews with key figures involved in the development and implementation of credit union initiatives, and review of online and printed publications. This can be depicted in the following diagram:

Diagram 2.1 Overview of research methods



New member survey

Drawing on concepts employed by the IFSRA questionnaire, a survey was designed, focusing on three broad areas of enquiry, *viz*. making ends meet, keeping track of finances, and planning ahead within a short- to medium-term timeframe. These were selected because they fall within the current existing or potential scope of credit union activities. However, it is acknowledged that credit unions potentially could provide educational support to members in relation to wider financial matters, such as longer-term financial planning. (See Appendix 1 for a copy of the survey used.)

A 'before' and 'after' credit union membership approach was used. This is line with Atkinson's recommendation (2008). The questionnaire survey was conducted with 150 new members in two credit unions in the Munster region during July/August 2008.[2] Questionnaires were administered face to face in the credit union and participants were asked to provide contact details to enable the researchers to follow-up with them after a period of twelve months. It was anticipated that not all first round participants would be available/willing to participate in the second round.

Initially, it was intended that the second round would involve participants completing the same questionnaire used in the first round so that changes in attitude and behaviour could be established and the role of the credit union in effecting these changes could be assessed. However, as the intervening period between the first and second surveys coincided with Ireland's descent into economic recession, it was felt that re-issuing the original survey in postal format would not allow the researchers to isolate for the impact of this recession. For this reason, we decided to conduct the second round surveys in the form of telephone interviews so that people could be asked more directly about the impact of the credit union on their personal finances. The survey had to be adapted significantly so that it could be administered by telephone (see Appendix 2). These interviews were conducted during the spring/summer of 2009. Out of a total of 150 participants, 72 participated in the second round.[3]

Other approaches which could have been considered were having a 'control group', i.e.

[2] Given the sensitive nature of data collected from members, and the potential for identification of respondents, the participating credit unions will not be named. Each of the credit unions serves a large town and its rural hinterland (populations of 12,000 approx. and 20,000 approx.).
[3] Some participants did not provide contact details for follow-up purposes; some refused to participate in the survey; others were not contactable at the telephone numbers provided.

comparing a group of credit union members with a group made up of non-members. While there are advantages in terms of time with this approach, the researchers decided that it would make it difficult to isolate for personal characteristics and histories. In the 'before' and 'after' approach, this is not an issue. Another approach which was considered was focus groups. However, it was felt that due to the sensitive nature of the study, people may not feel at ease talking in a group about their personal finances. This study primarily focuses on outcomes resulting from credit union processes rather than directly examining the processes themselves. The authors' previous work[4] had focused on credit union processes and it was felt that there was a need to concentrate on outcomes in this study.

Credit union survey

Although a significant majority of credit unions in Ireland are affiliated to the ILCU, each credit union remains autonomous. While the ILCU facilitates the implementation of initiatives for member credit unions that wish to avail of their support, the movement is highly autonomous, and a comprehensive record of activities is not readily available. In order to ascertain the type and range of initiatives that individual credit unions have developed and implemented in the context of building members' financial capability, it was necessary to conduct an email survey of all credit unions in the Republic of Ireland (see Appendix 3). Responses were received from 74 credit unions: this represents approximately 20 per cent of credit unions in the Republic. Those involved in developing and implementing various initiatives were contacted for further information.

This survey also examines credit union processes in terms of asking the credit union to indicate what aspects of credit union service encourage members to save, borrow wisely, plan ahead and budget.

In addition, the researchers reviewed a selection of credit union websites and newsletters to assess the extent to which these media are utilised for financial education purposes (see Appendix 4).

2.3 Limitations

Ideally *Moneylenders*, a study measuring the impact of credit union membership, would

[4] Byrne, N., McCarthy, O. and Ward, M. (2005) *Meeting the Credit Needs of Low-Income Groups: Credit Unions-v-Moneylenders.* Report for Combat Poverty Research Working Paper Series, Dublin

involve new members – defined as those having joined within the previous four weeks – completing questionnaires at two points in time. Due to credit union officers' data protection concerns, it proved difficult to obtain permission to conduct member surveys. Ultimately, the member surveys had to be confined to two credit unions, and the definition of 'new members' had to be expanded to include individuals who had become credit union members, or had renewed their credit union membership within the six months prior to administration of the survey. The researchers believe that this modification did not adversely affect the study. The second survey had a smaller return rate, due to unwillingness from some; and for others, their contact details had changed. However, the researchers are still of the view that they had a sufficient return rate to explore the impact of the credit union.

In terms of examining the impact of credit union financial education initiatives, in the majority of cases it was not possible to directly measure the impact, only the perceived impact. In many of the cases the initiatives are relatively new and the credit unions do not keep any formal record of how the initiatives are used and by whom. In terms of the email survey to credit unions, only 20 per cent of credit unions responded. Hence, this only provides a snapshot rather than a detailed profile of the level of financial education activity in credit unions.

3 Review of credit union initiatives to build financial capability

The credit union sector in Ireland comprises over 500 credit unions, some of which have multiple sub-offices. Hence there is a wide network of credit unions across the country, with a presence in almost every village, town and suburb. The movement in Ireland owes its origins to the dire economic circumstances of the 1950s, when credit unions were established to counteract the proliferation of predatory moneylenders within communities. By providing access to small, short-term loans under fair terms and conditions, credit unions offered the only source of legal, affordable credit for many people who were excluded from mainstream financial institutions. Furthermore, because credit unions were operated by local people for local people, and were often located in community halls and church halls, they were perceived as approachable and accessible. This was in marked contrast with the banking sector, which was associated with grand buildings and a more formal, business-like approach, all of which contributed to an intimidating experience for many people. Although credit unions in Ireland now are considered to be part of the 'mainstream' financial services sector (Byrne et al., 2007), they still perform an important role in terms of improving the financial wellbeing of low-income groups.

One of the key differentiating characteristics of credit unions *vis-à-vis* banks is that they are driven by a member-oriented, not-for-profit ethos. Essentially, credit unions are user-owned financial co-operatives where members save together, thereby providing funds from which members can borrow. Eligibility for membership of a particular credit union is governed by the concept of the common bond: Membership of community-based credit unions is open to all those who reside or work within a particular community, while occupational credit unions are open to those who work in a particular industry, service or company.

The social orientation of credit unions has significant implications for their business practices and strategies. Whereas, in general, bank staff are incentivised to sell products, credit union staff do not earn commission-based rewards. Therefore, their primary goal is to provide a service that emphasises the interests of members – collective and individual –

rather than commercial incentives or pressures. In principle, at least, credit unions encourage their members to manage their money sensibly by saving regularly. Furthermore, concern for the wellbeing of members means that credit is limited to amounts that the individual member can comfortably afford to repay and is granted for reasons that are deemed to be for provident or productive purposes.

Within the credit union movement, individual credit unions have pioneered initiatives aimed at improving the financial capability of members and potential members. Some of these initiatives have been rolled out on a national level with the support of the ILCU. The remainder of this report evaluates existing credit union practices and initiatives in terms of their ability to enhance financial capability.

A summary of the level of involvement is presented in Table 4.1.

Table 4.1 Summary of level of involvement in credit union initiatives with the potential of building financial capability

Credit Union Initiatives	**Number of credit unions (n = 74)**
Formal financial education	1
One-off talks in the community	44
Credit union newsletters	37
Websites	74
Wolves from the Door campaign	35
Replacing the moneylender	1
Credit Union Easy Pay	2
CU/MABS partnership	58
Social fund	11

These are discussed in greater detail below.

3.1 Formal financial education programmes

Financial education course: the model

Financial education courses provide a formal channel for the delivery of education in relation to personal finance. To date few credit unions have been active in this area. A notable exception is Tipperary Credit Union, which recently developed and ran a six-week financial education course for members of the community. The target participants included people with a record of debt problems, residents of housing estates where moneylenders operate, and people on low income. However, in order to achieve a socially integrated mix, the course was publicly advertised to draw participants from a cross-section of the community. According to its primary driver and developer,[5] the course is designed to be holistic in nature, not only focusing on budgeting, but also encompassing related themes such as healthy eating, energy saving and lifestyle. University College Cork's Centre for Co-operative Studies was consulted on the curriculum design and the course was delivered by trained facilitators. There was no course fee and participants were given a number of incentives to encourage attendance, including vouchers for local health shops and leisure facilities.

Finance is a private matter and, consequently, some credit union officers have expressed the view that it is difficult to encourage participation in financial education courses. For some, attendance at such a course may be viewed as an admission that they are experiencing financial difficulties. However, the holistic range of topics addressed by the Tipperary course gives it more widespread appeal, especially in the current climate where thrift and environmental concern have become laudable.

The course is not a stand-alone programme; it has a direct link to credit union operations and policy. For instance, anyone who has a bad debt record with the credit union will be allowed to re-start his/her borrowing relationship with the credit union upon completion of the course. The credit union has also agreed to offer a special rate on budget loan accounts for those who attend the course and for those members who come into the credit union with a developed budget plan.

The course organiser has identified further potential initiatives that could be developed from the course, such as a *peer-savings and peer-lending* model that could be used by participants interested in forming such a group under the guidance of the credit union.

[5] Kathleen Prendergast, former Chairperson of Tipperary Credit Union.

Financial education course: the potential impact

Other than numbers attending, it is not possible at this stage to determine the impact of Tipperary Credit Union's financial education course. Although comments made by participants in the course evaluation were very encouraging, it would be necessary to carry out such surveys over a number of courses to determine the true impact. While this form of evaluation would help to ascertain whether a shift in attitude is associated with participation in the course, it would also be useful to follow up with a longitudinal survey to evaluate the longer-term impact on financial behaviour.

There are a number of interesting aspects to the design of this course. Firstly, the transfer of knowledge is not unidirectional; by interacting with credit union members in a workshop-based environment, credit union officers gain a more intimate understanding of their members, thereby allowing them to tailor their service delivery to meet real needs. Secondly, by encouraging members to make commitments in terms of budget planning and/or peer lending, the likelihood of changing behaviour is increased. Dixon (2006) highlights the importance of building commitments as a pathway to long-term change in behaviour.

Financial education course: future development

It is the intention of Tipperary Credit Union to run further courses and to continue to develop content and delivery. The course organiser believes that the course is sufficiently generic in its design to be offered in other credit unions. It is anticipated that the programme will be run as a pilot in other credit unions.

3.2 Once-off seminars/talks in the community/local radio

Once-off talks in the community: the model

Of those who responded to the credit union survey, 60 per cent indicated that they deliver once-off talks to local residents' groups, community groups, lone parents groups, schools and so on. The community group would normally approach the credit union with a request to address the group on budgeting or other aspects of financial planning of particular relevance. A small number of credit unions would also participate in occasional local radio broadcasts on financial matters.

Once-off talks in the community: the potential impact

Representatives of MABS and credit unions surveyed believed that these activities do enhance general awareness. However, their real impact is largely dependent on good targeting, where their message reaches individuals who are experiencing difficulties at that particular point in time. This is in line with Dixon (2006), who emphasises the importance of responding to critical moments. For example, at Christmas time credit unions and MABS focus their attention on the additional pressures to which families can succumb, and aim to offer advice that is appropriate to the season.

Once-off talks in the community: future development

Community outreach talks are time-consuming and can be done only occasionally. Perhaps a more effective strategy would be to provide training to members of community groups, so that they can present talks on financial topics on a more regular basis. However, these would need to change and adapt to the needs of people in the community. The credit union could also supplement with written material, to aid those providing financial education to groups.

3.3 General articles in newsletters/local newspapers

Newsletters/local newspaper articles with a financial education focus: the model

Approximately half of the credit unions who responded produce a regular newsletter. A random sample of 10 newsletters was examined by the researchers. It was found that, in most cases, there was some element that could be classified as financial education rather than mere promotion of the credit union.

Newspaper articles provide considerable scope for disseminating educational messages, particularly where they embrace a cross-section of publications, including broadsheets and tabloids. The authors are aware of at least two credit unions that have contributed regular columns to local newspapers.

Newsletters/local newspaper articles with a financial education focus: the potential impact

Credit union representatives who were interviewed expressed the view that newsletter articles do have an impact, particularly where they are delivered directly to members and

sometimes to non-member households. They note that members often follow up on suggestions made in the newsletter, referring to articles and so on they have just read when they come into the credit union. One credit union indicated that newsletters have a longer shelf-life than newspapers and often remain in households until the next newsletter arrives or until everyone has read the articles. It would seem realistic to expect that households in crisis are more likely to read credit union newsletters and features, although it should be noted that there will always be a minority of people who do not have the basic literacy skills required to engage with this form of communication.

Newsletter/local newspaper article with a financial education focus: future development

While the production and delivery of newsletters involves significant monetary and time costs, most of the credit union representatives interviewed believed that the newsletter is an important way of communicating with members and non-members. Once a credit union decides to produce a newsletter, it usually continues to do so. A number of credit unions in the survey highlighted the increasing importance of articles with a financial education element, particularly given the current difficult economic circumstances in Ireland.

3.4 Credit union websites

Credit union websites with a financial education element: the model

The majority of credit unions now have a website. However, from the researchers' examination of a random selection of 20 websites, the content of these tends to focus on basic information provision (opening hours, contact details, services provided), while the financial education element tends to be very limited.

Credit union websites with a financial education element: the potential impact

The credit union websites surveyed only use the number of hits received as an indicator of the impact of their sites. However, this is not an effective way of measuring the impact, because there is no guarantee that those logging on read the financial education element of the website or, even if they do, whether or not it has an impact on their behaviour.

Credit union websites with a financial educational element: future development

Credit union representatives interviewed were of the view that the website element of the credit union should be further developed and will increase in importance. They were also of the view that credit union websites should not focus exclusively on selling products and services but should also incorporate a financial education element.

3.5 Initiatives to counter the activities of moneylenders

Wolves from the Door Campaign: the model

Originally developed by Tralee Credit Union in 2004, the *Wolves from the Door* initiative was later rolled out by the ILCU to other credit unions nationally. Our survey of 74 credit unions indicates that the campaign is run by 44 per cent of them. The campaign is now part-funded by MABS. Running from October to December, its main purpose is to target those who use moneylenders during the Christmas period. It involves distributing leaflets to every household and relevant organisation in the community. Many credit unions use a generic text developed by the ILCU, highlighting in general terms the high costs of borrowing from moneylenders. The objective is to encourage people to stop and think during the pre-Christmas period when people become increasingly vulnerable to predatory moneylenders. Tralee Credit Union changes its text every year and has gone one step further by naming local moneylenders and the rates they charge. Tralee Credit Union and MABS believe that this has greater impact, as customers of moneylenders can see the name of their own loan provider and compare the cost of borrowing from them versus the credit union.

Wolves from the Door campaign: the potential impact

Both MABS and the credit unions highlight gradual awareness-raising as the main impact of this campaign. However, they were unable to indicate if this has actually lessened the use of moneylending in communities where the *Wolves from the Door* campaign has been implemented. Representatives of MABS argue that the use of the less generic, more local text, where moneylenders and their rates are named, has greater impact. While it is difficult to measure the true impact of such a campaign, Tralee Credit Union has observed an increase in the number of loans to clear moneylender debts while the campaign is running. In the period of October-December 2008, these loans doubled. Credit union representatives also stated that during the campaign, members would come into the credit union expressing shock at the relative cost of borrowing from a moneylender. A small number of these asked for a credit union loan instead and indicated that they would no

longer use moneylenders. However, as this is not formally documented, it is difficult to measure the true impact in terms of effecting a reduction in the use of moneylending. In previous research, Byrne et al. (2005), found that people tend to use a variety of sources of credit, borrowing from moneylenders, credit unions, banks and credit cards. It was also found that people like to maintain some level of borrowing from their moneylender in case they need their services in the future. It is this residual use that is probably most difficult to reduce.

Wolves from the Door: future development

While the generic text developed by ILCU has facilitated the national roll-out of the *Wolves from the Door* campaign, a more effective approach may be for individual credit unions to adapt this text to their local situation, as Tralee Credit Union has done. Costs have prohibited many credit unions from distributing leaflets widely. In this context, perhaps a targeted approach to particular areas where moneylenders are active would be more cost-effective. Furthermore, information evenings could also be run to provide information on credit union services and how they can benefit existing and potential members, encouraging members to compare the cost of credit from the credit union and moneylenders. Tralee Credit Union adopts this approach occasionally.

Credit union replacing the service of the moneylender at the door: the model

The Credit Union Alliance is a group of credit unions in the south-west of Ireland who have formed a central organisation to co-operate in relation to marketing, bulk purchasing, and investments, and to develop new services. Together, they have hired a Loans Recovery Officer to work between five of the credit unions. While the primary task of this officer is to recover loans, his secondary role is to identify customers of moneylenders through his door-to-door calls, and by observing moneylending activity in housing estates. He has been tasked to encourage these people to switch to a lower-cost credit union loan with the agreement that he will collect the repayments on his weekly rounds. In other words, the credit union is imitating the ‘doorstep’ strategy of moneylenders by bringing credit union services to existing or potential members in their own environment, but offering them a fair interest rate. While at present there is only one loans recovery officer, in time, it is the intention of the credit unions to increase this to a small team so that greater time can be devoted to this campaign to replace the moneylender at the door. Any credit union deciding to develop a model to replace the moneylending service should read the excellent

publication by Kempson et al. (2009), *Is a not-for-profit home credit business feasible?.*

While this scheme is still at an early stage of development, it offers a useful targeting strategy that other credit unions might consider implementing. As a cautionary note, however, Burger and Zellmer (1995:26) highlight that credit unions must 'not just mimic' the service offered by moneylenders but must develop products to 'change financial behaviour'. Such services should, therefore, be viewed as a 'transition into the mainstream financial system' (Byrne et al., 2005).

Credit union replacing the service of the moneylender at the door: the potential impact

It is not yet possible to measure the impact of this service, as the Loans Recovery Officer has only recently been appointed. While informal, anecdotal reports have been positive, the scheme would need to be in operation for at least one year to evaluate its impact. As was highlighted in Byrne et al. (2005) people may break their contact with a moneylender but in times of crisis often return to this form of credit. In addition, without the formation of a team of people working in this area, it would appear that the workload for one or two people would become excessive and the main focus would have to be loans recovery. While combining the loans recovery officer role with the targeting of moneylenders on the doorstep would have an overlapping function, the latter role would require significant time and effort and it may prove difficult in the long term.

Credit union replacing the service of the moneylender at the door: the future

The Credit Union Alliance Group is currently in discussion with MABS regarding the potential to develop this initiative and make it as effective as possible. This is to be welcomed, as MABS has vast experience in dealing with this client profile. A key challenge for the initiative will be to separate out the two roles of loans recovery and the moneylending replacement service. Furthermore, clients will need support to make a successful transition from a situation where the credit union comes to them to one where they visit the credit union. Only then will these clients become assimilated into 'mainstream' financial services.

As with all initiatives, it is important to develop ways of evaluating the service. The success

of the initiative will be determined by the overall reduction in moneylending activity in the targeted communities and the proportional increase in the number of people who transfer their moneylender loans to credit union loans. However, it will also need to be ascertained whether they have fully severed their relationship with the moneylender. It would be counterproductive if individuals increased their overall borrowing by continuing to use a moneylender while also taking on a credit union loan. Through its contact with clients, MABS will gain useful insights into this question.

3.6 Initiatives to counter the activities of hire purchase/personal finance companies

CU Easy Pay: the model

Introduced by Tralee Credit Union in 2008, *CU Easy Pay* targets hire purchase/high interest finance customers who purchase home/electrical goods from stores. To make their products appear more affordable, many electrical/home stores offer so-called ‘interest-free’ finance packages. Stores often receive a commission from finance companies for promoting these products. For customers, however, the drawback lies in the terms and conditions of these packages. Some involve a balloon payment at the end of the interest-free loan term. Furthermore, if customers fail to repay within the interest-free period, interest rates of up to 26.8 per cent APR are charged and they may be tied into a long-term contract. MABS has identified lack of transparency as a key problem associated with this type of credit. The problem is compounded by the tendency for customers to be particularly focused on the item they are purchasing, thereby paying inadequate attention to the credit terms. Moreover, MABS has identified the high cost of such finance arrangements as a trigger for debt.

CU Easy Pay is a community-based initiative run by Tralee Credit Union with the support of electrical/household goods traders. It offers a more transparent alternative for customers who wish to avail of finance arrangements to purchase goods and, with an interest rate of 8.3 per cent APR, represents a cheaper source of credit for those who are unlikely to be able to complete their repayments during the interest-free period. Customers who are not credit union members can also apply for *CU Easy Pay* credit by joining their local credit union. As part of their *Wolves from the Door* campaign, Tralee Credit Union promotes *CU Easy Pay*, but stress in bold print:

> **If you need to borrow, ask yourself…**

- **Do you really need the item?**
- **What does it cost?**
- **Where is the cheapest finance available?**
- **Can you afford to meet the repayments?**

CU Easy Pay: the potential impact

Tralee Credit Union indicates that 50 per cent of people availing of *CU Easy Pay* have joined the credit union specifically to access this source of credit. Therefore, the impact of the scheme on these customers is more extensive than the provision of access to cheaper, more transparent credit; by becoming credit union members, their potential for regular saving is increased and they can avail of credit union loans as an alternative to other more expensive sources of credit, such as moneylenders. This counteracts the proliferation of the type of high-cost credit that MABS has identified as a key trigger for debt problems. Furthermore, by visiting the credit union to avail of the *CU Easy Pay* scheme, it will be more apparent to customers that they are actually taking out a loan for the item that they are purchasing. This is in contrast to in-store finance offers, where customers tend to see only the product and the price and often forget about the extra costs incurred through interest charges.

Another impact in the Tralee area is that many of the shops now no longer offer the higher interest alternatives and offer *CU Easy Pay* only. This has removed expensive hire purchase arrangements from these stores. One of the nationwide stores operating in Tralee indicated to the researchers that, if other credit unions were willing to offer a similar service, they would be willing to promote the service nationally in their other stores. This would mean a significant reduction in the operation of these high-cost personal finance companies.

As already indicated, Tralee Credit Union's promotional literature for *CU Easy Pay* is well-balanced in favour of customers' interests. The objective is not merely to sell its own product but to encourage customers to 'stop and think' whether they actually need the product. This process is facilitated by the extra step that customers must take to avail of *CU Easy Pay*: they must call into the credit union and apply for the loan and, while this can

be done very quickly, it does separate the individual customers from the store and product and allows them time and space to consider whether they actually need the product. While representatives of the shops highlighted this potentially negative effect on trade, they were still willing to support the scheme, many expressing the view that the high cost of finance arrangements is bordering on ‘immoral’.

According to Tralee Credit Union, *CU Easy Pay* ’finally accomplished one of the goals which Tralee Credit Union Ltd set for itself when it was formed in 1968, namely to assist and educate those most vulnerable from systems of finance which place too heavy a burden on them’ (Tralee Credit Union Annual Report, 2008:26).

CU Easy Pay: future development

Operationally, *CU Easy Pay* is still at a relatively early stage and it will be some time before its impact can be fully assessed. However, the response from traders has been encouraging; in particular, the positive response from companies that have branches nationwide suggests potential for rolling out the scheme on a national basis. Tralee Credit Union enjoys the particular advantage of serving a large town, allowing it to negotiate with traders where its members are most likely to shop.

Our survey of 74 credit unions indicates that only four have rolled out initiatives similar to *CU Easy Pay*. For many credit unions, such as those in city suburbs or serving small rural areas, this task would be more complicated as traders would be geographically dispersed beyond the common bond. Furthermore, traders in city areas would need to co-operate with many different credit unions. Realistically, a national implementation of *CU Easy Pay* would require collaboration by groups of credit unions in terms of negotiating the co-operation of traders.

Finally, the scheme is not without limitations. It has already been stated that the procedure by which an individual can avail of Tralee Credit Union’s *CU Easy Pay* facility involves the customer leaving the shop and going to the credit union to apply for a loan. This procedure is good for consumers as it allows them time and space to consider more carefully their decision to purchase. However, it is also likely that some customers, particularly those who are not credit union members, will opt for the in-store finance offer to avoid the

inconvenience of having to go to the credit union and then return to the shop to make their purchase. In order to maximise the uptake of *CU Easy Pay vis-à-vis* in-store credit, significant efforts would be required by credit unions to convince traders to promote their scheme and/or abandon other credit arrangements.

3.7 Credit union/MABS partnership

Credit union/MABS partnership: the model

The availability of impartial financial information[6] and advice to low-income and financially excluded groups is of critical importance (Collard et al., 2001; Brown et al., 2005). The Money Advice and Budgeting Service (MABS) provides advice and counselling to people experiencing debt problems. After conducting an analysis of the client's income and expenditure, MABS officers help clients to budget for expenses and encourage them to set up a special budget account in the credit union, which allows members to budget and repay their creditors. MABS adopts a multidimensional approach, helping their clients to develop medium- and long-term budgets, and also helping them to integrate into their communities through participation in libraries, education and community activities.

Since its inception, MABS has maintained strong links with the credit union movement. While credit unions can offer advice to members in relation to budgeting and renegotiating finance arrangements, if a member is experiencing serious debt problems the credit union would normally refer them to MABS[7]. The organisation does not have the resources to support clients financially; however, through its partnership with credit unions, a number of initiatives have been developed to help people gain control over their finances and to facilitate access to emergency credit for those on low incomes.

In terms of enabling people to take control of their debts, 79 per cent of credit unions that responded to our survey operate special budget accounts for clients who are referred by MABS. Based on priorities identified by the client in consultation with MABS, this facility

[6] The Law Reform Commission, Combat Poverty Agency and Free Legal Advice Centres view that financial information/education/budgeting is but one of a range of preventative and curative measures needed to tackle debt problems, and that a much more strategic approach is needed to replace the somewhat ad hoc one the government has in place at present.

[7] However, in practice this may not always happen. It would appear from the McCann (High Court) case that MABS was not involved until the very late stages or at the point where Ms McCann had already received an imprisonment order against her for debts she owed to the credit union.

manages bill payments and repayments to other creditors. Clients are also encouraged to incorporate a savings element into their budget, however small.

In previous research (Byrne et al., 2005), MABS raised concerns about the ability of credit unions to respond quickly to members in a crisis. It is in such situations that individuals on low incomes are most vulnerable to moneylenders. To combat this, some credit unions (15 per cent in our sample) have set up social funds from which emergency loans can be granted at nominal interest rates. To avail of such a loan, an individual must be referred by MABS. A representative of MABS effectively acts as an intermediary between the credit union and the client so that a credit union loan can be issued without delay. In the UK, the government has set up a growth fund which allows credit unions to lend to people not eligible for crisis fund loans but in need of credit.

The Society of St Vincent de Paul has recently collaborated with credit unions and MABS to develop an initiative aimed at combating predatory moneylending services targeted at vulnerable individuals. Under this pilot scheme, the Society of St Vincent de Paul agrees to act as guarantor for small credit union loans (up to a maximum of €1,000) for clients whose credit history would render them ineligible for mainstream sources of credit. The society will act as an intermediary between people on low incomes and credit unions, and will help to provide emergency credit to people on low incomes at times when they are most vulnerable to more expensive credit sources.

Credit union/MABS partnership: the potential impact

The credit union/MABS partnership model allows the provision of an excellent support structure for those experiencing debt problems. For clients referred by MABS to the credit union, some of whom may have been excluded from the mainstream financial services sector, it offers a path to financial inclusion and enhanced financial capability.

Although the social fund is not widely offered or promoted by credit unions, representatives of credit unions and MABS were of the view that, for the small number of people who avail of the social fund, it has a very major impact in terms of breaking their connection with moneylenders. Those who avail of the social fund are always referred by MABS and are usually in very dire circumstances.

Credit union/MABS partnership: future development

Because of MABS, Ireland compares favourably to the US and many European countries in terms of access to advice on money and budgeting (Korczak, 2004). The partnership[8] between MABS and the credit unions is a key factor contributing to its success. The fact that MABS cannot provide actual financial support to members has been identified as one of its key strengths as clients are more likely to be open and honest about their situation if there is no money at stake (Byrne et al., 2005). MABS views the social fund as a very important service and would advocate the roll-out of the scheme in other credit unions.

3.8 Conclusion

Section 3 has highlighted the contrasting business models of credit unions *vis-à-vis* conventional financial service providers, emphasising the paramount importance of members' interests in the credit union. Some key credit union initiatives, focused on building the financial capability of existing and potential members, were examined.

Based on a survey of 74 credit unions, it was established that credit unions, on the whole, have not been active in developing formal financial education courses. The programme recently developed by Tipperary Credit Union provides an example of an innovative approach to financial education. In particular, the broadening of focus from a narrow financial education model to a more holistic approach gives the course wider appeal. The literature on sustainable consumption would advocate this approach.

Credit unions have a strong presence in the community: 60 per cent of credit unions in our survey stated that they present once-off talks in the community. The notion of training individuals within community groups offers potential for disseminating the credit union message effectively and more widely. This would minimise the demand on credit union resources. Furthermore, as Dixon (2006) has emphasised, influential community figures can provide a very credible source of information and knowledge. In some situations, it may even be more appropriate for community groups to be addressed by their peers.

[8] It should be noted that at times this partnership is not always harmonious. One example here would be the McCann (High Court) case, where a MABS service supported a client against a credit union that had initiated committal

Print media (whether a credit union newsletter or a column in a newspaper) and local radio are currently underutilised as vehicles for transmission of information and knowledge.

A number of initiatives have been introduced to develop the infrastructure through which financial capability can be enhanced. Evidence from Tralee, where *Wolves from the Door* was first developed, suggests that the campaign has been successful. The scheme has been rolled out nationally and has been adopted by 44 per cent of credit unions in our sample. Tralee Credit Union has been particularly innovative. By developing the *CU Easy Pay* scheme with local electrical shops, it has actually attracted new members to the credit union.

The Credit Union Alliance's scheme, *Replacing the Moneylender at the Door*, although currently at a very early stage, illustrates the possibilities that can be achieved by credit unions working in co-operation to develop collective solutions to common problems.

Finally, in terms of addressing the infrastructure for financial capability, the credit union movement's partnership with MABS is a key factor enabling credit unions to respond to individuals at times of crisis. The special budget account is an important facility that is widely offered by credit unions to clients referred by MABS. Just 15 per cent of credit unions in our sample had implemented a social fund. The availability of emergency credit is of critical importance in combating the proliferation of moneylenders and the associated high costs of finance.

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proceedings. Sometimes the credit union (creditor) and MABS (client) interests do not coincide.

4 Credit union practice and financial capability

4.1 Introduction

Because they are socially-motivated rather than profit-driven, credit unions assign paramount importance to members' interests in the design and promotion of their services. Consequently, the objective of enhancing members' financial capability is at the core of their agenda. While individual credit unions in Ireland have been expanding their range of services to members, within the movement more generally savings and loans remain the primary services. Linked to these services, there are secondary benefits, including free insurance on savings and loans. In terms of facilitating financial capability, many credit unions also offer additional services, such as budget accounts and savings stamps. However, it should be pointed out that there is a strong feeling within the movement that the Irish government through its regulation arm hinders rather than facilitates credit unions to be innovative in this area. Other national governments, such as the UK, seem to have adopted a different approach to credit unions.

Based on a survey of new credit union members at two points in time, this section will examine how credit union practice impacts on the financial capability of members. First, however, standard credit union practice in terms of savings and loans will be outlined.

4.2 Credit union practice and policy: saving

Credit unions depend on members' savings to facilitate their operation. A credit union is essentially a co-operative where members pool their money together and, as the need arises, individual members may wish to borrow from that pooled fund. Members are paid an annual dividend on their savings, which is usually within the range of deposit interest rates offered by conventional financial institutions.

Building up the member's savings record is an integral part of the credit union service. Collard et al. (2001) highlight the need for individuals on low income to be able to save very small amounts. Credit unions are sympathetic to such cases and are willing to accept very small savings without causing embarrassment to the member. Recent years have witnessed a type of saving where individuals move lump sums from one financial institution to another in pursuit of the most competitive interest rates. However, it is those

who regularly save small amounts who represent the linchpin of the credit union: they are likely to borrow in time and, because of their regular savings record, represent a good credit risk (Byrne et al., 2005). Credit unions, therefore, encourage regular saving and urge members to continue saving even a small amount while repaying loans. This represents part of a strategy to cultivate the habit of saving, thereby providing members with a fund to deal with planned or unforeseen expenses. Regular saving also enhances credit worthiness and can increase an individual's capacity to borrow. Dixon (2006) recommends this as something new; however it has been the approach of the credit union since its foundation.

Through its life savings insurance scheme, credit unions provide free insurance linked to savings. This service provides members with the security of knowing that they have made some provision for their families in the event of their death and, as such, acts as an incentive to many members to maintain their savings in the credit union.

Many credit unions have introduced specific initiatives, targeted at young people and adults, which aim to encourage regular saving, such as savings stamps schemes.

Adult savings initiatives[9]

A number of credit unions have introduced initiatives aimed at facilitating regular saving by adults. These include payroll deduction schemes where, with an employer's agreement, members can set up an instruction for a specified amount from their salary to be paid directly into their credit union account. This is particularly useful for people who want to discipline themselves to save regularly. Over time, the individual will become used to not having access to the money that is automatically saved, making this a painless and rewarding way to save. Other options designed to provide a convenient way for members to save include standing orders, which allow money to be transferred from a bank account to a credit union account, electronic transfers, and lodgements by cheque or postal order. Many credit unions have also installed saving stamps machines in local shops or in the foyer of the credit union, which allow members to save by using loose change to purchase stamps. The presence of these machines is also likely to encourage non-members to consider joining and using the stamps to start saving in the credit union.

[9] The UK government has introduced an interesting savings initiative called the Savings Gateway which is targeted at low-income groups. Credit unions may be able to play a role here as a receivers of deposits. www.hm-

While the savings stamps facility is popular with members, it involves considerable expense and inconvenience for credit unions, creating a range of administrative and supervisory concerns.[10] For economic efficiency reasons, most conventional financial institutions would not consider the operation of such a facility. However, because credit unions are member-oriented, they are willing to offer the service if it is popular with members.

Youth savings initiatives

The development of good saving habits and a healthy attitude to money from an early age are important determinants of financial capability. This was evidenced in our survey where many individuals who were 'good with money' stressed that their parents had taught them to be mindful of living within their means.

Many credit unions offer new-born accounts where, on presentation of a birth certificate, an account will be opened for a new-born child. The credit union contributes a small deposit to initiate the savings. This means that family members and/or friends can prepare to encourage the child to save when he/she is old enough to do so.

As with many adult members, savings stamps are also popular with younger members and are a useful device for encouraging children to save. These tend to be popular with young children, who can see their savings grow with each stamp added to their stamp book. When the book of stamps is completed, children can use it to open a credit union account, or add to an existing one, or they can exchange the stamps for cash. This can help children to cultivate the habit of saving up for a toy or other item that they want to buy.

Many community-based credit unions co-operate with local primary and secondary schools to bring the credit union service into the school. For younger children, this may involve the sale of stamps, which children collect in a book; in our survey of credit unions, one-third of credit unions offered a 'Sammy Stamp' or similar stamp collection service. Older children in secondary schools can set up a school credit union, which effectively operates as a collection point for students' savings, which are then deposited in the local credit union office. To operate successfully, a school credit union requires the committed involvement of a teacher, a credit union representative who can liaise between the school and credit

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treasury.gov.uk/saving_gateway.htm

[10] Problems arise in situations where members lose their stamp collection books. There are also difficulties associated

union, and a number of students who are willing to assume responsibility for the operation of the service.

4.3 Credit union practice and policy: lending

Credit union loans have a number of key features that differentiate them from loans offered by banks and other credit providers. Credit unions are willing to offer very small loans for amounts that many banks would consider unprofitable. Unlike most bank loans, where interest is charged on the principal amount borrowed, interest on a credit union loan is paid on the reducing balance of the loan, and at a rate of no more than 1 per cent per month. There are no penalties for clearing a loan early or for repaying a lump sum and this means that borrowers, if they can afford it, can accelerate their repayments, thereby reducing the cost of the loan. This flexibility also extends to those who find that they have to renegotiate with the credit union due to an inability to meet their agreed repayment schedules. In many credit unions, borrowers are incentivised to keep up with their repayment schedule by being granted an interest rebate at the end of the year. Credit union loans are transparent, with no transaction charges or hidden fees. Furthermore, all loans come with free loan protection insurance whereby borrowings are covered, up to certain limits, in the event of death or permanent disability.

To avail of a credit union loan, an individual must be a member of the credit union. The criteria used to assess loan applications include the member’s record of savings and repayment of previous loans, ability to repay, and the purpose of the loan. Because they offer small loans, which represent a low risk to the lender, credit unions provide a means for individuals to build up a good credit rating. Furthermore, because credit unions are not profit-driven, they prioritise the interests of their members: this means that they encourage prudent borrowing and may refuse a loan or suggest a smaller amount where they believe the loan applicant would be unable to service repayments on the amount requested.

4.4 Other credit union services that enhance financial capability

In addition to standard savings accounts and loan facilities, many credit unions also offer additional services that empower people to take control over their finances. Among these are budget account services where members can lodge a fixed amount to their account

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with the monitoring and supervision of automated stamp machine transactions.

every week/month to provide for payment of recurring bills, such as utilities, motor tax, insurance etc. For a small fee, the credit union will manage the payment of these bills from the budget account.

'Way of doing' business

The nature of the transaction between the credit union and its members is fundamentally different to that between conventional financial institutions and their customers. Credit union staff are not paid on a commission basis nor have to meet formal or informal sales targets. This means that the tellers have a different frame of thinking when interacting with the member. They can view the member as a neighbour, a friend, somebody like themselves and they are not under pressure to sell. If an employee is under pressure to meet sales targets, he/she is more likely to view the person in front of them as a consumer rather than in personal terms. Also if they have to meet formal sales targets, the tellers/agents are less likely to ask whether this is in the consumer's interests or not. Credit unions often encourage members to borrow a smaller amount or to think further about the loan before they actually borrow. Such an approach is driven by a human rather than a profit-only interest. Credit unions must be confident in their approach and not be tempted or pushed towards a model driven by profit.

4.5 Introduction to survey

Characteristics of the sample

Out of an initial sample of 150 new credit union members across two communities, 72 participated in the follow-up survey. As the study is based on a comparison of responses at two points in time, those who did not participate in the second round were eliminated from the analysis. The demographic characteristics of the valid sample are presented in Table 4.2.

Table 4.2 Respondent demographics*

Demographic	**Number of respondents**	**Percentage of respondents**
Gender		
Male	26	36%
Female	46	64%

Age		
18-25	25	34%
26-35	13	18%
36-45	10	14%
46-55	13	18%
56-65	4	6%
Over 65	7	10%
Employment status		
Full-/Part-time employment	44	61%
Retired	8	11%
Student	3	4%
Unpaid work in the home	9	12%
Unemployed	4	6%
Not stated	4	6%
Level of education completed		
Primary only	4	6%
Second level only	31	43%
Third level	31	43%
Vocational training	5	7%
Not stated	1	1%

*Respondents were not asked for their nationality or level of income.

There is a significant gender bias, with female respondents accounting for almost two-thirds of the sample. The sample is also biased towards the 18-25 age-group, while the 56-65 and Over-65 age groups are particularly under-represented. This may be partially explained by the focus of the survey on new members; given the high penetration rate of credit unions in Ireland, it is possible that a disproportionate number of new members derive from the younger age-group. In terms of education level, those who have completed second level only and third level are equally represented. A majority of respondents (61 per cent) were engaged in paid employment, and just 4 per cent were unemployed.

Respondents were asked to indicate who in their household was mainly responsible for ensuring that household bills and other commitments were paid, although not necessarily bearing sole responsibility for financing these. Over 60 per cent of respondents stated that

they held primary responsibility for these tasks in their households.

As expected, the vast majority of respondents (86 per cent) stated that they had savings in the credit union, the remaining 14 per cent presumably accounting for individuals who were visiting the credit union for the first time to become a member, or whose balances were minimal. Just one-fifth of respondents indicated that they held a credit union loan at the time the survey was completed. Again, this is unsurprising in a sample where only members who had joined the credit union, or reactivated their membership in the previous six months, were eligible to participate.

More than one-third of respondents stated that they never had a loan with a credit union or any other financial service provider. An additional seven respondents (10 per cent) had availed of a credit union loan but never had a loan from another provider; six of these were in the 18-25 age-group. This is, perhaps, indicative of the strong community- and family-oriented nature of credit unions, resulting in their position as the primary financial service provider for many young people as they begin to manage their own finances. Many respondents cited a particularly cautious attitude to borrowing as the reason why they did not have a history of borrowing. For example, only four out of 31 who had never availed of a loan from a financial service provider, other than possibly a credit union, claimed to have a credit card and only four had an overdraft. Furthermore, only four out of the total 72 respondents indicated that they had a loan with a moneylender.

4.6 Saving and planning ahead

A desire to save was the most common reason cited by respondents for joining the credit union (44 per cent or 33/72 respondents).[11] All but three respondents agreed that it was important or very important to them to have savings. Over half (58 per cent) of new credit union members said they already had a savings account in a bank, building society or post office. This means that the credit union gave a savings facility to the 42 per cent of new members who did not already have savings. Despite the popularity of the SSIA scheme, just over one-fifth of respondents declared that they had availed of the scheme. However, this statistic is skewed by the sample's bias towards the 18-25 age-group: most of these respondents would have been under the age of 18 and, therefore, ineligible for the scheme when it was introduced in 2001; only two out of a possible 25 stated that they had held an SSIA.

In the first round survey, respondents were asked to indicate the frequency of their saving. A significant majority of respondents (78 per cent) indicated that they saved regularly.

Table 4.3 Frequency of saving at first survey

	Number of respondents	**Percentage of respondents**
Monthly/Weekly	56	78%
Every now and then	11	15%
Don't really save	3	4%
Not stated	2	3%

Given that a large proportion of individuals join the credit union to save money, it is likely

[11] A further 13 per cent (9/72) said they joined to save with the possibility of getting a loan (13 per cent or 9/72). Other reasons for joining included 'to get a loan' (8 per cent), or because they were encouraged by, or were 'joined up' by, a family member.

that they will maintain a regular savings pattern in the initial stages of their membership. However, in order to assess the role of credit unions in facilitating and encouraging members to save, respondents were asked again in the second round to indicate how regularly they saved. The results of this are presented in Table 4.3. Two-thirds of respondents (48/72) indicated that there had been no change in their savings pattern since the first survey; however, 38 out of the 48 who stated there was no change were regular savers when the first survey was administered and, therefore, the fact that their savings habit remained unchanged cannot be regarded as negative. Only 11 per cent had increased the regularity of their savings, while 12 per cent reported that they were saving less regularly.

Table 4.4 Change in regularity of saving after 1 year

Change in savings habit	Percentage of respondents
Saving more regularly	11%
Saving less regularly	12%
No change in regularity of saving	67%
Not stated	10%

Despite the apparently negligible impact of membership on savings habits, more than one-third (37.5 per cent) of respondents believed that the credit union had changed the way they think about saving (Table 4.4). The expectation that members should continue to save even while repaying a loan was significant. One woman, for example, said:

> ‘I was always good at saving but having a credit union loan encourages you to save more regularly. If you took €2,000 out of your account for something, you’d never put it back, but by having to repay the loan weekly, the money stays in the account and you will keep adding to it.’

In this context, the credit union imposes a degree of discipline on the member, who feels that he/she is expected to save regularly. This is possibly the most significant factor in terms of the influence of the credit union, where members are not only expected to make repayments to their loan but are simultaneously encouraged to lodge money into their savings. The fact that the loan repayment and savings lodgement are combined in the one pay-in form greatly encourages payment into both.

Table 4.5 Has the credit union changed how you think about saving?

	Percentage of respondents*
Yes	38%
No	38%
Don't know	25%

*Does not add up to 100 because of rounding

The issue of access to savings was also raised. Although larger credit unions increasingly are beginning to introduce ATM cards, for the majority it remains necessary to visit the credit union to access savings. Respondents believed that this reduced the temptation to withdraw money, thereby helping them to maintain their savings:

> 'I can't get at my savings so easily [in the credit union]. . . I didn't want an ATM machine; that's why I joined the credit union . . . so I couldn't get at my money.'

> '[In the credit union,] I save regularly and can't access it easily . . . I didn't sign up for the [ATM] card . . . I didn't want it.'

> 'Having to think about taking out money means planning ahead – not like an ATM card with cash on demand.'

Similarly,

> 'I have to plan ahead if I want to spend money; I have to think about it.'

One individual was having difficulties keeping up with his student loan. The credit union tried to help him to budget and referred him to MABS. He used a credit union loan to clear more expensive debt:

> 'Every week I pay €40 off the loan and put another €40 into savings. I would never have saved that much before. Also, savings are less accessible in the credit union; I would withdraw money too easily from the bank . . . the credit union has made a huge difference to me.'

The willingness of credit unions to accept even loose change or savings stamps as deposits was also highlighted:

> 'I think the stamps are a great idea. Whenever I have some change in the shop, I buy them.'

This can be regarded as an additional form of saving as, presumably, the 'loose change'

would otherwise go back into the purse, or be spent on small impulse purchases.

> 'The saving stamps are great [for children]. The credit union goes to schools but only for senior classes; they should start them off earlier – before they get their Communion money . . . It's good to see my son saving. He bought a bike this year from what he saved.'

Representatives of credit unions also emphasised their accessibility to the 'small saver', where members are not made to feel embarrassed about depositing even 'the loose change from their loan repayment'.

Other factors mentioned as encouraging saving included convenience of the location and opening hours of the credit union. Some respondents even emphasised the social aspect of the credit union. For example, one housewife said she called in to put something into her savings because 'It's nice to go in and meet the people', while an unemployed person emphasised the 'face-to-face contact'. Some members also highlighted that their credit union runs prize draws for members who have regular transactions.

These findings, which are related to specific business practices within the credit union, are supported by the results of a separate study carried out by the Centre for Co-operative Studies of 100 members in five credit unions, in which 85 per cent of respondents ranked the credit union as superior to banks, building societies and post offices in terms of encouraging people to save.

External to the credit union, other factors identified as contributing to increased saving included worsening economic conditions, which encouraged people to be more cautious about spending and more conscious of the need to save for an imminent 'rainy day', e.g. if they were to become unemployed. Therefore, in relation to the 11 per cent who reported that they had increased the regularity of their saving, it is not possible to state with certainty that the credit union has been responsible for this.

The apparent discrepancy between the proportion of people who reported that the credit union had changed how they think about saving and the lesser proportion of those who saved more regularly is accounted for by those who claimed that they would like to save more but do not have the money. Again we stress that financial capability measures should not be considered in isolation but must be examined in conjunction with levels of income adequacy. Changing economic circumstances also feature here as those who

have already been affected by the economic downturn would now have less money to save than when the first survey was conducted.

Among those whose attitude to saving had not been altered by the credit union, many stated that they were already conscientious about saving prior to joining the credit union and, in general, exhibited a sensible (even conservative) attitude to saving and borrowing.

4.7 Borrowing and use of credit

Table 4.6 Has the credit union changed the way you think about borrowing?

	Percentage of respondents
Yes	24%
No	39%
No change	3%
Not stated/Don't know	35%

Twenty-four per cent (24 per cent) of respondents indicated that the credit union had changed the way they thought about borrowing. The reasons for the change in attitude were interesting and varied. In general, members' reports of their experiences when borrowing from the credit union were very positive. A number of individuals who currently have bank loans stated that they would go to the credit union in future because they are friendly there, and there are no hidden charges. For others, the credit union had opened up the possibility of borrowing money, especially for small amounts. For example,

> 'The credit union is very handy for small loans . . . for holidays, or the child's First Communion and so on.'

> 'Yes, I know that the credit union will give me a loan . . . it's the security of knowing that.'

The flexibility of the credit union was emphasised by many respondents. Some expressed the belief that it seems easier to get a loan from a credit union. Another stated:

> 'Once I missed a couple of payments with the bank and I couldn't get any more loans. The same happened with the credit union and there was no problem.'

From a critical perspective, this casts some doubt upon the role of credit unions in building

financial capability, suggesting that the flexibility offered by credit unions may induce an excessively complacent attitude to borrowing, and may even encourage people to view the credit union as a 'soft touch' guaranteed source of credit. From another perspective, however, many members stressed the prudent lending practices of credit unions, which are primarily oriented towards the welfare of members. There were many examples of this:

> 'They try to put a limit on what you can borrow but you'll never walk away with nothing from them . . . I approached the bank twice and they refused me . . . the credit union gives good advice on how to pay back the loan.'

> 'They went through the repayment plan with me and made sure I could meet all repayments; they were very helpful. I feel I could go to them anytime.'

> 'The credit union is friendly and helpful. A friend of mine wanted a loan for x amount and she already had a loan. [Concerned that the member would experience difficulties in meeting her commitments], the credit union offered her half the amount for six months to see if she could manage the repayments.'

This perspective was reflected by credit union representatives, who stressed the importance of the credit union ethos and the fact that they will only grant loans that are truly affordable for the loan applicant.

> 'We take time to discuss loan applications with members. There are no targets to be reached by staff so there is no pressure forced on members to take a loan. We're prepared to let the member think about it.'

In this context, credit unions can be regarded as responsible lenders, adopting a human-centred rather than a profit-centred approach. However, credit unions face particular challenges in attracting new members away from the subprime market. For example, one individual said that, although he had taken out a credit union loan, he would continue to use his regular moneylender because he knows he can get access to money conveniently and at short notice. He felt it was unreasonable that he was forced to wait two weeks while his credit union loan application was being considered. Furthermore, his savings were frozen when he took out the loan and he felt that this was unfair. Therefore, while he realised that credit union loans were significantly cheaper than those offered by moneylenders, he does not intend to break his relationship with the latter.

In a separate study of 100 members in five credit unions, 83 per cent indicated that they believed the credit union was better than other financial service providers in terms of

encouraging them to borrow wisely. The current survey asked whether the credit union had changed the way people think about borrowing. Similar to the responses in relation to saving, many of those who stated the credit union had not changed their attitude to borrowing were already quite conservative in their use of credit, preferring to wait until they have saved enough to buy what they need. However, they did state that it was good to have the security of knowing that they could get a credit union loan if it were really necessary:

> ‘Well, I’d always manage my money fairly well . . . I don’t really agree with borrowing but, on the other hand, it’s good to know you can.’

> ‘With things being so tight at the moment, it’s nice to know the credit union is there.’

Dixon (2006) highlights the importance of having a savings asset and of building the habit of saving. He recommends that instead of the traditional focus on paying back the debt as quickly as possible, a better approach could be to pay off the loan at a slower pace and save at the same time. By using this approach, the person paying back the loan has a tangible reward in the end in terms of his/her savings. This is exactly how the credit union operates. As members are paying back their loan, they are always encouraged to pay something into their savings at the same time. In fact, both the loan repayment and the savings lodgement are integrated into one payment slip. In conventional financial institutions, these forms are separate.

Concluding note

Further research is required here. While a significant number of the respondents indicate that the credit union has changed the way that they think about saving and borrowing since joining the credit union, most were not able to articulate exactly how the credit union has changed their thinking.

4.8 Money management: making ends meet and keeping track of finances

An ability to manage personal income and expenditure so that financial commitments can be met is a key indicator of financial capability. In the first round survey, participants were asked a series of questions relating to their ability to make ends meet and keep track of their expenditure. Table 4.7 presents the respondents’ views on their own ability to keep up

with bills and credit commitments.

Table 4.7 Ability to keep up with bills and credit commitments

Ability to keep up with bills and credit commitments	Number of Respondents	% of Respondents
Without difficulty	31	43%
Struggle occasionally	24	33%
Serious difficulties	9	13%
No reply	8	11%

When asked in the first survey how easy it was for them to keep up with bills and credit commitments, 43 per cent of members said they were able to do so without difficulty. While one-third of respondents indicated that they struggle occasionally to keep up with bills, an additional 13 per cent indicated that this presented serious difficulties for them. Furthermore, 15 per cent reported that they had a current account that was usually or constantly overdrawn.

Just one-third of respondents indicated that they had a credit card, including 7 per cent who stated that they use their credit card for day-to-day expenditure. Of those who had credit cards, almost half admitted that they did not pay their bill in full each month, thereby incurring significant interest charges and running the risk of amassing mounting debts. Less than one-fifth of respondents admitted to experiencing financial difficulties within the previous five-year period. These difficulties were of sufficient magnitude to warrant professional advice for 11 per cent of all respondents. It must be stated that, due to the sensitive nature of this subject, it is possible that this statistic is subject to under-reporting.

Ability to plan ahead and budget for expenses is a key factor determining an individual's capacity to keep up with his/her commitments. Survey participants were asked to indicate whether they plan ahead to meet bills and expenses that occur quarterly, six-monthly or annually, such as television licence, car tax and insurance, family events, and holidays. Two-thirds of respondents indicated that they always plan ahead for these expenses. In particular, 77 per cent of those who indicated that they were able to service their financial commitments without any difficulty also stated that they plan ahead, suggesting a positive correlation between planning and ability to meet commitments.

Over half of all respondents stated that they did not keep a record of their day-to-day spending. However, for those respondents who receive bank account statements: 21 per cent check against receipts, while 42 per cent check the final balance.

In a separate study of 100 credit union members, 70 per cent of members rated credit unions higher than other financial institutions in terms of helping them to manage their money. In the follow-up survey of new credit union members, respondents were asked whether credit union membership changed the way they managed their money. One-third of all respondents answered in the affirmative. Of those who indicated that credit union membership had not effected any change in their budgeting skills, many expressed the opinion that they were already competent in this area, and so there was no way that the credit union could improve their approach to money. For example,

> ‘I’m no better or no worse at keeping track since I joined the credit union . . . I was reared to be good at managing money.’

More than one-third indicated that they had become better at keeping track of their finances since joining the credit union. However, many attributed this change not to their credit union membership but to the economic recession, which has forced people to pay more attention to their finances. Despite claims by one-third of respondents that the credit union had changed the way they manage their money, the percentage of respondents indicating that they plan ahead for expenses increased by only 1 per cent, from 67 per cent to 68 per cent. However, the true impact of the credit union is revealed by probing which aspects of the credit union service people find most useful in helping them to manage their expenditure.

In relation to making ends meet and short-term planning, the role of budget accounts and, more generally, normal credit union practices and advisory support in helping people to formulate and adhere to a budget were highlighted. As outlined in section 4.6, there is an expectation that members should continue to save, however small an amount, even while repaying a credit union loan, and many members believed that this helped them to manage their money. Many respondents argued that they had become more disciplined in budgeting because they had to ensure that they could meet loan repayments:

> ‘Getting into the habit of paying back a loan helps me to manage my money.’

For some members, for whom managing their finances is a constant struggle, budget accounts can significantly improve financial capability. For example, one man claimed:

> ‘I’m just not great at managing my finances . . . The credit union hasn’t really improved my skills but it helps me pay the bills; I have my paycheque paid into my account and have some bills paid out of this.’

From a critical perspective, it could be argued that this type of credit union service does not equip members with good financial management skills; rather, it alleviates them of the task, although not the expense, of keeping track of bills and commitments. Nevertheless, this type of service is invaluable for individuals who might otherwise end up in debt. While individuals can learn the skills that enhance financial capability, their approach to finance is also linked to their upbringing, their attitudes, and other characteristics. For some individuals, therefore, the ability to set aside money to provide for expenses is the best that can be achieved.

For others, support and advice can help them to develop the skills to effect a more radical transformation in their approach to their personal finances. The case of the individual who was helped to budget for his student loan, and simultaneously to start to build a savings record, is illustrative of this scenario. That particular individual indicated they he could not have imagined being able to save regularly before he sought advice from the credit union.

Representatives of credit unions surveyed highlighted the various approaches that their credit unions adopt to encourage their members to budget sensibly:

> ‘The budget account facility is emphasised to members who regularly apply for small expense-type loans and/or those making regular withdrawals from shares (savings).’

> ‘We try to get members to think ahead rather than in arrears of time . . . get them to think about holidays in March/April; back to school in July/August; and planning for Christmas from September.’

> ‘At the time of loan application, a budget is often prepared with the member . . . Banks do not provide this service.’

> ‘We offer budget sheets and will work out a budget with a member if required.’

A number of credit unions have introduced a one-year loan account at a preferential

interest rate for those who borrow for annual expenses, such as holidays, car/home insurance etc. This product is designed to prevent people from accumulating debt by encouraging them to clear the loan within twelve months, before the expenses come around again. This helps to avoid a build-up of debt.

Another credit union offers loans specifically to clear credit card bills. The loan is given in two instalments. Initially, half the amount outstanding on the credit card is given. Before the second instalment is given, the member must present a statement showing that he/she has used the first instalment to clear some of the debt.

Budget-related initiatives and practices empower credit union members to take control of their finances so that they don't have to rely on credit and their savings do not become depleted. They form part of a suite of services and practices that differentiate credit unions from conventional financial institutions. Credit unions are imbued with a member-oriented ethos. Whereas the primary concern of banks and other conventional credit providers is that repayments are made, credit unions are concerned about the impact of repayments on members' overall financial wellbeing.

4.9 Financial advice and education

In a separate study of 100 credit union members, just over half of all respondents expressed the view that credit unions educated their members sufficiently in relation to financial matters. The main approach to financial education adopted by credit unions is through credit control, with an emphasis on encouraging good practice in relation to saving and borrowing. Apart from *ad hoc* invited addresses, most credit unions do not engage in active education programmes.

Campaigns such as *Wolves from the Door,* which predominantly targets those who are financially vulnerable and likely to use moneylending services, give the impression that financial education initiatives by credit unions are oriented towards curative rather than preventative measures. However, a significant, though less visible, aspect of education is undertaken by credit unions on a one-to-one basis, in the course of processing loan applications and renegotiating payment schedules for existing loans. The credit union movement's special relationship with MABS is a key enabling factor in its attempts to provide support and guidance to individual members. However, many credit unions also

play a key role in providing local counselling: 52 per cent of credit unions indicated that some of their staff had undergone training to enable them to provide debt counselling for members.

A number of survey participants reported that they had received good advice from their credit union:

> 'I had a credit card and was paying high rates of interest. I brought the statements to the credit union and they advised me to take out a loan to pay off the credit card bill . . . it was much cheaper . . . the credit union gave me really good advice.'

Since the first survey, this individual has cleared her credit card debt and has cancelled her credit card.

This case, once again, illustrates the credit union concern with the individual member's overall financial wellbeing, rather than simply his/her ability to keep up with repayments. As one participant expressed it:

> 'The people in the credit union are always willing to listen and they seem to care more about your personal situation.'

Other unpublished research conducted by UCC's Centre for Co-operative Studies indicates that people hold the credit union in high esteem and trust. This current study also highlights the value members place on the independent, member-oriented advice provided by the credit union. For example,

> 'I went to the credit union for advice about a car loan; I felt the credit union wouldn't put me wrong; they would tell me if I was taking on a loan I couldn't afford.'

> 'Joining the credit union was a very good decision. They helped me straighten out my finances.'

In the member survey, 74 per cent of members stated that they would approach the credit union if they needed financial advice. However, it must be noted that the one-to-one advice offered by credit unions tends to focus on those who are already experiencing some degree of financial difficulty. One survey participant pointed out that banks are more proactive in offering free financial reviews. He suggested that it would be useful if the

credit union could offer a similar service. Concerns have been raised about the degree of impartiality of supposedly independent financial advisors. Credit unions, on the other hand, because they are motivated by members' interests rather than profit, would appear well-positioned to offer financial reviews. However, this would be a resource-intensive activity and it is likely that groups of credit unions would need to co-operate together with a view to employing qualified financial advisors.

4.10 Conclusion

Section 4 reported the results of a two-phase survey of 72 new members based in two credit unions. The purpose of the survey was to establish whether participants' financial habits and attitudes had changed in the twelve months between the first and second surveys, and to ascertain the degree to which credit union membership influenced financial capability. Two-thirds of respondents reported no change in the frequency of their saving, while the number indicating that they were saving more regularly was negated by those who reported saving less regularly. It appears, therefore, that the impact of credit union membership on saving habits was negligible. However, it must be reiterated that a significant percentage of respondents were saving regularly at the time the first survey was conducted. Furthermore, the downturn in economic conditions was significant, as many indicated that they would like to save more regularly but could not afford to do so. Certain credit union practices were highlighted in terms of encouraging members to maintain a healthy savings balance. These included: encouraging members to save regularly, even while repaying a loan; willingness to accept small deposits, even in the form of saving stamps; and, where ATM facilities were unavailable, the need to plan ahead before withdrawing money from savings.

Only 24 per cent of respondents reported that the credit union had changed the way they thought about borrowing. There were very limited examples of the credit union making people more cautious about their use of credit; however, it appears that a significant proportion of the participant group already regarded themselves as being 'careful' with money and reluctant to use credit. Some respondents did report that the credit union had helped them to understand the cost of borrowing from the credit union versus credit cards and other finance arrangements.

Significantly, credit union membership had made a difference to one-third of participants in

terms of budgeting for expenses, although the recession was also cited as an influential factor. Finally, members appeared to hold the credit union in high esteem when they needed to seek financial advice. However, the nature of advice tends to be restricted to the prudent use of services offered by the credit union, and does not address wider concerns about pensions and other long-term personal finance options.

5 Conclusions and Recommendations.

The objectives of this study were to examine credit union initiatives that focus on financial education and their potential to impact on financial capability and to evaluate the impact of standard credit union business practice on the financial capability of new members. The report draws on a survey of credit unions and interviews with key witnesses to profile the financial education initiatives operated by credit unions in Ireland. Also, based on a two-phase survey of new credit union members, informed by internationally recognised measures of financial capability, the role of credit unions in changing attitudes and behaviour in relation to personal finance was assessed.

Individual credit unions have pioneered several initiatives aimed at integrating members of the community into mainstream financial services and combating the proliferation of moneylenders and other expensive sources of credit. Some of these initiatives, such as *Wolves from the Door*, have been successfully rolled out by other credit unions, with support from the ILCU. Others, such as *Replacing the Moneylender at the Door* and the Tipperary Credit Union financial education course, are at an early developmental stage and, while they demonstrate potential for promoting financial capability, their impact can not yet be fully assessed. Critical evaluation, and a sharing of ideas and experience, will be key factors in enabling these initiatives to be honed and, ultimately, adapted and implemented by other credit unions.

Co-operation between co-operatives is a key operating principle of the credit union movement: greater impact is likely to be achieved if groups of credit unions can work together. In terms of developing and implementing initiatives, co-operation is likely to be particularly important for smaller credit unions with limited resources. Furthermore, good leadership and a co-ordinated approach is likely to be the most cost-efficient and effective way of enabling individual credit unions to deliver financial education, suggesting a role for both the ILCU and CUDA. Credit unions also need to start measuring and evaluating their performance in terms of building financial capability. This could be incorporated into the wider ‘social auditing’ agenda, where credit unions evaluate their impact on their communities.

Credit unions can optimise their impact on financial capability, not only through co-operation with other credit unions, but also by working with other relevant organisations.

For example, the partnership between MABS and the credit union movement is of critical importance in enabling credit unions to respond to people in times of crisis. While most credit unions co-operate with MABS in relation to the provision of budget account facilities for MABS clients, it appears that the social fund is an instrument that many credit unions have not adopted. Increased co-operation among groups of credit unions might increase the viability of operating such a scheme.

Credit unions communicate with existing and potential members through a variety of media, including once-off talks in the community, newsletters and newspaper articles, local radio, and credit union websites. Our research shows that, in terms of financial education, many of these communication channels are underutilised, and could be exploited to provide an effective medium through which credit unions can communicate their message. Furthermore, credit unions need to identify the different learning modes to which different segments of their membership are receptive. For example, if they are to be successful in targeting youth membership, they will need to exploit new communication media, such as online social networking sites.

Because credit unions operate a limited range of savings and lending options, it is easier for people to understand how their services work and there is less confusion about which products suit their needs. This simplified range of services is advocated by Dixon (2006) as being particularly useful for those with low levels of financial capability. Furthermore, credit union terms and conditions are transparent and easily understandable. Certain credit union practices, such as encouraging saving while repaying loans, as Dixon (2006) would express it, ‘challenge established wisdom’ that would suggest it is more appropriate to pay off debts before beginning to save. Credit unions also enhance the infrastructure for small-scale saving, through the provision of savings stamps to help budget for recurring expenses, and by accepting small deposits.

In general, it appears that most people’s habits do not change significantly after joining the credit union. Our survey found isolated examples of members whose finances have been positively transformed by the credit union but, in general, people who are ‘good with money’ have been so prior to their credit union membership, and the credit union does not reduce this ability. The majority of our sample consisted of members who saw themselves within this category of being ‘good with money’ rather than people who were experiencing financial difficulties. This is perhaps a limitation of the study and if the sample had

consisted of a greater percentage of those who had poorer financial skills, it might have been easier to identify if the credit union had a positive impact.

It is clear that a targeted approach between the credit unions and MABS does have a positive impact on building good financial habits. However, the authors of this study were interested in whether the generic credit union practices had an impact on the general member. The study found that while the credit union generally (apart from a small number of isolated cases) does not have a significant positive impact, it does not have a significant negative impact either. This is possibly more than can be said for the banking sector. However, in saying that, the purpose of credit unions is the promotion of financial wellbeing of their members, and building financial capability is central to this. Hence, it is legitimate to ask – Why are credit unions not playing a bigger role in this area? Is their service too generic? Their approach to marketing has been found to be overly generic (Byrne et al., 2005) and perhaps, for certain members, a more targeted service is required.

Credit unions need to develop a better understanding of their members so that they can ascertain the personal finance educational needs of the community, thereby enhancing the service they provide. For example, there is scope to educate members on financial matters that extend beyond the range of services offered by credit unions, such as long-term financial planning. The identification of financial education needs in the community would involve a greater focus on gathering information to compile profiles of the membership and the potential membership within each common bond.

Furthermore, in order to engage in a meaningful way with the process of enhancing members' financial capability, there is a need to determine appropriate mechanisms to address what Dixon (2006) calls 'the motivation gap' between people's stated aspirations and their behaviour. As representative organisations for credit unions in Ireland, the ILCU and CUDA could perform important leadership and co-ordinating roles to support their respective member credit unions in conducting appropriate research.

MABS views the credit union as an essential element in the recovery process for many financially excluded and indebted members; it provides a structure which facilitates servicing of debts, cultivates a savings habit, and offers a future source of affordable credit at fair interest rates. These individuals recognise that they have financial capability issues and are engaged in a process of seeking solutions. As a result, they are more acutely

aware of the impact of the credit union on their personal financial capability. Hence, a further study that would concentrate on these members would be interesting.

We are still of the view that infrastructure plays an important role in financial capability. This was demonstrated after the financial crash of 2008/2009, when it became apparent that negative aspects of the financial services infrastructure, such as the over-borrowing that was encouraged by many financial institutions, were clearly related to high levels of debt and financial incapability. However, these financial institutions were not acting in a vacuum but within a wider environment of over-consumption. The culture of the conventional banking sector and the surrounding environment were a ‘perfect fit’ in encouraging over-borrowing. Conventional financial institutions and the sub-prime sector facilitated people to over-borrow and over-consume in an environment of excessive consumption. Within this context, it is naïve to think that credit unions could have had a major impact on financial behaviour. However, there is now a clear recognition of the value of prudence and sustainable consumption.

In recent years, credit unions have experienced something of an identity crisis, facilitating members to borrow for their consumption needs but at the same time recognising the need to encourage prudence. Credit unions frequently express this tension. In the current economic climate, perhaps credit unions can now more clearly express their identity and return to their core values by encouraging people towards sustainable consumption within an environment open to thrift and prudence.

Key Recommendations

- Develop a database of credit union initiatives in terms of financial education and capability. To create an extensive profile, the trade bodies such as the ILCU and CUDA would need to be involved.
- Develop greater partnership between the credit union movement and MABS. Some of the more interesting initiatives have arisen out of a strong partnership between the two.
- The current banking crisis has highlighted the value of the credit union way of operating. Credit unions need to have the confidence in their approach to business which puts the consumer before profit and not the other way around as has been the case in the conventional banking sector.
- Each credit union needs to ensure that its practice facilitates the well-being of

members both individually and as a collective and constantly strive for improvements. They must also keep in mind the individual and collective impact of any changes in practice.

- Credit unions need to be conscious that it is good practice to measure the impact of any initiatives that they may introduce. A starting point is to keep records in relation to the use of such initiatives or products and to investigate the impacts, both positive and negative.
- In terms of financial capability, credit unions are only one player. Other groups such as MABS, the banking sector, the government, regulators and the educational system must play their role.
- It should be remembered also that financial capability is not the total answer to financial exclusion. Other factors such as regulation, banking practice and income adequacy are also crucial.

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Appendix 1: First Questionnaire

INTRODUCTION

1. **Are you a Member of the Credit Union?** Yes □ No □

2. **When did you join?** _____

3. **Were you ever a member of another credit union before joining this credit union** Yes □ No □

4. **How many other members of your family are also members of the Credit Union?** _____

GENERAL MONEY MANAGEMENT

5. **Overall, who is mainly responsible for making sure that household bills and other commitments get paid? (i.e. That is the person who makes sure it happens who is responsible, not necessarily the person whose money it is)**
   - Mainly you □
   - Mainly your partner □
   - Mainly someone else in the household □
   - You share responsibility equally with your partner or someone else□
   - Nobody □
   - Don't know □

6. **Which of the following do you have (tick all that are relevant)**
   - Credit Union Savings □
   - Credit Union Loan □
   - Bank Savings Account □
   - Bank/Building Society Loan □
   - Post Office Savings Account □
   - Mortgage Account □
   - Laser Card □
   - Credit Card □
   - ATM Card □
   - Other □
   - Don't Know □

7. Which of these ways do you mainly use to pay for food and day-to-day spending?

Cash	☐
Cheque	☐
Laser card	☐
Credit card/charge card	☐
Store card	☐
Don't know	☐
Do not pay for food or day-to-day spending	☐

Other (SPECIFY) _____

8. Do you normally keep a record of the amount you spend on food and day-to-day spending.

- ☐ Yes, I keep receipts
- ☐ Yes, I record the amount in a cheque book
- ☐ Yes, I record the amount somewhere else
- ☐ No
- ☐ Don't know

9. Which of these statements best describes what you do when you receive a bank statement for your bank/building society or credit union account? PICK ONLY ONE.

- ☐ I check off receipts/spending against the statement
- ☐ I check the entries and balance on the statement to see if they look OK
- ☐ I just check the final balance
- ☐ I don't look at the statement at all
- ☐ Never receives statement
- ☐ Don't know
- ☐ Other (SPECIFY) _____

10. (a)If you hold a current account, does it have an overdraft facility, agreed with your bank or building society?

- ☐ Yes
- ☐ No
- ☐ Don't know

(b) Which of these statements best describes how often you are overdrawn on this account? Please just read out the letter that applies. Pick only one.

- ☐ I am constantly overdrawn
- ☐ I am usually overdrawn by the time I get paid/receive my income
- ☐ I am sometimes overdrawn by the time I get paid/receive my income
- ☐ I am hardly ever overdrawn
- ☐ I am never overdrawn
- ☐ Too hard to say/varies too much to say
- ☐ Don't know

11. (a)In the past 12 months, how often have you had money <u>left over</u> at the end of the week or month? Would you say it was ...?

- ☐ Always
- ☐ Most of the time
- ☐ Sometimes
- ☐ Hardly ever
- ☐ Never
- ☐ Don't know

(b) What do you usually do with the money left over?

- ☐ Put it into/leave it in current account
- ☐ Spend it
- ☐ Put it into/leave it in savings account/investments
- ☐ Leave it in current account and then put it into savings/investments
- ☐ Keep it in purse/wallet for the next week/month
- ☐ Save it in cash at home
- ☐ Give it to someone else to save for me
- ☐ Give it away
- ☐ Depends on amount left over/varies too much to say
- ☐ Don't know
- ☐ Other (SPECIFY) _____

- **(a)And in the past 12 months, how often have you or your partner <u>run out</u> of money before the end of the week or month? Would you say it was ...?**

- ☐ Always
- ☐ Most of the time
- ☐ Sometimes
- ☐ Hardly ever
- ☐ Never
- ☐ Don't know

(b)If yes, what do you usually do when you run out of money?

- ☐ Borrow from family/friends
- ☐ Cut back spending/do without
- ☐ Use authorised/arranged overdraft
- ☐ Use unauthorised overdraft
- ☐ Use credit or store card(s)
- ☐ Take out commercial loan
- ☐ Draw money out of savings or transfer savings into current account
- ☐ Do overtime/earn extra money
- ☐ Depends on amount needed/varies too much to say
- ☐ Don't know
- ☐ Other (SPECIFY) _____

- **Which one of the following statements best describes how well you are keeping up with your bills and credit commitments at the moment? Please just read out the letter that applies. Tick only one.**

  - ☐ Keeping up with all bills and commitments without any difficulties
  - ☐ Keeping up with all bills and commitments, but it is a struggle from time to time
  - ☐ Keeping up with all bills and commitments, but it is a constant struggle
  - ☐ Falling behind with some bills or credit commitments
  - ☐ Having real financial problems and have fallen behind with many bills or credit commitments
  - ☐ Don't know
  - ☐ Don't have any bills or credit commitments

- **(a) Within the last five years, have you found yourself in financial difficulties? By that I mean being three months or more behind with payments on your regular commitments.**

  - ☐ Yes
  - ☐ No
  - ☐ Don't know

(b)Did you seek professional advice from anybody?

  - ☐ Yes
  - ☐ No
  - ☐ Don't know

- **I am now going to read you some things that other people have said about managing money. Please tell me how strongly you agree or disagree with them.**

	Strongly Agree	**Agree**	**Neither**	**Disagree**	**Strongly Disagree**
"I am impulsive and tend to buy things even when I can't really afford them."	1	2	3	4	5
"I am more of a saver than a spender.	1	2	3	4	5
"I prefer to buy things on credit rather than wait and save up."	1	2	3	4	5
"I would rather cut back than put everyday spending on a credit card I couldn't repay in full each month."	1	2	3	4	5
"I am very organised when it comes to managing my money day to day."	1	2	3	4	5
"I am never late at paying my bills."	1	2	3	4	5
"If I had to choose, I would rather have	1	2	3	4	5

a good standard of living today than
save for retirement."

- **Do you have any bills or expenses like the ones shown below that you pay *quarterly, six monthly or annually*? Do not include any that you have arranged to pay in monthly or weekly installments. Tick all that are relevant**

.

- ☐ TV licence
- ☐ Gas, electricity, water or telephone bill
- ☐ Corporation rates etc
- ☐ Car tax
- ☐ Car insurance
- ☐ Home insurance
- ☐ Subscriptions, e.g. to gym or professional organisation
- ☐ Season ticket, e.g. for travel
- ☐ Children's Events (Holy Communion, Confirmation)
- ☐ Don't know
- ☐ None of these

- **Do you plan ahead to make sure you have the money to pay for these expenses? Tick all that are relevant**
  - ☐ Yes, I do plan ahead for this expense/these expenses
  - ☐ No, I don't plan ahead for this expense/these expenses
  - ☐ No need to plan ahead because there is always enough money in current account to pay for this expense/these expenses
  - ☐ Don't know
  - ☐ Do not want to answer
  - ☐ Other (SPECIFY) _____

- **How do you plan ahead for these expenses?**
  - ☐ Let money build up in current account
  - ☐ Put money into a savings account
  - ☐ Keep spending down
  - ☐ Put cash aside weekly/fortnightly/monthly/at regular intervals
  - ☐ Buy savings stamps
  - ☐ Don't know
  - ☐ Other (SPECIFY) _____

- **If you {or your partner, became completely unable to work for three months or more due to ill-health or an accident, what would you do to make ends meet?**
  - ☐ Draw money from current account (excluding any overdraft facility)
  - ☐ Draw money from savings account
  - ☐ Sell investments
  - ☐ Claim on insurance policy
  - ☐ Cut back on spending

- ☐ Use credit card or overdraft
- ☐ Take out loan (including Social Fund loan)
- ☐ Borrow money from family/friends
- ☐ Ask family/friends to give money to help out
- ☐ Borrow against home/remortgage/increase mortgage on home
- ☐ Use redundancy payment
- ☐ Claim social welfare benefits
- ☐ Go to St. Vincent de Paul
- ☐ Make arrangement with creditors to pay less/suspend payments
- ☐ Wouldn't make ends meet - would fall behind with bills or other commitments
- ☐ Employer would pay sick pay
- ☐ Don't know
- ☐ Have never really thought about it
- ☐ Other (SPECIFY) _____

- **For how long do you think you {and your partner} would be able to make ends meet? PICK ONLY ONE.**
  - ☐ Less than one week
  - ☐ More than one week but less than one month
  - ☐ More than one month but less than three months
  - ☐ More than three months but less than six months
  - ☐ More than six months but less than twelve months
  - ☐ Twelve months or more
  - ☐ Don't know

21. (a)Have you ever actively considered making any financial provision for your retirement?

- ☐ Yes
- ☐ No
- ☐ Don't know

(b) If No, why have you never considered this?

- ☐ Couldn't afford to/didn't earn enough/income too low
- ☐ Too many debts/bills/financial commitments
- ☐ Too young/haven't started work yet
- ☐ Wasn't interested/didn't think about it/didn't get round to it
- ☐ Was relying on state pension
- ☐ Was relying on partner's pension (including ex-partner)
- ☐ Was relying on financial support from family
- ☐ Didn't think I'd live that long
- ☐ Don't know
- ☐ Other (SPECIFY) _____

CREDIT CARDS

22. Do you have a credit Card? Yes □ No □

23. If yes, how many credit cards do you have? _____

24. How do you pay off your credit card accounts?

- □ Always pay off the whole amount outstanding
- □ Usually pay off the whole amount outstanding
- □ Usually pay off as much as can afford
- □ Make minimum payments allowed
- □ Not making any payments
- □ Don't know

25. Thinking still about *any* cards that you do not pay off in full each month, have you personally used this credit card or any of these cards for any of the following purposes in the past 12 months? Please tick all that apply.

- □ To pay regular bills
- □ To withdraw cash
- □ To pay for food or everyday spending
- □ Don't know
- □ None of these

26. Which of these statements *best* describes what you personally do when you receive your credit card statement(s)?

- □ I check off receipts/spending against the statement
- □ I check the entries and balance on the statement to see if they look ok
- □ I just check the final balance
- □ I don't look at the statement at all
- □ Don't know

LOANS

27. Do you have any loans from the following? (please tick all that are relevant and indicate where they are current or in the past)

	Currently	**in the Past**
▪ Credit Union Loan	□	□
▪ Bank/building Society loan	□	□
▪ Mortgage	□	□
▪ Door-step loan (from Provident or similar company)	□	□
▪ Catalogue Companies (Argos, Clothing etc)	□	□
▪ Loan from friend/family.	□	□
▪ Other type of loan (please specify _____)	□	□

- **Which of these loans are only held in your own name?**

_____

- **For your current loans, how do you make repayments?**

  - □ Come in every week to the financial provider and make a payment
  - □ Come in once a month to the financial provider and make a payment
  - □ Give the money to a friend/relative who makes the repayment for me
  - □ Paid by standing order/direct debit
  - □ Pay lump sums every now and then
  - □ Somebody calls to the door to collect the repayments
  - □ Other (please specify_____)

SAVINGS/INVESTMENTS

- How often do you save?

Every week □ Every month □ Every now and then □ Don't really save□

- If you save, which of the following ways do you use?

  - □ Come into the bank/building society or credit union and lodge money into my account
  - □ Friend or Relative lodges the money for me
  - □ Use a standing order or direct debit
  - □ Put money aside at home
  - □ Savings stamps
  - □ Other (please specify_____)

- How important is having savings to you?

  Very important □ Important □ Not really that important □ Not important □

- (a)Did you have an SSIA account?

  Yes □ No □ Started one but did not continue the payments □

  (b) If you had a SSIA, when it finished did you continue to save
  Yes, set up another formal account □
  Money is still in the account, deciding what to do with it □
  Have spent the SSIA □

SERVICE RECEIVED FROM FINANCIAL PROVIDERS

- **Has your credit Card limit ever been increased without your permission?**

  Yes □ No □ Don't Know □

- **Has your overdraft limit even been increased without your permission?**

  Yes □ No □ Don't Know □

- **(a)Did you ever receive loan offers through the post?**

  Yes □ No □ Don't Know □

  (b) If yes, did you avail of these offers?
  Yes □ No □

37. (a)Were you ever sold financial products (loans, credit cards, insurance etc) that you felt that you did not really need?
Yes, definitely □ Yes, somewhat □ Not really □ No □ Don't Know □

(b) If Yes, did you regret buying these financial products later?
Yes, definitely □ Yes, somewhat □ Not really □ No □ Don't Know □

38. (a)Did you ever avail of a roll-over loan (have one loan and another loan is added on top of the original loan)?
Yes □ No □ Don't Know □

(b) Which of the following financial providers have provided roll-over (add-on) loans to you? (tick all that are relevant)

- □ Bank
- □ Credit Union
- □ Building Society
- □ Door-step loan (e.g. Provident)
- □ Catalogue Companies (Argos, Clothing etc)
- □ Other (Please specify _____)

39. When getting a loan, was the credit agreement, loan repayment amount and procedure fully explained to you by the following financial providers?

	Yes definitely	Yes, somewhat	Not really	No	N/A
• Bank	1	2	3	4	5
• Credit Union	1	2	3	4	5
• Building Society	1	2	3	4	5
• Door-step loan (e.g. Provident)	1	2	3	4	5
• Other (Please specify _____)	1	2	3	4	5

40. Do you feel the following financial providers encourage you to save?

	Yes definitely	Yes, somewhat	Not really	No	N/A
• Bank	1	2	3	4	5
• Credit Union	1	2	3	4	5
• Building Society	1	2	3	4	5
• Door-step loan (e.g Provident)	1	2	3	4	5
• Other (please specify _____)	1	2	3	4	5

PERSONAL INFORMATION

41. Gender

Male □ Female □

42. Age

18-25 □
26-35 □
36-45 □
46-55 □
56-65 □
>65 □
Don't know □

43. (a)What is your occupation

_____

(b) If retired, what was your occupation before retirement

_____

44. What is your <u>highest</u> level of education attained to date?

Primary only □
Secondary level only □
Third level □
Vocational Training □

45. Who else lives with you in your household? (tick all that are relevant)

No-one else	☐
Wife, husband or partner you live with as a couple	☐
Children aged under 18 and still at school or college	☐
Other adult children (aged 16 or over and not at school)	☐
Parent(s) or other adult family members	☐
Other adults who share meals or a living room with you	☐

46. Please tell me the first of these that best describes your current situation?

In full-time education	☐
Working full time (30+ hours) including temporarily off work	☐
Working part time (up to 29 hours) including temporarily off work	☐
Looking after the home or family	☐
Retired from paid work	☐
Unemployed	☐
On a government-work or training scheme	☐
Permanently sick or disabled	☐

47. Please tell me the first of these that describes your partner's situation. Tick only one

In full-time education	☐
Working full time (30+ hours) including temporarily off work	☐
Working part time (up to 29 hours) including temporarily off work	☐
Looking after the home or family	☐
Retired from paid work	☐
Unemployed	☐
On a government-work or training scheme	☐
Permanently sick or disabled	☐
None of these	☐

THANK YOU FOR YOUR TIME AND CO-OPERATION

Appendix 2: Telephone Questionnaire

2nd ROUND, SUMMER 2009

INTRODUCTION

My name is _____ from University College Cork and I'm following up on a survey of new credit union members that we did with you last summer. At the time, you very kindly agreed that we could follow up with you to see if credit union membership made a difference to the way you manage your finances. Could we have a quick chat?

[I*f now is inconvenient, arrange a time to call back.]*

1. Can you tell me first your reason for joining (or reactivating your membership of) the credit union last summer?

2. Has the credit union lived up to your expectations?

3. Has the credit union changed the way you manage your money? What aspects of the service do you think encourage good or bad management of your finances?

4. Since joining the credit union, do you find that you are better or worse at keeping track of your finances?

5. Has the credit union changed the way you think about borrowing?

6. Has the credit union changed the way you think about saving?

7. How often do you save in the credit union?
Every week □ Every month □ Every now and then □ Don't really save□

8. Do you save money somewhere else?
Every week □ Every month □ Every now and then □ Rarely or Never □

9. Has the credit union changed the way you think about your finances in general?

10. Do you plan ahead for expenses like bills, holidays, and family events?
Yes □ No □

If yes, how?

11. Do you find the credit union useful in helping you to plan ahead?

CREDIT CARDS

12. Do you have a credit Card? Yes □ No □

13. How much of your credit card account do you pay off every month?

- □ Always pay off the whole amount outstanding
- □ Usually pay off the whole amount outstanding
- □ Usually pay off as much as can afford
- □ Make minimum payments allowed
- □ Not making any payments

14. Has that changed since last summer? Yes □ No □

[If yes], why?

LOANS/CREDIT

15. Do you have any loans at the moment?

16. [TRALEE ONLY] Have you used the Credit Union's Easy Pay facility to enable you to purchase anything?

(*If yes ask*),

If this scheme didn't exist, would you have

- □ Borrowed money from somewhere else? *{specify}*
- □ Waited until you had enough money saved?
- □ Wouldn't have bought the item?
- □ Other *{specify}*

17. Have you taken on any new loans, hire purchase or any form of credit in the past 12 months? (specify purpose and source of loan)

[if yes, and if source was not credit union] did you think of approaching the credit union for a loan instead?

18. Have you paid off any loans in the past 12 months? [If yes] did you pay it off early or was it that the term

of the loan expired?

19. Have you used a credit union loan to pay off other debts? Yes □ No □

20. If you were looking for financial advice or had any questions about your finances, do you feel you could approach someone in the credit union? Why?

21. Do you think the credit union is more approachable than banks and other financial service providers?

[If you have approached the credit union, what was your experience?]

CONCLUDING QUESTIONS

22. Overall, what difference, if any, has the credit union made to your financial wellbeing in the past 12 months? (Was it a good decision to join? Do you regret not joining earlier?)

23. Since the last survey, what would you say has been your best experience in the credit union?

24. What has been your worst experience?

25. Thinking back over the last 12 months or so, were there any encounters in the credit union that encouraged you to make good decisions with regard to your finances? (this could be advice you got, or changes to your financial habits encouraged by the credit union)

26. Were there any encounters that encouraged you to make bad decisions with regard to your finances?

Credit Unions and Financial Capability

(again could be in the area of advice that you got, or just the way the credit union operates etc)

Appendix 3: Email Survey to Credit Unions

University College Cork

Credit Union Financial Education Survey

Name of your Credit Union:

Your own role in the Credit Union:

Does your credit union offer any of the following financial education programmes?

1. **Formal financial education courses**

   Yes No in the past ***Please delete as appropriate***

   - If yes, who are your target groups (e.g. general membership, those in financial difficulties, low income, etc)?

   - What is the length of the course?

   - What topics does it cover?

   - How often do you run the course?

2. **Once-off talks in the community** Yes No in the past ***Delete as appropriate***

   - If yes, to whom?
   - How many in the last year?

3. **Does your credit union have a newsletter**? Yes No in the past ***Delete as appropriate***

   - If yes, how often is it published?
   - How is it distributed?
   - How often does it include articles with a financial education slant?

   every edition often rarely never ***Delete as appropriate***

4. ***Wolves from the Door*:** Does your credit union participate in this campaign?

   Yes No in the past ***Please delete as appropriate***

   - If yes, do you develop your own text or use the standard ILCU text?
   - How do you distribute the *Wolves from the Door* leaflets?

   Does your credit union have any other initiatives which try to encourage clients of moneylenders to switch to the credit union?

5. Do you produce any other educational leaflets?
   Yes No in the past ***Delete as appropriate***

   - if yes, what is the focus of these?

6. Does your Credit Union <u>currently</u> offer the following services?

   Please delete as appropriate

   - Non-MABS Budget Accounts Yes No
   - MABS Budget Accounts Yes No
   - Sammy Stamps (or something similar) Yes No
   - School Credit Unions Yes No
   - Savings Stamps Machines supplied by CU in local shops etc Yes No
   - Any other initiatives which encourage people to save (please specify)

7. Tralee CU offers a CU Easy Pay Service in local electrical Shops? Does your credit union offer anything similar? Yes No in the past

8. Does your credit union offer any other initiatives which encourage people to shop locally?
   Yes No in the past

9. Does your credit union operate a Social Fund (for emergency loans at low interest)?
   Yes No in the past

10. Have the credit control staff in your credit union attended debt counselling training?
    Yes No in the past

11. Does your credit union offer any other services that have an educational element?

12. In your opinion, what aspects of the credit union service encourage people to save?

13. In your opinion, what aspects of the credit union service encourage people to borrow wisely?

14. In what particular ways does your credit union encourage people to plan ahead/budget?

THANK YOU FOR YOUR CO-OPERATION IN COMPLETING THIS SURVEY

Appendix 4: List of Online and Printed Publications

- Credit Union Websites
- Credit Union Annual Reports

- Marketing material
- Credit Union Newsletters