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Meeting the Credit Needs of Low-Income Groups: credit unions -v- moneylenders

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Combat Poverty Agency

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Abstract

Although Ireland has a very well established credit union movement, moneylending continues to thrive. The purpose of this study is to estimate the extent of moneylending in a number of communities in Munster and to examine the extent to which credit unions contribute to financial inclusion. The study puts particular focus on comparing the service offered by the credit union with that of the moneylender.

We estimated the extent of moneylending through a survey method and we examined the credit union service through interviews with credit union and MABS officers. We also compared the credit union service with that of the moneylenders. We interviewed a number of representatives from two of the main moneylending companies.

We found that more than half (65 per cent) of those who are currently borrowing from moneylenders are also currently borrowing from other sources. Thus, it could be said that many of the people borrowing from moneylenders are not financially excluded. The financial exclusion literature tends to focus primarily on issues of 'access'. However, as we found, more than half of the people currently borrowing from moneylenders do not have 'access' problems. So, why are they borrowing from moneylenders, if they have other options? We are of the view that for a significant number in Ireland, it is an issue of 'use' rather than 'access'. Quinn and Ní Ghabhann's (2004:26) study would support this, where 66 per cent of Travellers who were not credit union members cited 'use' factors such as 'inability to save' and 'general lack of interest' as reasons for not joining the credit union. Quinn and Ní Ghabhann indicated that many of the Travellers in their study were borrowing from legal and illegal moneylenders.

While credit unions would appear to be very accessible, we highlight that they need to continue to offer small loans, promote small-scale saving and develop EFT (electronic funds transfer) services. We also highlight the need for credit unions to develop an emergency loan service, which members could access easily and quickly. In terms of 'use' of financial services, we highlight that credit unions must greatly improve on marketing and on the financial education of members, with particular focus on low-income groups. Financial advice and education in credit unions are of an ad-hoc nature and may only be available to those who have become indebted. One of the key principles of credit union philosophy is member education. Thus, in line with their philosophy and in their own interests and those of their members, credit unions should be more proactive in terms of providing financial education to their members and, in turn, building the members' financial autonomy.

In Ireland, we are very privileged to have a well-established and coherent money advice infrastructure in the form of MABS. MABS is currently developing a community education function, and thus will not only provide financial education to those who are indebted but will also be performing a preventative education role.

From our research, we are led to believe that the increasing business of the moneylender is directly related to the decreasing financial autonomy of people. However, it would seem that for people on a low income, building financial autonomy can be very difficult. Additionally, our research would indicate that credit unions and MABS alone cannot build the financial autonomy of low-income groups and that this is a wider societal issue which requires a broad response.

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ABBREVIATIONS

MABS	Money Advice and Budgeting Service
ILCU	Irish League of Credit Unions
IFSRA	Irish Financial Services Regulatory Authority
NALA	National Adult Literacy Agency
CRO	Companies Registration Office
APR	Annual Percentage Rate
CPA	Combat Poverty Agency
SSIA	Special Savings Incentive Accounts
CDFI	Community Development Financial Institutions
CDCU	Community Development Credit Unions

1 Background to the Study

1.1 Introduction

The main aim of this study is to examine Irish credit unions in terms of the extent to which they contribute to financial inclusion. The study will place particular focus on examining the credit union loan product and will compare it with the product and service offered by moneylenders. Some research on moneylenders in Ireland has already been completed: Daly and Walsh (1988), Quinn and McCann (1997), Quinn and Ní Ghabhann (2004) and Conroy and O'Leary (2005). In terms of the credit union, the authors are not aware of any research that examines Irish credit unions in terms of financial exclusion or inclusion. There is, however, growing interest in financial exclusion in Ireland, principally from the Irish Financial Regulatory Authority (IFSRA), with particular focus on financial literacy. Thus, this study, which brings credit unions and moneylenders into a discussion of financial exclusion and inclusion in Ireland, is both timely and relevant.

1.2 A short note on financial exclusion

Leyshon and Thrift (1995:314) define financial exclusion as the 'processes that prevent poor and disadvantaged social groups from gaining access to the financial system'. However, Gloukoviezoff (2004:2) indicates that access is only one part of the problem of financial exclusion: he maintains that the biggest challenge remains in educating people about the proper use of financial services. For the purposes of this research, our understanding of financial exclusion will include both dimensions of access and use. We examine each of these issues in turn.

1.2.1 Access to financial services

Research on access to financial services in Ireland is not prolific. Gardener and Molyneux (2004)[1] maintain that Ireland has a relatively high level of financial exclusion in the EU, at 16.79 per cent of the population. Conroy and O'Leary (2005) found that lone parents were more likely than other groups to have to rely on moneylenders as a source of credit. Quinn and Ní Ghabhann (2004) found that Travellers have significant difficulty in accessing credit and often have to rely on illegal moneylenders. Anecdotal evidence in Ireland would also indicate that migrant workers and asylum seekers find it particularly hard to open accounts or access credit.

Extensive research exists on the situation prevailing in the UK. Kempson et al (2000:21) indicate that between 6 and 9 per cent of adults in the UK have no bank or building society account of any kind and that 29 per cent have no access to credit from a mainstream provider. They further indicate that the

[1] Their study does not appear to have asked people if they were credit union members – it only focused on conventional bank accounts.

level of exclusion is at its most extreme for people in receipt of State income support, 35 per cent of whom have no financial service access at all, and a further 55 per cent of whom have access to either one or two financial services only (pg. 22).

Early discussions of financial exclusion focused on issues of 'geographical access' to services and to banking outlets in particular (Leyshon and Thrift, 1993, 1994, 1995). Kempson et al (2000) note that in the last few years the debate has broadened to look more closely at the characteristics of those who make little or no use of financial services. In addition to geographical access, other dimensions of exclusion discussed are: exclusion in terms of risk, condition, price, marketing, and self-exclusion (Kempson and Whyley,1999a, 1999b). Our research will examine the credit union service in terms of each of these dimensions.

1.2.2 Use of financial services

Gloukoviezoff (2004:2) indicates that while access to financial services and to credit is essential, this is only one aspect of financial exclusion. He states that, once an account has been opened and credit made available, 'the biggest challenge remains to be tackled'. He indicates that financial institutions must develop a relationship with their customers and educate them in the use of financial services to which they have been given access; this is particularly important for those who have little or no experience of using financial services.

Jones and Barnes (2005) are of the same view and indicate that providing access to tailored services alone will not combat moneylenders and other high-cost fringe providers. They assert that if people do not build their financial literacy and understanding, then moneylending will continue to thrive.

1.3 Access to credit

Kempson et al (2000:41) point out that, in some respects, credit is not perceived to be central to debates on financial exclusion, where credit is seen as something that exacerbates the problems faced by low-income households through further reducing their already limited income. However, while borrowing money to supplement a low income may not be desirable, it may sometimes be unavoidable – either to purchase essentials or just to make ends meet (Kempson and Whyley, 1999a).

Kempson et al (2000:42) indicate that while only a very small percentage of people have no access to credit whatsoever, many do not have access to *mainstream* sources of credit and have to borrow from alternative providers. Therefore, being excluded from credit in this context means being excluded from mainstream sources. Kempson et al (2000) indicate that financially excluded people fall into two broad groups:

- People with poor credit records or a history of bad debt
- People living on low income.

They state that people in the first group tend to turn to illegal moneylenders because all other providers, including regulated moneylenders, are unwilling to lend. People in the second group tend to turn to regulated moneylenders who operate to meet their specific needs because 'people borrowing from these sources are most likely to be those with a need for credit that cannot be met by mainstream sources' (Kempson et al, 2000:42). Thus, borrowing from moneylenders is seen as an indication of financial exclusion.

1.3.1 Moneylenders

It is important to point out the difference between illegal moneylending and regulated moneylending.

- **Regulated moneylenders**

Regulated moneylenders in Ireland are legislated for under the 1995 Consumer Credit Act and are regulated by the Irish Financial Services Regulatory Authority (IFSRA)[2]. Under Section 93(1) of the Act, only holders of a moneylending licence granted by the Financial Services Regulator are authorised to engage in the business of moneylending. Under the Act, a moneylender is defined as:

> a person who carries on the business of moneylending or who advertises or announces himself or holds himself out in any way as carrying on that business.

Regulated moneylenders can provide loans in the form of cash or goods, and charge a minimum of 23 per cent APR (annual percentage rate). Most APRs charged are considerably higher. According to IFSRA records, there are 52 regulated moneylenders in the Republic of Ireland charging an average APR of 126.29 per cent. This does not include collection charges which can be up to 11c per €. The highest interest rate charged is 196.5 per cent APR while the lowest is 29.8 per cent APR (IFSRA, 2004).

Most moneylenders call door-to-door, giving small loans over short periods of time and collect payments on a weekly basis at the home of the borrower. As such, moneylending is often referred to as 'home credit'. The loans may also be given in the form of goods that are paid for by the moneylender and subsequently repaid by the householder who receives the goods. For example, in Sligo, at the time of writing, a regulated moneylender was calling door-to-door with the Argos[3] catalogue and agreeing to purchase goods from the catalogue on behalf of clients. The interest rate being charged was 187 per cent APR.

The most comprehensive research carried out on moneylending in Ireland dates back to Daly and Walsh (1988) who found that the main reason people use moneylenders is because of an absence of alternative credit options.

[2] IFSRA are the single regulatory authority responsible for financial institutions and intermediaries operating in Ireland.
[3] General home wares catalogue.

- **Illegal moneylenders**

Illegal moneylenders are not regulated by IFSRA and are thus operating outside the law without a moneylender's licence. Daly and Walsh (1988) found that many of the moneylenders operating in low-income communities in Dublin were illegal moneylenders. Due to the nature of the business and the dearth of research, there are no comprehensive figures on the number of illegal moneylenders operating in Ireland.

- **Other fringe suppliers**

Other alternative or 'fringe' financial suppliers operate in the form of pawnshops, cheque-cashing or pay-day-loan facilities. Pawnshops have existed in Ireland for a long time but are not numerous. A small number of cheque-cashing outlets operate in Dublin. These types of suppliers have greatly increased in number in the US, in recent years.

1.3.2 Credit unions

There are over 560 credit unions in Ireland, with approximately 2.3 million members. The Irish movement is one of the strongest credit union movements in Europe. Credit unions were formed in the late 1950s and early 1960s as a direct response to moneylenders. At this time, a large section of the Irish population had limited or no access to credit and experienced severe financial exclusion. Most were dependent on moneylenders who charged exorbitant rates of interest.

Credit unions were founded as a community self-help initiative. They provided a means towards greater financial inclusion for a large section of Irish society by providing fairly priced credit and thereby breaking the dependence on moneylenders. Rapple (1999:46) points out that credit unions met a 'very real need, rescuing many from the grasp of moneylenders'. Moneylenders still exist in Ireland, though many are now regulated. However, moneylending in Ireland appears to be far more limited in nature than in other countries. It would be fair to state that if the credit union did not exist, moneylending would probably be far more established than it is currently.

1.4 The study

In the UK, where the bulk of the financial exclusion research has been carried out, there is a very weak and sparse credit union movement. Therefore the main financial choices available are between the banks/building societies and the alternative lending sector such as moneylenders. As access to banks and building societies is problematic, people who are indebted or on low income may have to rely on moneylenders as a source of credit. However, in Ireland, a very well established credit union movement exists, with several credit unions in every city and one in almost every village and town. Therefore, in theory, Irish people should not have to turn to moneylenders as might be the case in the UK. However, Provident Personal Credit, one of the main moneylenders in Ireland, is increasing its number of offices throughout the

country. And the Money Advice and Budgeting Service (MABS) indicates that the business of the moneylender is very much alive and well in Ireland.

This study puts particular focus on comparing moneylenders and credit unions in terms of meeting the financial needs of low-income groups. It also examines the credit union service in terms of its existing and future contribution to financial inclusion or exclusion.

Despite the fact that almost every community in Ireland now has a credit union and access to a MABS[4] scheme, moneylenders still exist and indeed, now appear to be thriving again. This raises a number of questions worthy of research:

- To what extent do credit unions contribute to financial inclusion?
- How does the credit union service compare to that of the moneylender?
- What are the policy and structural implications for credit unions and MABS if they are to help people avoid resorting to moneylenders?

The main objectives of the research are as follows:

- From local knowledge, to determine the extent of local moneylending and establish an approximate profile of client base
- To determine the extent to which credit unions are adequately serving low-income and welfare-dependent groups in the community through an analysis of
  - accessibility and transparency of the loan application processes
  - small loan provision; trends for the last three years
  - flexibility of loan-term repayments
  - debt collection process
  - understanding within the credit union of the needs of low-income and welfare-dependent groups
- To compare and contrast the service offered by the credit union and the moneylender in the local community to low-income and welfare-dependent groups in that community

These objectives are designed to determine the extent to which credit unions make an impact on the alleviation of poverty and financial exclusion in Irish communities.

1.5 Layout of the study

Section One has provided a background to this research by, firstly, setting the study within a discussion of financial exclusion and, secondly, introducing its objectives and intended outcomes. Section Two presents the methods used to collect information for this research. In Section Three, the findings of the survey data are presented, exploring the extent of moneylending in a number of the communities studied, while Section Four examines the credit union

[4] Money Advice and Budgeting Service (MABS) is a state-sponsored debt advice service.

service in terms of its potential for financial inclusion or exclusion. Section Five presents our conclusions and recommendations.

2 Research Methods

2.1 Introduction

In this section, we describe the methods used to conduct the primary research. Because of limited resources, the geographical area covered by the research was confined to the Munster area.

2.2 Collection of data

We began by selecting six communities which were served by credit unions and by a MABS office, and which appeared through local knowledge to be exhibiting an increase in moneylending activity. The communities were also selected on the basis that they were spread geographically across Munster and represented a mixture of urban and rural communities.

These six communities were:

Ennis, Co. Clare
Farranree, Cork City
Tralee, Co. Kerry
Youghal, Co. Cork
Charleville, Co. Cork
Tipperary Town, Co. Tipperary

In each of these communities, interviews were conducted with:

- Two–three key witnesses within the local credit union (manager, chairperson and credit controller if available)
- One–two key witnesses within the local MABS office (manager and/or area co-ordinator)
- Local registered moneylenders (two agreed to be interviewed while four declined)

All interviews were semi-structured and were approximately one to two hours in duration.

To estimate the extent of moneylending in a typical Irish community, surveys were carried out in two of the six communities. The communities chosen were the rural town of Tralee and the city suburb of Farranree. These surveys were personally carried out by the researchers. Due to a limited timeframe and budget, it was not possible to personally carry out surveys in all six of the communities. However, the authors are of the view that Tralee is reasonably representative of the other four rural towns studied and that Farranree is reasonably representative of other city suburbs that consist of a large proportion of local authority housing.

The purpose of the survey was to estimate the extent of moneylending in two typical communities and to develop a client profile. To target low-income

groups, the surveys were carried out in the post offices in Tralee and Farranree on social benefit collection days. A questionnaire format was used, which involved three parts as follows:

- Use of credit services: the questionnaire listed all the possible sources of credit, including banks, building societies, credit unions, the names of all the licensed moneylenders, and so on
- Membership of the credit union and view of credit unions
- Demographic data.

In total, 253 people were surveyed. The researchers did not have any difficulty in eliciting the co-operation of people to complete the survey. The questionnaire was designed in a very neutral way and did not ask people why they borrowed from moneylenders or if they were indebted. It was also made clear to the respondents that the questionnaire was totally anonymous.

To further inform the research, the researchers also, through personal contacts, informally talked with a number of people who are currently borrowing from moneylenders and live in the large local authority housing area of the Glen, Cork City.

Additionally, a number of relevant meetings were attended which further informed the research:

1 EU Peer Review of MABS in Ireland
2 Group meeting of MABS personnel in Munster
3 Training course on moneylending and credit control for MABS personnel.

Although a considerable amount of data was collected, the analysis that was conducted was by no means exhaustive. It does, however, provide a significant springboard for further research.

3 The Extent of Moneylending in the Study Areas

3.1 Introduction

The purpose of this section is to discuss the extent of moneylending in two of the communities studied – Tralee and Farranree. Surveys were carried out by the lead author in both communities. All surveys were administered on a social benefit collection day. This section presents the findings on the respondents' use of credit, with particular focus on credit unions and moneylending.

3.2 Characteristics of the overall sample

There were 253 respondents across the two communities, distributed as follows:

- Tralee (rural town) 162 respondents
- Farranree (city suburb) 91 respondents

3.2.1 Demographic characteristics

The demographics of the total sample are presented in Table 3.1.

Table 3.1 Respondent demographics

Demographics	Numbers	Percentages
Gender		
Male	39	15%
Female	183	72%
No response	31	12%
Age		
<45	189	75%
>45	39	15%
no response	25	10%
Employment Status		
Unemployed	96	38%
Employed (full & part-time)	86	34%
Retired	7	3%
Housewife	14	6%
Student	3	1%
No response	47	18%
Marital/child status		
Married/cohabiting with no children	3	1%
Married/cohabiting with children	62	25%
Single with children	116	46%
Single with no children	26	10%
No reply	46	18%

n = 253

As can be seen from the table, the sample was biased towards younger age categories (75 per cent of those surveyed were under 45), towards females (72 per cent of those surveyed were female), towards those who are economically dependent (48 per cent of the sample are financially dependent with only 19 per cent in full-time employment), and finally, towards lone parents (46 per cent of those surveyed). For greater detail see Table A1 in the Appendix.

3.2.2 Breakdown of credit use

The respondents were asked to indicate where they normally source credit. They were given a list which included all the regulated moneylenders in their area: bank, credit union, building society, relatives/friends and other moneylenders. This last option was intended to identify the extent of illegal moneylending, as all the regulated moneylenders were listed. It was a forced choice question in that respondents were given three choices beside each borrowing option – '*borrowing now', 'borrowed in the past'*, or '*never borrowed from'*. A breakdown of credit use is presented in Table 3.2.

Table 3.2 Breakdown of credit use

Sources of Credit	Frequency of use			
	Currently borrowing	**Borrowed in the past**	**Never borrowed**	**No response**
Credit Union	124 (49%)	51 (20%)	75 (30%)	3 (1%)
Bank/Building Society	52 (21%)	37 (15%)	92 (36%)	72 (28%)
Credit Card	35 (14%)	25 (10%)	119(47%)	74 (29%)
Relative/friends/neighbours	22 (9%)	56 (22%)	110 (43%)	65 (26%)
Moneylenders (licensed)*	90 (36%)	92 (36%)	54 (21%)	17 (7%)
Other doorstep lenders (possibly unregulated)	3 (1%)	9 (4%)	160 (63%)	81 (32%)

n = 253

* Moneylenders also included Catalogue Companies.

The table indicates that credit unions (at 49 per cent) are the most popular current borrowing choice for the respondents, followed by licensed moneylenders (at 36 per cent). Adding those who currently borrow from licensed moneylenders and those who did so in the past, we can say that up to 72 per cent of the respondents have or have had a borrowing relationship with a moneylender, while 69 per cent have had a borrowing relationship with their credit union.

36 per cent of the total sample are currently borrowing from moneylenders

It must be noted that 'past' is not defined in the questionnaire. It could mean the recent past, as in weeks or months, or it could mean years. However, the MABS personnel pointed out to us that once there is a relationship with a moneylender, even if somebody has not accessed the moneylender in a long time, at times of emergency the relationship can often be quickly re-established. It is also interesting to note that a small percentage highlighted that they were using other doorstep lenders.

While all the regulated moneylenders were listed on the questionnaire, this could mean that 1 per cent are using illegal or unregulated moneylenders. While this figure is very small, it indicates that illegal moneylenders may still be operating.

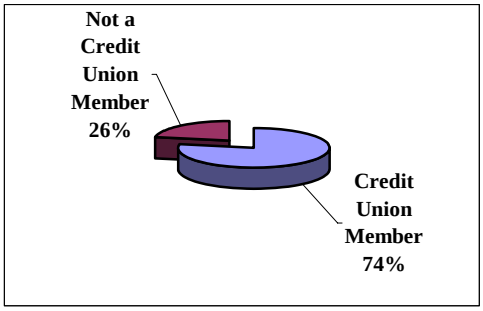
Nine per cent of the sample are currently borrowing from relatives or friends or neighbours. In interviews with MABS personnel, it became clear that sometimes people can be under even greater stress when they owe money to people within their social circle. Twenty-one per cent of the sample have current bank or building society loans and 14 per cent are currently using their credit cards as a source of credit.

3.3 Characteristics of respondents who are credit union members

3.3.1 Credit union membership

Respondents to the survey were asked if they are credit union members. The responses are presented in Diagram 3.1.

Diagram 3.1 Credit union membership



n = 248

Diagram 3.1 indicates that 74 per cent of the sample are credit union members while 26 per cent are not.

3.3.2 Credit union membership and demographics

We were interested in comparing the characteristics of those who are credit union members with those who are not members. Therefore, we cross-tabulated the variable of credit union membership with various demographics. We found that there was little difference in terms of age with regard to credit union membership. In terms of marital and child status, those with children are slightly more inclined to be credit union members. However, at the value $p = 0.120$ ($p < 0.05$), this was not statistically significant. The only result that was statistically significant was the relationship between employment and credit union membership. The results are presented in Table 3.3.

Table 3.3 Cross-tabulation of credit union membership and employment status

Employment Status	Credit Union Membership		
	Yes	**No**	**Chi square P < 0.05**
Full-time employment	39 (81%)	9 (19%)	0.039
Part-time employment	33 (87%)	5 (13%)	
Unemployed/CE/FÁS Scheme	66 (69%)	29 (31%)	
Working in the home	6 (43%)	8 (57%)	
Student	2 (67%)	1 (33%)	
Retired	6 (86%)	1 (14%)	

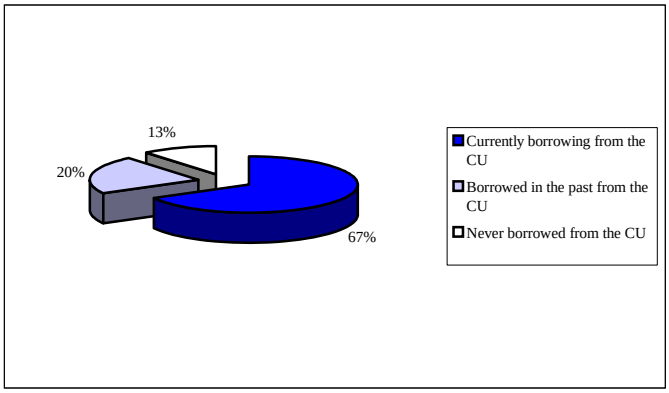
n = 205

With regard to employment status, those who are in employment (full-time and part-time) and those who are retired, are statistically more inclined to be credit union members (average of 85 per cent of these groups are credit union members). Those who are unemployed are slightly less likely to be credit union members (69 per cent of this group are credit union members). It is interesting to note that only 43 per cent of those working in the home are credit union members. This is not an encouraging finding, as more often than not the primary carer in the home is also the financial manager of the household. If that person is not a member of the credit union, there is less likelihood that the rest of the household will be members.

3.3.3 Credit union borrowers and demographics

The respondents who are members of a credit union were also asked to specify if they borrow from the credit union. The responses are presented in Diagram 3.2.

Diagram 3.2 Credit union members and their borrowing relationship with the credit union



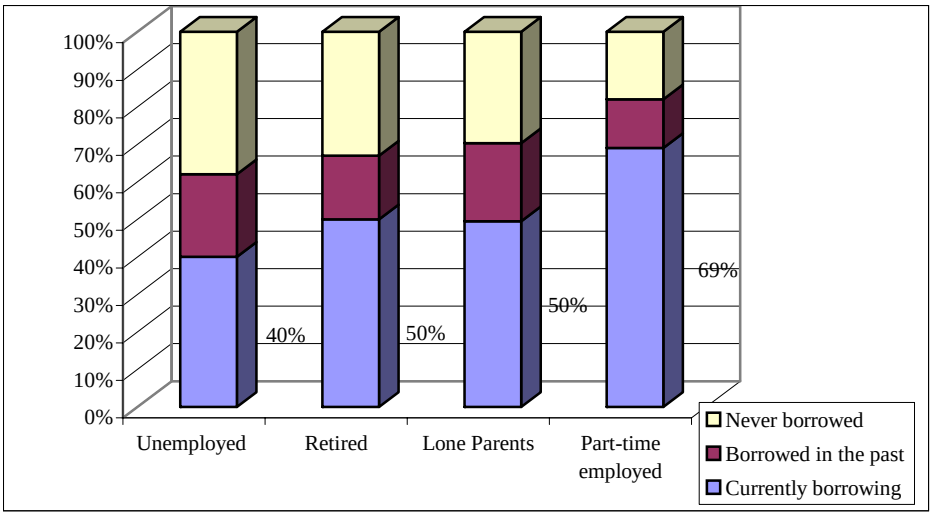
n = 185

As can be seen from Diagram 3.2, 67 per cent of credit union members surveyed currently borrow from the credit union, while 20 per cent have done so in the past and 13 per cent have never borrowed from the credit union. When we further examine this 13 per cent, we find that more than half are either currently borrowing or have done so in the past from a moneylender. While it is only a very small number of members (14), this question can be

asked: Why are these members not borrowing from the credit union? Some of these members may be self-excluding themselves because of incorrect perceptions of the credit union. For example, one credit union member surveyed assumed that any loan she would require would be 'too small' for the credit union to consider.

For further investigation, the variable 'borrow from the credit union' was cross-tabulated against various demographic factors. However, none of the results was statistically significant – in other words, there was no impact in terms of age, employment and marital/child status on the likelihood of those surveyed to be credit union borrowers. However, it is interesting to note that 50 per cent of lone parents and those who are retired, 40 per cent of those who are unemployed and 69 per cent of those who are in part-time employment are currently borrowing from the credit union. This is presented in Diagram 3.3.

Diagram 3.3 Various social categories and their borrowing relationship with the credit union



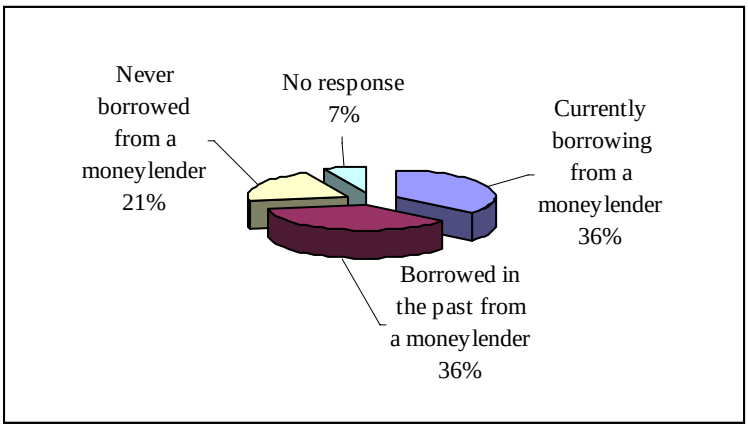
Therefore, the credit union is an important source of credit for those who are part-time employed. It is also a significant source of credit for lone parents, the unemployed and those who are retired.

3.4 Characteristics of respondents who borrow from moneylenders

3.4.1 Moneylender borrowers

Respondents to the survey were asked if they have ever borrowed from a moneylender. The responses are presented in Diagram 3.4

Diagram 3.4 Percentage of people who borrow from moneylenders



n = 253

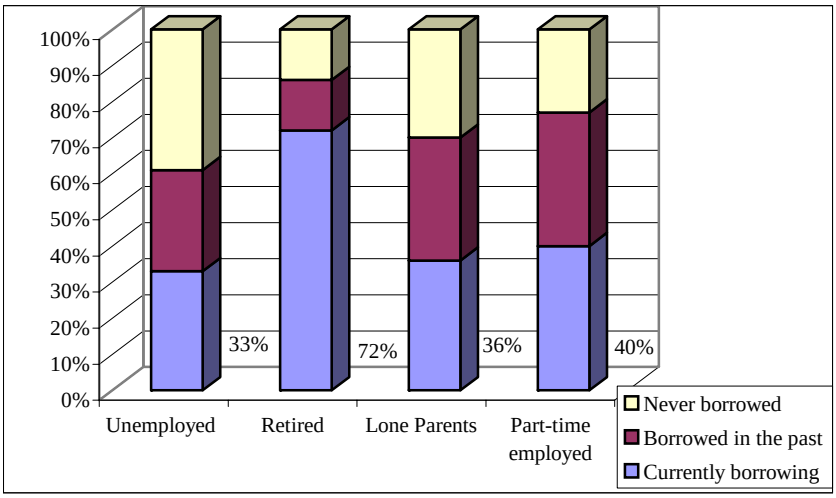
As can be seen from Diagram 3.4, 72 per cent of the 253 respondents are currently borrowing or have borrowed in the past from moneylenders. Twenty-one per cent of the sample have never borrowed from moneylenders.

3.4.2 Moneylender borrowers and demographic characteristics

Research has shown that people who use moneylenders as a source of credit tend to be the more vulnerable sections of society. For further investigation, we cross-tabulated those who use moneylenders against various demographic characteristics. We found that there is no statistically significant difference in our sample between those who borrow from moneylenders and those who do not in terms of gender, age, education or marital status. However, there was a statistically significant difference in terms of employment status. Those who are unemployed are slightly less likely to borrow from moneylenders. It is interesting to note that five of the seven retired respondents are currently borrowing from moneylenders. While the sample is very small, it would be valuable to carry out more in-depth research focusing on this grouping, as the population of Ireland continues to age in the future.

As the can be seen from Diagram 3.5, 33 per cent of those who are unemployed, 72 per cent of those who are retired, 36 per cent of lone parents and 40 per cent of those who are in part-time employment are currently borrowing from moneylenders. However, in each case if we include those who have borrowed in the past from moneylenders, we can see that well over half have a connection with a moneylender.

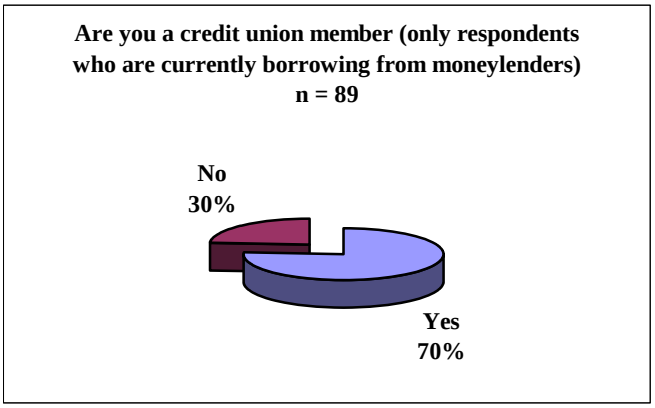
Diagram 3.5 Various social categories and their borrowing relationship with moneylenders



3.4.3 Current moneylender borrowers and credit union membership

The discussion here is confined to those respondents who are currently borrowing from moneylenders. Respondents were asked if they are members of the credit union. The results are presented in Diagram 3.6.

Diagram 3.6 Current moneylender borrowers and credit union membership



Seventy per cent of those who are currently borrowing from moneylenders are members of a credit union, while 30 per cent are not.

3.4.4 Current moneylender borrowers and other sources of credit

The survey allowed us to determine what other sources of credit are being used by those who are currently borrowing from moneylenders (n=89). These results are presented in Table 3.4.

Table 3.4 Current moneylender borrowers and their use of other sources of credit

Other sources of credit used, other than moneylenders (n = 89 – only those who are currently borrowing from a moneylender)	
Other sources of Credit	**Now ***
Credit union loans	49 (55%)
Bank/Building society loans	20 (22%)
Credit card	16 (18%)
Relative/friends/neighbours	16 (18%)
Other moneylenders	2 (2%)

n = 89
*** As people are borrowing from multiple sources the percentages add up to more than 100%**

Table 3.4 indicates that 49 (55 per cent) of those currently borrowing from moneylenders are also currently borrowing from a credit union. Twenty (23 per cent) are also borrowing from a bank. A significant number (18 per cent) are currently borrowing from relatives or friends or neighbours. Two per cent are currently borrowing from other doorstep moneylenders. As indicated already, since all the regulated moneylenders were listed in the survey, these may be unregulated or illegal moneylenders. The table indicates that the respondents have significant borrowings and does raise the question of whether or not their other creditors are aware of all their borrowings.

65 per cent of those currently borrowing from moneylenders are <u>also</u> currently borrowing from mainstream sources

We calculated that 65 per cent of those who are currently borrowing from moneylenders are also currently borrowing from mainstream sources of credit. Therefore a significant majority of those who are using moneylenders would not appear to be financially excluded.

However, this leaves 35 per cent of respondents who are currently only borrowing from moneylenders. Analysis shows that only one third of this group are credit union members. For this group, lack of access to mainstream sources of credit is more than likely a continuing factor in their decision to borrow from moneylenders.

35 per cent of those currently borrowing from moneylenders, are <u>only</u> borrowing from moneylenders

Fifty-five per cent of those who are currently borrowing from moneylenders are also currently borrowing from a credit union. In our interviews, both MABS and credit union personnel indicated that many people are using a number of sources of credit, sometimes for different purposes – larger loans from the credit union and smaller loans from the moneylender. One of the interviewees from the moneylending companies indicated that if a customer seeks a loan in

excess of €2,000, he/she will be advised to apply to the local credit union. MABS indicates that many people receive as much as they can from one source and then use another source to make up the balance of their requirements. Thus, people tend to have more than one loan at any given time.

3.5 Impact on the local economy

Palmer and Conaty (2002:23) highlight that there is a 'huge transfer of resources and potential assets from poor communities to the directors and shareholders of loan companies'. They cite research in the US which found that low-income house owners are stripped of approximately $9.1 billion a year through the practices of the 'alternative credit sector'. They cite research in the UK, carried out by ACE Credit Union Services, which found that in three streets with a total of forty households, Stg£240,000 was being paid each year to high-cost lenders. The same research indicated that the average weekly income of the households surveyed was just Stg£230.

3.5.1 Impact on the household economy

The respondents were asked to indicate how much they pay back weekly on their loans and the total income of the household per week. We have calculated the percentage of income paid out on loans every week, shown in Table 3.5.

Table 3.5 Percentage of income paid back on loans

Percentage of weekly income paid back on loans	Borrowing from mainstream credit sources and not moneylenders (n = 44)	Currently only borrowing from moneylenders and no mainstream source (n = 10)
1% to 5%	5 (11%)	0 (0%)
6% to 10%	7 (16%)	3 (30%)
11% to 15%	15 (34%)	1 (10%)
16% to 20%	8 (18%)	0 (0%)
21% to 30%	5 (11%)	2 (20%)
>30%	4 (9%)	4 (40%)

Table 3.5 indicates that 20 per cent (9) of those who are only borrowing from mainstream sources are paying out over 20 per cent of their income every week on loans. This compares with 60 per cent (6) of those who are currently only borrowing from moneylenders. This would give an indication that those who rely on moneylenders as a source of credit pay out a higher percentage of their income on loan repayments. However, as the sample sizes are small, caution should be exercised and further research would be required for greater confirmation.

3.6 Conclusion

The purpose of Section Three was to estimate the extent of moneylending in the two communities studied. Across these communities, 253 people were surveyed. It was found that 72 per cent of this sample have borrowed from moneylenders at some stage, with 36 per cent currently borrowing from moneylenders. Of those who are currently borrowing from moneylenders, 70 per cent are credit union members and 65 per cent are currently using other mainstream sources of credit (bank, building society, credit union). This would indicate that a significant majority who are borrowing from moneylenders would not appear to be financially excluded. Therefore, in these communities, 'access' would not appear to be a problem for the majority of people borrowing from moneylenders.

This would appear to go against much of the financial exclusion literature, which predominantly focuses on 'access'. However, we recognise that much of this literature is from the UK, where the credit union movement is weak. In this situation, people only have a choice between the moneylender and the conventional financial institutions such as the bank or building societies. In Ireland, with its strong and widespread credit union movement, people have that extra borrowing option. Nevertheless, this does not prevent moneylending from thriving. Therefore, in Ireland, if access is not a problem for the majority, why do they continue to avail of high-cost credit from moneylenders?

Perhaps, in Ireland, the main driving forces encouraging the use of moneylenders are general issues of 'use' of financial services rather than 'access'. However, our survey did not measure issues such as financial literacy or understanding, and therefore we cannot determine if this is one of the main reasons why people use moneylenders. While the majority (65 per cent) of those who currently borrow from moneylenders also have access to mainstream sources of credit, it should be noted that 35 per cent are borrowing from moneylenders only.

It is also interesting to note that a greater percentage of those who borrow from moneylenders pay out a higher percentage of their weekly income on loans than those who have access to other sources of credit. This would indicate a serious drain on the household economy and, in turn, on the local economy of less well-off communities across Ireland. This should be of concern at a national policy level, as a significant percentage of state transfers into communities are quickly drained out in high-interest payments to moneylending companies.

4 Comparing Moneylenders and Credit Unions

4.1 Introduction

This section sets out to determine why people may decide to borrow from moneylenders rather than the credit union and to examine the credit services offered and credit processes adopted by both. These are examined in the context of the extent that credit unions encourage financial inclusion. Key witnesses from six credit unions and five Money Advice and Budgeting Service (MABS) offices were interviewed. Representatives of two of the main moneylending companies in Ireland were also interviewed.

4.2 Credit unions, MABS offices and moneylenders represented in this research

- **Credit unions**

Six credit unions were studied. Table 4.1 presents the lending statistics for each credit union for 2004.

Table 4.1 Lending statistics of the studied credit unions

Studied credit unions	Number of members	Total savings on 30/09/2004 (€)	Total loans outstanding at 30/09/2004 (€)	Loans/savings ratio
Tralee	23,509	60,406,910	40,802,974	67%
Farranree	7,531	17,903,183	15,951,169	89%
Youghal	12,099	57,379,426	30,251,226	53%
Ennis	15,480	54,684,737	22,917,028	42%
Charleville	11,033	47,748,711	29,609,354	62%
Tipperary	16,283	57,702,528	34,616,904	60%

As can be seen from Table 4.1, Tralee Credit Union is the largest credit union studied in terms of membership and outstanding loan balances.

Return to the members in the form of a dividend and interest rebate and the cost of loans to the members are presented in Table 4.2.

Table 4.2 Dividend, interest rate, interest rebate of each credit union (2004)

Credit unions	Dividend rate (shares)	Interest rate (APR on loans)	Interest rebate
Tralee	2%	6.3% – 9.9%	20%
Farranree	2.5%	9.93%	7.5%
Youghal	2%	6% – 9.98%	20%
Ennis	2%	10.5%	10%
Charleville	2%	9.4%	10%
Tipperary	2.5%	5.125% – 9.9%	10%

As can be seen from Table 4.2, the dividend return on shares ranges from 2 per cent to 2.5 per cent. This compares very favourably to deposit rates in most other financial institutions. The APR in the credit unions studied ranges from 5.125 per cent to 9.9 per cent and the interest rebate ranges from 7.5 per cent to 20 per cent. When the interest rebate is considered, credit unions are a low-cost personal loan provider and compare very favourably with other financial institutions.

As the use of moneylenders is very much associated with lower socio-economic groups, we were interested in determining the socio-economic breakdown of the credit union membership. The ILCU Lansdowne Study (1995), the most recent national socio-economic data, found that 34 per cent of credit union membership in the Republic of Ireland comes from the D and E socio-economic groupings.[5] This was significantly higher than other financial institutions where 25 per cent of their customers were from the D and E social categories.

As credit unions do not tend to store the socio-economic breakdown of their membership on their databases, it was not possible to get up-to-date data from the studied credit unions. However, our survey indicated that 69 per cent of the unemployed respondents are members of a credit union, of which 58 per cent are currently borrowing from a credit union. The results of our survey would lead us to believe that the membership of the credit unions still consists of a significant number of unemployed and low-income persons. In the future, credit unions may be under increasing pressure to prove that they are financially inclusive. Without a socio-economic breakdown of their membership, this will be difficult.

- **Money Advice and Budgeting Service (MABS)**

The Money Advice and Budgeting Service (MABS) started as a pilot programme in the early 1990s and was modelled on a scheme run by the Lough Credit Union in Cork City. It started with 5 pilots and has now expanded to 65 centres throughout the country. It is widely recognised as a success (Korczak, 2004). Its purpose is to offer advice and support to those experiencing debt problems. However, a number of issues have been raised in relation to MABS (Eunice and Clarke, 2000): firstly, the need for strategic planning at a national level; secondly, the need for a greater focus on community education which prevents people falling into debt in the first place; and thirdly, the need to continue to focus on the original target group – those on low income and on social welfare who are having debt problems – which has become more difficult due to a widening client base.

MABS is responding to all three issues and has set up a National Development Company with responsibility for strategic planning and community education. It is also in the process of developing a new service delivery model, where those with financial literacy and of a certain educational standard and income level will be provided with financial counselling through a telephone service, while those with less capacity will still receive one-to-one

[5] D: Unskilled Working Class, i.e. Labourer; E: Casual/part-time/unskilled or those in receipt of Social Security only (Lansdowne Market Research, 1995)

counselling. This will help the MABS offices to deal with the rapidly growing client base and also allow them to continue to focus on the original target group.

Not all of the MABS offices in our study had a precise socio-economic breakdown of their client base. However, Kerry MABS provide a partial breakdown in their Annual Report for 2003. It had 465 new referrals in 2003 and of these:

- 54 per cent were dependent on social welfare only
- 22 per cent were lone parents.

An essential element in the MABS service is the link with the credit union movement. MABS sets up special budget accounts for their clients who are credit union members. This helps the indebted person to budget and start to repay his/her creditors. It also creates a pathway leading away from the moneylender and back to mainstream financial services. A breakdown of the creditors paid through these special accounts for the year 2003 in the Kerry MABS is as follows:

Banks	€ 160,752
Building Societies	€ 78,025
Credit Unions	€ 165,353
Money Lenders	€ 19,912
Debt Collections Agencies & Solicitors	€ 34,283
Insurance Policies (Life/House/Car)	€ 26,705
Local Authorities	€ 215,148
Fuel Costs	€ 29,649
E.S.B	€ 141,320
Telephone	€ 83,873
Treatment Centres	€ 1,880
Sundry	€ 71,863
Total	**€1,028,766**

Source: Kerry MABS Annual Report 2003

Credit unions accounted for 16 per cent of the debt repayments, while moneylenders only accounted for 2 per cent. An explanation for this may be that credit union loans tend to be larger, thereby driving up the debt. Another factor could be that, as MABS indicated, people tend to prioritise the moneylender over the credit union (and other creditors) and thus tend to fall into debt with creditors other than with the moneylender.

MABS indicated that it has an excellent relationship with the majority of credit unions. It also indicated that it has a good working relationship with many of the larger moneylending companies. Both the credit unions and the moneylending companies stress that they had a good relationship with the local MABS office. It is often the case that personnel in the credit union are also involved on the board or as staff in MABS.

From our survey, we estimated that a significant percentage of people from lower socio-economic categories are borrowing from moneylenders. This is the most vulnerable section of the community, with limited or no assets or savings. Paying for high-cost credit only drives them further into poverty. In many of the UK studies, people resort to borrowing from moneylenders because there are few, if any, other alternatives. However, in Ireland we have a very well established and widespread credit union movement. Why would Irish people resort to paying more for their credit by borrowing from moneylenders? We asked our key witnesses from the credit unions, MABS offices and moneylending companies this question. Their replies are presented in the following section.

- **Moneylenders**

Two key witnesses from two main moneylending companies were interviewed. There are 52 registered moneylenders on the Moneylenders Register for 2004-2005. The number of illegal moneylenders is unknown. Some of the main registered providers and their main characteristics are listed below:

Table 4.3 Various details on a number of key registered moneylenders

Moneylenders	Payment period	APR	Collection charge	Districts	Profit on ordinary activities after taxation
Provident Personal Credit Ltd	26 weeks	150.3%	Nil	All districts	Stg£86.4 million (UK & Ireland for year end 31/12/2000)
Marlboro Trust (incor Ray Murray Ltd & Henri Michael Ltd)	21 weeks	96.5%	11c in the Euro	2,3,4,5,6,7,8,9,10,11, 12,13,14,15,16,17,18, 19,20,21,22,23	€1.5 million (year end 31/08/2003)
Practical Finance Ltd	156 weeks	29.8%	Nil	All districts	Not available
Corrib Finance Ltd	12 months	32%	Nil	All districts	Not available
Advance Personal Credit Ltd	26 weeks	136%	6c in the Euro	19,20	Not available
Shop Direct Ireland Ltd (Morses, Kays, Family Album)	20 weeks	43.6%	Nil	All districts	€4.7 million (year end 31/03/2004)

As can be seen from Table 4.3, the APR ranges from Provident's 150.3 per cent to 29.8 per cent charged by Practical Finance. However, it must be remembered that the payment periods differ greatly, from 26 weeks for a Provident loan to 156 weeks for a Practical Finance loan. While the Irish Financial Services Regulatory Authority (IFSRA) stated that APR may not be a good measure of the cost of a moneylending loan, moneylending loans prove to be very expensive when compared to loans from other financial

institutions. For example, a €500 loan from an average credit union, paid back over 21 weeks, costs the member €510.09 in total repayments. The same loan from Provident Personal Credit costs €650 in total repayments.

Table 4.3 also shows the profits on ordinary activities after taxation for a number of the companies. These figures were obtained from the Annual Returns made to the Companies Registration Office (CRO). Provident is an external company and therefore does not have to submit Annual Returns to the CRO in Ireland. However, it was possible to obtain an Annual Return for the financial year ending 31/12/2000 on the CRO website. The accounts showed that Provident Personal Credit made a profit on ordinary activities after taxation of Stg£86.4 million (€124.5 million). Marlboro Trust (including Ray Murrays Ltd and Henri Michael Ltd) made a profit on ordinary activities after taxation of €1.47 million. Shop Direct Ireland Ltd, which incorporates Morses, Kays and Family Album, showed a profit on ordinary activities after taxation for the year ending 31/03/2004 of €4.7 million. It was not possible to determine profit figures for the other companies (Practical Finance, Advance Personal Credit and Corrib Finance), as the CRO did not hold detailed accounts on these companies.

Provident Personal Credit state that they visit 1.6 million customers in the UK (**www.providentfinancial.com**). This is equal to 3.5 per cent of the UK population. A personal contact within Provident informed the authors that Provident collects €1.8 million every week in Ireland. This amounts to €93.6 million per year. Most of this money comes from low-income communities.

4.3 Perceptions of the key witnesses on why people use high-cost credit from moneylenders rather than borrow from a credit union

The representatives from the credit unions, MABS offices and moneylending companies were asked why they believe people would use moneylenders rather than credit unions when seeking credit. They all indicated that, from their experience, many people use both credit unions *and* moneylenders as sources of credit. Our survey results support this view. This was seen as a matter of choice, where both sources were used at different times and for different purposes. Perhaps, the former could be referred to as ‘considered’ credit while the latter might be ‘impulse-buy’, or at times ‘emergency’ credit.

Both MABS and the credit unions also highlighted that some people will have received the maximum amount possible from one source and will then approach the second source. One of the key witnesses from the moneylending companies indicated that the moneylender is used for small sums of money and the credit union is used for larger sums. He indicated that if a customer of theirs was looking for €2,000 or more he/she would be sent to the credit union.

MABS also indicated that there is a small percentage of people who are not credit union members or who have a poor credit record, who only borrow from

moneylenders. The credit unions, MABS offices and moneylenders gave the following reasons as to why people would borrow from a moneylender, despite having to pay more for credit as a result:

- **Tradition**: The use of moneylenders is often a way of life that is passed on from one generation to the next. One credit union manager indicated that when he asked a lone parent why she used moneylenders, he was told that '[her] parents used to deal with him'. This manager, who gives regular presentations and talks to various lone parent groups, has found that tradition also plays a role in credit union membership. He has found that if the parents are not members, their children tend not to become members either. He stated that, 'the credit union will not even feature in their thinking'.

- **Fast response**: Key witnesses from MABS, the credit unions and the moneylending companies interviewed indicated that the credit union loan application procedure might be perceived as 'too slow'. If money is needed for an emergency or another immediate need, the easiest and fastest route is perceived to be the moneylender. This is in the situation where 'a person will need the money now and will worry about paying it back later'. One of the credit union managers stated that when some people are:

  > stuck for money, they will get it from the moneylender. They don't see beyond that and if they come to the credit union, they may have to wait for the Credit Committee to decide and know that there is probably a poor chance of getting the money.
  >
  > … if the need is an immediate one, such as a funeral, and they need money or need a suit, the moneylender will provide the suit. They do not even have to go to the shop to buy it. They conclude that it really is a 'Rolls Royce service'.

- **Convenience/easy service**: The key witnesses indicated that people are willing to pay for the convenience of the door-step loan. The credit unions highlighted that it is not feasible for them to call to the door while charging a low rate of interest. One of the main corner stones of the pilot community banking partnership[6] in the UK is the ability to charge higher interest rates.

  A number of credit unions and MABS representatives pointed out that borrowing from the moneylender is easier than borrowing from the credit union because 'the credit union asks questions, the moneylender does not'. Gallaghy and Dernovsek (2000:43) refer to this as 'guilt-free cash' where 'loans come without lectures'. One of the key witnesses from a moneylending company also indicated that the credit union insists on the member having a savings record. He indicated that this is difficult for many people.

[6] Community Banking Partnership is a new pilot programme set up in the UK to provide an alternative to moneylenders and other fringe suppliers.

- **Close relationship with the moneylender**: Both key witnesses from the moneylending companies stressed that the reason for their success is the close relationship built up over many years with customers and their families. The credit union and MABS key witnesses indicated that, from their dealings with clients who are borrowing from moneylenders, a close relationship is built up with the moneylender to a point where 'he becomes a family friend'. Clients are often reluctant to cease contact with a moneylender, even on the advice of MABS or the credit union. A typical comment of a client is, 'I want to hold on to him. He is very handy'. The view is that they may need the moneylender again in the future and that 'he has always been good to me'. Moneylenders are almost perceived as good friends. A client will typically remark as follows: 'Pat has been so good to me, he will always ask me if I need a few bob.' One credit union credit controller highlighted that he can remember:

  > going around on arrears calls in a particular housing estate, where a moneylender was also calling to houses and while I was outside knocking and getting no reply, the moneylender had his own key for certain houses and was letting himself in!

  MABS highlighted that the moneylender calls every week, knows everybody's name in the house, their birthdays, new births, deaths, and so on. On some occasions, the moneylender may even identify a need for credit *before* the borrower, and will call to offer a loan. One MABS officer said that in many cases, 'the moneylender becomes part of the mindset and life of the household'. All the key witnesses indicated that the credit union does not have the same one-to-one relationship with the member due to the huge number of daily transactions.

- **Moneylending not viewed as a problem**: The view of the credit union personnel and the MABS personnel is that people do not view moneylenders as being 'a problem' or as a 'source of hardship'. People often have a number of sources of credit and will use each source depending on the circumstances. One credit union manager said that he had previously worked in a credit union which,

  > was across the road from a local authority housing estate. On Friday, I would look out the office window of the credit union and see the moneylender going into the housing estate. The credit union was open to the members and very accessible and many of the people using the moneylender were also credit union members but they also wanted to use the moneylender, because of loyalty, out of habit, so that they would have a number of options for credit.

  He also gave another example of his experiences with moneylenders where:

  > the credit union was instrumental in getting rid of a moneylender out of one housing estate. After a while the people began to

> miss the moneylender and were not happy that he was no longer coming to the estate. Gradually they re-formed their relationship with him so in no time at all, the moneylender was back in the estate.

Key witnesses from the moneylending companies highlighted that often research tends to focus on the 'few hardship cases' and that the majority, 'thousands of customers', are very happy with the moneylending service. One of the moneylender representatives remembers a woman approaching him on the street and thanking him for all the years of support he had given her and her family.

Thus, policy-makers and competing businesses must bear in mind that, for many moneylenders' customers, the moneylender is not perceived as a problem or as a source of hardship but as a valid credit choice.

- **Consistency**: All the key witnesses from the credit union, MABS offices and moneylending companies highlighted that a key element in the success of the moneylender was 'consistency'; the moneylender calls at the same time on the same day every week, thereby becoming part of the weekly routine of the person. Therefore, the moneylender will be prioritised over other debts, as other creditors such as the credit union can be more easily ignored or put off until a later time. One of the credit union's credit controllers highlighted that for the credit union, it is up to the members themselves to form the routine of paying the credit union.

- **Cost of credit does not appear to form part of the decision to borrow from a moneylender**: The moneylending companies interviewed indicated that their customers only focus on the weekly repayment sum and whether or not this is manageable, say €10/15 a week. MABS agrees with this and indicates that the actual cost of the loan is not important to people as long as the repayments are affordable. This can be compared with what is happening in the mainstream mortgage market where some companies are offering 100 per cent loans and repayment periods are extended to 35 years. Here people are also basing what they can afford to pay for a house on whether they can meet the monthly repayment amount.

- **Credit union perceived as being more for the middle classes and for larger loans**: This was particularly the view of the key witnesses from the moneylending companies who said that credit unions have developed 'the big house mentality – they have moved away from their base; they are now for the middle classes.' MABS felt many of the credit unions now look like banks and that there may be a perception for some people that the credit union is no longer for low-income members. However, our survey indicated that 69 per cent of those who are unemployed are members of a credit union. The credit unions indicated that they are open to the entire community and that it is not in the credit unions' or the members' interests to confine themselves to low-income members only. Many UK credit unions have had a tendency to focus only on low-income groups, the result being that the credit union movement has remained small and has had

little overall impact on low-income communities (Goth, McKillop and Ferguson, 2005; Ryder 2002; Jones, 1999; Donnelly and Haggett, 1997; McArthur, McGregor and Stewart, 1993).

In the past, moneylenders were often presented as 'heavy-handed characters'. From the experience of MABS, customers of moneylenders do not tend to view them in this way. And the moneylenders themselves highlight the importance of building a close relationship with their customers. We saw from our survey that the majority of moneylender borrowers have other sources of credit. Thus, for a large number of people, the moneylender may be used because of convenience, tradition or for certain purposes other than any financial exclusion reasons. However, this will not be the case for all.

Nevertheless, while moneylenders may strive to develop a good relationship with their customers, the agents who are dependent on commission-based wages will be under pressure to collect as much as possible every week and may have a tendency to encourage customers to continuously borrow and possibly to 'impulse-borrow'. Conroy and O'Leary (2005:99) found in their study that some of the lone parents who were borrowing from moneylenders felt that the agents, due to the commission, had a 'vested interest in collecting all monies on time and in full'. Therefore, while the relationship with the customer may be based on familiarity, it certainly cannot be described as equal, since the customer's interests and welfare are secondary to the interests of the agent.

In contrast, the credit union teller's wage is not tied to commission and thus there is greater freedom for the teller to focus on the member's welfare. And while it could be said that credit union and bank advertising is designed to encourage people to borrow, the one-to-one contact is less invasive than is the case with regard to moneylending.

Although the moneylenders and even MABS point out that the moneylenders provide a good service, their credit is more expensive and thus is a serious drain on low-income households and on the surrounding local economy. As moneylenders do not provide any savings facility or financial education, they are diminishing rather than contributing to their customers' financial autonomy. Therefore, while recognising that moneylenders are not 'dark and nasty' characters and that they often provide a good, convenient and sometimes necessary service, they are not adding to the long-term financial security or autonomy of their customers and thus may well be ensuring, albeit not deliberately, that many of their customers remain in long-term poverty. As credit unions are based on a philosophy of self-help and of building the financial well-being of their members, the credit union contributes to rather than diminishes the long-term financial autonomy of low-income families and their communities.

Another aim of our research was to compare the credit union service with that of the moneylender and to examine the extent to which the credit union service encourages financial inclusion. Section 4.4 focuses particularly on these issues.

4.4 Analysis of the credit union service in terms of its contribution to financial inclusion

Does the credit union actively contribute to financial inclusion? To answer this question it is first necessary to examine the services offered by the credit union. The services of the credit union, with particular focus on borrowing, will then be examined against the needs of financially excluded people (as cited by the research of Collard, Kempson and Whyley 2001).

The services offered by the credit unions studied are as follows:

- Savings (both small- and large-scale)
- Loans (both small- and large-scale)
- Loan Protection Insurance
- Savings Protection Insurance
- Death Benefit Insurance
- Repayment Protection Insurance
- Contract Rail Tickets
- Saving Stamps (two of the credit unions have dispensing units, which are very popular)
- Discounts on Health Insurance
- ATM (in two credit unions).

These are the typical services offered by almost all credit unions in Ireland with the exception of the ATM service which is offered by very few. Collard, Kempson and Whyley (2001) worked with financially excluded residents in a UK community to identify their most serious financial needs and the most appropriate ways of meeting these needs. The participants in the study identified as priorities the following six main areas of financial service provision:

- Banking
- Loans
- Savings – especially as a means of access to low-cost loans
- Loans for micro-entrepreneurs
- Financial services for particular ethnic groups
- Financial information and education.

How do the services offered by credit unions meet these stated priorities of financially excluded people? We will focus on five of the main priorities as cited by the residents in Collard, Kempson and Whyley's study, namely, banking, loans, savings, financial services for ethnic groups and financial information and advice. Our research will not focus on loans for micro-entrepreneurs which by their nature require the entrepreneur to at least have good financial literacy and thus requires a different discussion and orientation than is possible in this report.

4.4.1 Banking (bill and debt repayment accounts)

Kempson and Whyley (1999a) identify that the ideal account to encourage financial inclusion should involve electronic receipt of wages and benefits and a budget account and bill payment element. Thus, if credit unions are to meet the needs of financially excluded people they need to offer Electronic Funds Transfer (EFT) services, where social welfare can be paid directly into the credit union. In fact, in terms of the credit union service, the ability to offer EFT may be more important to low-income groups who do not have bank accounts than to higher socio-economic groupings.

Currently the majority of Irish credit unions do not have the ability to offer EFT services, and thus, national payment schemes such as social welfare cannot be paid into the credit union. It also means that direct debits and standing orders cannot be set up on a credit union account. Thus, banking in this sense is limited in the credit union. However, a small number, including Charleville Credit Union, are currently undergoing pilot EFT programmes. It is not clear yet if the pilot will develop into a full electronic service which would be able to facilitate social welfare payments.

In terms of budgeting and bill paying accounts, none of the credit unions studied offer this service. We were informed by the credit unions that it is very cumbersome for them to offer budget accounts without EFT services. The credit unions studied do offer a special budget account for MABS clients, if requested by MABS. If the client is not already a member of the credit union, MABS introduces him/her to the credit union and a savings account and special budget account are set up. The client agrees to make regular weekly payments to the credit union and bills and debt repayments are paid by the credit union from the budget account. Each month, MABS prepares invoices payable by the credit union to the client's creditors based on the sums paid into the special account. This account also acts as a debt repayment account.

However, for the general membership of the credit unions we studied, there is no budget account facility. This makes it difficult for the credit union to fully meet the needs of financially excluded people, as budget accounts are central to successful money management planning for low-income families. Kempson and Whyley (1999a) and Brown, Conaty and Paterson (2005) maintain that budget accounts are an essential element of any service that aims to fight financial exclusion.

4.4.2 Savings

Burger and Zellmer (1995:26) state that saving is a key element in 'building a successful financial relationship' between a customer and a financial institution. Furthermore, they question any programme that prioritises lending before savings, describing it as a little like 'putting the cart before the horse'. Collard, Kempson and Whyley (2001) point out that people on low incomes want to save but have little to save. They need a savings account where they can lodge very small amounts of money, sometimes little more than 'loose change'. Conroy and O'Leary (2005) point out the difficulty for lone parents on low incomes to save even very small amounts.

Each of the credit unions in this study was open to people saving very small amounts of money. However, there may be a tendency in credit unions not to promote savings to the same extent as they would have done in the past. Due to their very competitive savings return, they have attracted a new type of member who lodges large lump sums, more than likely following the interest rate rather than any great desire to be a credit union member. This has resulted in a large mass of savings in the credit union movement, which credit unions are under pressure to lend or to invest within the banking system, often at very low rates of return. As a result, credit unions are slow to promote savings and put much of their marketing effort into promoting loans.

However, it must be recognised that there are two different types of savings – very large lump-sum savings following the best interest rate and small savings on a regular basis, which is a concept more in line with the credit union ethos of thrift. These small savers form the very backbone of the credit union, because in time they may borrow and, as a result of their savings habit, may well have very reliable loan accounts.

Kempson et al (2000:34) highlight that many people who do not formally save do so informally by putting loose change into jam jars, buying savings stamps, paying into Christmas Clubs and so on. Two of the credit unions involved in this study have recently installed saving stamps dispensing units in their banking halls. Both highlighted that these have been very popular, and in one case it became necessary to install a second dispensing unit. Many credit unions do not favour savings stamps as they can pose internal control risks. They are also risky for the member because they can be lost or stolen and do not offer any dividend return. Some credit unions prefer their members to save in standard savings accounts rather than through savings stamps.

To conclude, credit unions are moving slowly towards providing EFT-based services, which will make it easier for those on social welfare to budget and pay their loans. However, the development of full electronic services is still some distance away. In terms of savings, credit unions are open to small-scale saving and provide savings stamps facilities. Indeed, greater promotion of this fact would be beneficial. These services help the credit union member to build financial security and autonomy. Moneylenders, on the other hand, by failing to provide any savings or budgeting facilities, do not contribute to their customers' financial security or autonomy.

4.4.3 Access to affordable credit

Does the credit union borrowing product meet the needs of the financially excluded? Kempson et al (2000:45) highlight that many people decide to borrow from moneylenders (both legal and illegal), despite the high cost, because mainstream financial services cannot meet their needs. They highlight that this group of people is generally interested in small sums of money for relatively short periods of time and are attracted to moneylenders because they offer:

- easy, quick and non-bureaucratic access
- simple, straightforward and easily understood products
- weekly manageable repayments
- no hidden charges or penalties for default
- a flexible and sympathetic approach to repayments
- a close relationship with the lender (our key witnesses pointed out that this was a key success factor for the moneylender).

How does the credit union borrowing service meet these requirements?

- **Easy, quick and non-bureaucratic access**

Some of the quotes from the survey highlight the easy access to credit union loans.

> If you need money, the credit union is very handy and they never let you down. (Currently borrowing from the credit union and more than one regulated moneylender)
>
> Not that much interest and easy to get a loan. (Single female on CE scheme, has previously borrowed from regulated moneylenders)
>
> Money can be obtained easily and without embarrassment. (No loans at present, has borrowed in the past from the credit union, the bank and a moneylender)

While the credit union members quoted above regard the availability and access to credit union loans as fast, MABS point out that credit union loans may not be granted fast enough for people at certain times, e.g. in the case of an emergency. At such times, MABS indicate, people will be encouraged to resort to the moneylender. In times of an emergency (sick child, funeral) or an immediate need, MABS encourages its clients to talk to them first and they will do the 'running' for them, such as finding out any welfare supplements they are entitled to and also negotiating a credit union loan for them. MABS indicate officers that it is very important for them to provide this service, because for people who have broken the link with their moneylender, an emergency or an immediate need for money can drive them back to the moneylender, thus re-forming the relationship with him.

One of the credit unions studied, Charleville Credit Union, has set up a Social Fund of €50,000, which is set aside for this very purpose. Loans are offered at a nominal rate of interest and only those referred by MABS can avail of a loan from this fund. The process is made as simple as possible: the member calls to the credit union and will have a contact name within the credit union who will already know about his/her case, allowing the loan to be processed immediately.

However, the general credit union borrowing service may never be faster than the moneylending service, particularly in the context of growing regulatory burdens. The moneylenders are there on the spot and often recognise the borrowing need before the customers themselves. They have a one-to-one relationship with customers in their homes and when not in the home, the

customer will be able to contact the moneylender at any time of the day, thus providing an immediate response to any borrowing needs. It is very difficult for the credit union to compete with this. In fact, neither of the moneylending companies interviewed perceived the credit union as competition. In their view, their main sources of competition are the other moneylenders.

Financial services access, in terms of financial exclusion, is discussed by Kempson et al (2000:9) under the following headings:

- Geographical exclusion: The physical access to the financial institution
- Access exclusion: The restriction of access through the process of risk assessment
- Condition exclusion: The conditions attached to financial products make them unsuitable for the needs of some people
- Price exclusion: Some people can only access financial products at prices they cannot afford
- Self-exclusion: People may decide that there is little point in applying for financial products because they believe they would be refused. These beliefs may have come from their own or others' experiences and from perceptions
- Marketing exclusion: Some people are effectively excluded by targeted marketing and sales

We will now examine the credit union lending service under these headings.

– *Geographical exclusion*
As the researchers visited each of the credit unions, their location and opening hours were noted. These are presented in Table 4.4.

Table 4.4 Geographical characteristics of the studied credit unions

	Ennis	**Tipperary**	**Charleville**	**Tralee**	**Youghal**	**Farranree**
Location of office	Centre of town	At one end of the town	Centre of town	Centre of town	At one end of town	In centre of community
Opening Hours p/w	42 hrs p/w	42 hrs p/w	36 hrs p/w	36 ½ hrs p/w	41 hrs p/w	32 ½ hours
Saturday Opening	Yes	Yes	Yes	Yes	Yes	Yes
No of sub-offices	None	Six	None	One	Two	None

As Table 4.4 shows, the majority of the credit union offices tended to be in the centre of the town, except for Tipperary and Youghal. Tipperary Credit Union is at one end of the town, which was at the opposite side to the local authority housing estates. The credit union was aware of this and saw it as a

disadvantage. Youghal Credit Union is not quite in the centre of the town but is just off the main thoroughfare.

The majority of the credit unions have substantial opening hours (much longer than banks or building societies). They all have Saturday opening. Farranree Credit Union also opens late one night a week. All the credit unions are open throughout lunch except in Farranree.

Three of the credit unions have sub-offices; Tipperary Credit Union has six, located in small towns around the main town of Tipperary. Some of the credit unions are reluctant to set up sub-offices due to cost and security reasons. However, sub-offices are clearly an advantage to those outlying towns and in particular to people who do not have private transport, who are more often than not low-income groups.

However, no matter how conveniently located the credit union may be, it may never be as convenient as the service offered by the moneylender who calls to the door every week.

– *Access exclusion*

Access exclusion is defined as the restriction of access through the process of risk assessment. The credit unions do not use rigid mathematical formulae for assessing loans. They consider each individual application separately. Risk is assessed on the basis of a member's previous track record and his/her current ability to repay. Ability to repay is determined by account history, local knowledge of the applicant and, for larger loans, evidence of income and current out-goings. For first loans, a savings record is taken into account and in some cases a guarantor may be requested. But subsequent loans are assessed on the member's own record. The following quotes from members highlight the accessibility of the credit union:

> They give you a loan whether you are employed or unemployed, unlike the bank. (Employed, married father of three. Currently borrows from the credit union; past borrower with a moneylender)
>
> Never turned down for a loan. (Lone parent, working part-time, currently borrows from the credit union, past borrower with more than one moneylender)
>
> You know that you can always count on them and no matter what happens they'll always give you a loan. (Lone parent with six-week-old baby, unemployed. Currently borrowing from the credit union and more than one moneylender)
>
> They (the credit union) were the only people to give me a loan. (Young separated father of four, in early 20s, in part-time employment. Currently borrowing from the credit union only)

However, for some on low income, it may be very difficult to build up a savings record. This may act as a barrier in accessing credit from a credit union and, as a result, they may resort to accessing credit from a moneylender, where no

savings record is required. Those who have a bad debt record will also find it more difficult because of their poor credit history. Provident Personal Credit indicate on their Irish website (**www.providentpersonalcredit.ie**) that 'previous credit history need not be a problem' and, of course, there is also no savings requirement. However, Burger and Zellmer (1995) and Gallagly and Dernovsek (2000) highlight the importance of saving, not only to build financial security but also to teach people how to borrow correctly.

– *Condition exclusion*

Condition exclusion is defined as the situation where the conditions attached to financial products make them inappropriate for the needs of some people. With regard to joining the credit union, the only condition applied to membership is that the potential member lives or works in the common bond. There may be an issue with regard to the opening of accounts, where strict identification (as in all financial institutions) is required. The Criminal Justice Act, 1994 requires all financial institutions to seek evidence of identification to open an account. This involves providing a current valid passport or driving licence and a recent utility bill. Quinn and Ní Ghabhann (2004:10) point out that it is possible for banks to 'make alternative arrangements' to establish the identity of people who do not have the necessary documents.

Quinn and Ní Ghabhann (2004) go on to point out that many groups such as Travellers, non-nationals, non-home owners, non-utility bill holders and the unemployed have indicated that 'few banks promoted such arrangements'. These writers state that credit unions, on the other hand, 'while having to work under the same legislation, were willing to accept a much wider range of identification when dealing with an application for membership'.

In terms of loans, other than build up a savings record, there are no conditions in terms of loan size, insurance, or even on savings amount, and in most cases, there is no waiting period.

All the credit unions interviewed indicated that they were willing to give out very small loans. Some indicated that they have given out loans for as little as €30/€40. It is interesting to note that the smallest loan available from the main moneylenders is €100. The credit unions indicated that they have no minimum loan size restriction. The following quotes from credit union members confirm this:

> No loan is too big or too small and you will very rarely be refused – they are great. (Currently borrowing from the credit union, has borrowed from a moneylender in the past)

> It is easy to get a small loan and they give you time to pay back. (Currently borrowing from the credit union and past borrower with a moneylender)

Griffin and Walsh (1998), based on 1996 national credit union data, indicated that of the €1.56 billion lent in the credit union movement:

- three-quarters of the loans were under €1,270

- half were under €635
- a quarter were under €317.

As the loan bands are categorised differently now, it is not possible to carry out a direct comparison between 1996 and 2003 (most up-to-date national data). However, we can see that for 2003, 47 per cent of the loans issued were for less than €1,000 and 86 per cent were for less than €5,000. The Irish League of Credit Unions (2004:14) points out that while credit unions still continue to retain the focus on issuing small loans, the move into larger loans is becoming more pronounced. It goes on to state that the main driver may be the increasing cost of issuing smaller loans. This cost will increase further with the recent introduction of the requirement to produce a lengthy consumer credit agreement for all loans issued above €250.

Each credit union was asked to indicate loan sizes issued for 2004. The data are presented in Table 4.5.

Table 4.5 Number and amounts of loans less than €1,000 advanced to members in 2004

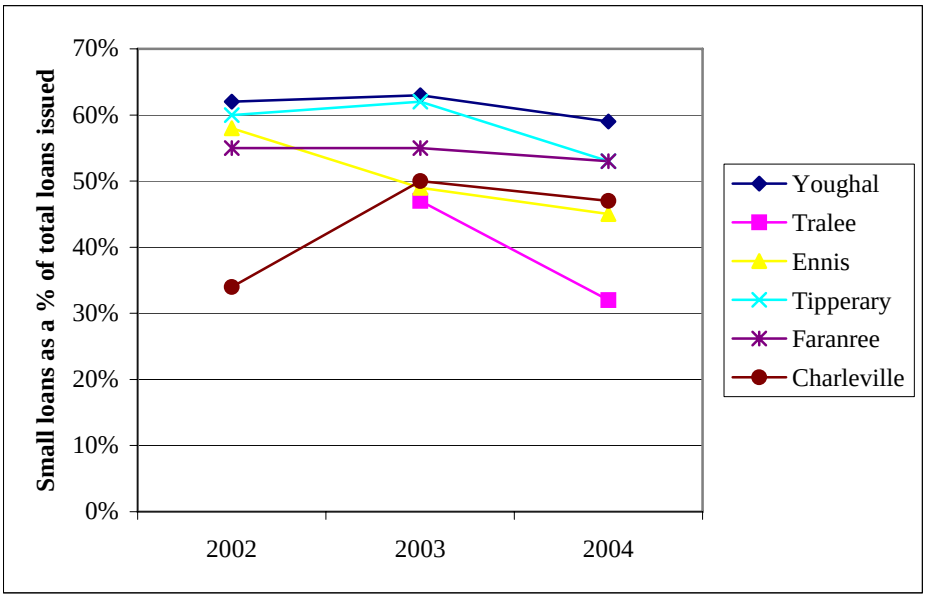
Credit Unions Studied	2004 Financial Year			
	No. of loans advanced during 2004 between €1 and €1,000	% of total	Loan amount advanced during 2004 between €1 and €1,000	% of total
Ennis	2,478	45%	1,382,000	9%
Tipperary	3,889	53%	1,939,326	10%
Charleville	2,138	47%	1,048,247	5%
Tralee	2,332	32%	1,041,733	5%
Youghal	3,686	59%	1,801,947	11%
Farranree	1,882	53%	1,623,310	18%

Table 4.5 indicates that a large percentage (averaging at 48 per cent) of the loans issued in the credit unions are for less than €1,000. (In Youghal Credit Union, 59 per cent of loans issued were for less than €1,000.)

We also examine the trends in terms of loan sizes issued for the past three years.[7] The results are presented in Diagram 4.1.

[7] It was originally hoped to show these data for a five-year period. Because of a change in the categorisation of loan sizes by all Irish credit unions in 2002, this was not feasible.

Diagram 4.1 Loans of less than €1,000 issued for each credit union studied, from 2002 to 2004



As can be seen from Diagram 4.1, the number of credit union loans issued for less than €1,000 is decreasing. In other words, loan sizes are increasing in credit unions. Nevertheless, credit unions still issue very small loans. For example, in Youghal Credit Union, 64 per cent of small loans (€1 to €1,000) were for less than €750.

Furthermore, with regard to insurance, credit union members are not obliged to take out loan protection insurance, as is often the case in some financial institutions. Loan protection insurance is provided free of charge.

In the past, the amount granted on a credit union loan was worked out on the basis of a ratio of the individual member's savings, that is, three times the amount saved. This is no longer the case in any of the credit unions studied. In fact, the use of this ratio has been abolished in most credit unions. Ability to repay and previous track record are the primary methods used for assessing loan applications.

– *Price exclusion*

Price exclusion exists when some people can only gain access to financial products at prices they cannot afford. All the credit unions studied have reduced their loan interest rate (ranging from 5.125 per cent to 9.9 per cent) in the past five years. Additionally, all the credit unions studied returned a loan interest rebate to their members, ranging from 7.5 per cent to 20 per cent of loan interest paid. The actual rate of interest paid compares very favourably with the cost of personal finance in other financial institutions. And it is very competitive in comparison to the high cost of credit from moneylenders.

Some researchers (Daly and Walsh, 1988; Jones and Barnes, 2005) indicate that people do not shop around for the best price as they might when making

other purchases. The following quotes highlight that some people are aware that the credit union is cheaper but still also borrow from moneylenders:

> Because it (the credit union) is cheaper and there is an incentive to save as well. (Pensioner who is currently borrowing from a moneylender and the credit union)

> Because you don't have to pay back that much interest, it is much easier to get a loan with the credit union. (Lone parent in part-time employment, currently borrowing from the bank and the credit union and a past borrower with numerous moneylenders)

> There is no interest to pay back, or very little, plus it's just what you save that they look at. (Lone parent with four children in part-time employment. Currently borrowing from the credit union, more than one moneylender and the bank).

Therefore, if the credit union is to compete with the service offered by the moneylender, price alone will not suffice.

– *Self-exclusion*

Some people decide to exclude themselves for various reasons, such as their belief that there is no point in applying for a loan, or because they were refused in the past, or even because they know somebody who was refused (Kempson et al, 2000). The following quotes from our survey support this view:

> Would not have the money to save every week. (Mother of two, currently borrowing from a number of moneylenders, not a credit union member)

> Never borrowed from the credit union; just any loan I need would be too small. (Lone parent and unemployed, currently borrowing from more than one moneylender, is a member of the credit union but has never borrowed from the credit union)

Some of the key witnesses from the credit unions and MABS pointed out that credit union membership is as much a family tradition as is borrowing from moneylenders. If parents are not credit union members, there is a strong chance that their children will not join either. Proactive marketing and credit union involvement in local schools should help to introduce the credit union idea to families who currently have no tradition of credit union membership. Byrne (2000) found that some adult credit union members were introduced to the credit union through their children's involvement in the credit union 'Sammy Stamp' scheme.

As indicated in the previous section, low-income groups do not tend to receive marketing material from mainstream financial institutions. Thus, Kempson and Whyley (1999a) indicate that they may have the perception that 'these products are not for people in their situation, thus leading to self-exclusion'. Perhaps there are many just waiting to be asked and encouraged to join. The following are quotes from two young lone parents who currently borrow from a number of moneylenders, but not from the credit union:

> Just haven't joined (the credit union) – would like to though. (Separated mother of four, unemployed and currently borrowing from more than one moneylender and relatives)

> Never applied for a loan. (Lone parent of two, unemployed, currently borrowing from more than one moneylender. Credit union member but has never applied for a loan)

People may also decide to exclude themselves because of incorrect information they have heard about the credit union. The following quote highlights this:

> You only get a loan with them for the same amount you have in your savings – which is not much use. (Young widow and mother of four on a CE Scheme. Currently borrowing from a moneylender and past borrower with the bank. Not a member of the credit union)

One of the credit union managers who has worked in the credit union for many years stated that:

> in the past people used to come to the credit union for small loans for school uniforms and shoes and so on, but now we don't come across people looking for these type of loans. They must still be there, but where are they going now?

The issue of self-exclusion and marketing may be closely related as we will see now.

– *Marketing exclusion*

Marketing exclusion is defined as the situation where some people are effectively excluded by targeted marketing and sales. In a survey carried out in the UK by the Office of Fair Trading, it was found that people on very low incomes were unlikely to have had any sales approaches in the previous 14 months (Kempson and Whyley, 1999a). Kempson and Whyley (1999a) indicate that many of these people will not have other financial products, and so would not be subject to cross-selling. However, they also point out that financial institutions can now, with more geographical-based information, target the most attractive sections of the market. They indicate that this can lead to low levels of awareness about financial products among very low-income groups.

None of the credit unions involved in this study segment their market or target certain groups. Marketing materials are produced for the general membership. Some of the credit unions in the study advertise on local radio and in local newspapers. However, an analysis of the marketing material indicates that the main focus is on credit union loans for consumer products such as cars, holidays or home improvements. To many on a very low income, these types of products may have limited relevance. Marketing material that does not take into consideration the daily financial routines of somebody on a low income

may have little relevance to him/her and may actually encourage self-exclusion.

The use of language is also important. Jones and Barnes (2005) and various literacy organisations[8] highlight that for financially excluded people, it is important not to use 'jargon' and instead to use language that is familiar to them.

Only one credit union targets new housing estates with information about the credit union. The general lack of targeting appears to be a significant shortcoming in the marketing strategies of credit unions. Firstly, as people move into their new homes, they will be open to information on services in the area. At a later stage, they will have formed their routines and may be less open to such material. Secondly, MABS indicated that new housing estates are a major target for moneylenders, where people need extra money to furnish their houses. This is particularly convenient for moneylending companies as they can gain access to the household through furniture catalogues, thus forming a relationship with residents of the housing estate.

There are two main reasons for a lack of market segmentation in the credit union. Firstly, due to their ethos of treating all members equally, credit unions tend to treat all their members as a homogenous group. Fairbairn (2003:17) states that this can be a shortcoming in credit unions and other co-operatives where they fail to recognise the varying needs of different members. He goes on to say that 'a co-op that caters only to the common denominator among diverse members may be missing important opportunities to develop services designed to meet particular needs'. Thus, while the ethos of member equality can be of great benefit to the membership, it can also be a disservice.

Secondly, credit unions tend to have limited technology systems, which do not easily allow them to segment their membership for research or marketing purposes. This means that it is difficult for them to research the needs of particular segments of the membership. And thus, as a result, marketing materials are designed for the general membership.

Self-exclusion and marketing may be closely related. Ashley (1983:91) cites a study by Aird (1977) who found that low-income groups were more likely to source their consumer information from advertisements, whereas their wealthier counterparts were more inclined to access a wider base of information, from media reports, consumer rights organisations, as well as advertising. Therefore, if credit unions wish to inform low-income communities about their services and ethos, they must make greater use of targeted marketing.

- **Simple, straightforward and easily understood products**

Kempson and Whyley (1999b:31) state that simplicity and transparency of financial services are key factors for low-income groups. They note that products which involve 'remote transactions, clauses which are difficult to

[8] Adult Financial Literacy Advisory Group (2000) in the UK; and the National Adult Literacy Agency (NALA) in Ireland (2004)

understand, charging mechanisms that are hard to keep track of, all increase the risk of losing control over the household budget'. Further, they state that, for other groups this may be less of an issue but for people on tight resources, it can have serious consequences.

The credit union loan and savings product would appear to be simple and transparent. The following quotes from the survey support this view:

> No nonsense approach, easily available when needed. (Married mother of four and receiving a disability allowance. Currently borrowing from the credit union)
>
> Friendly service and easy to understand paperwork. (Unemployed male, currently borrowing from the credit union and the bank)

However, while the credit loan product would appear to be simple and transparent, MABS officers indicate that people are not interested in the interest rate, but rather in the weekly repayment figure. Therefore, the moneylender does not talk in interest rate terms but instead focuses on the weekly repayment amount. The moneylenders interviewed indicated that if this seems manageable to the customer, the customer will be satisfied. As part of the European Consumer Directive, credit unions must now issue a Consumer Credit Agreement for all loans over €250. While this may be in the interests of transparency for the consumer, it may make the credit union loan product less transparent and less simple for people who are accustomed to dealing with moneylenders.

- **Weekly manageable repayments**

Some of the respondents to the survey remarked as follows:

> Can agree on repayment that suits you. (Married mother of four working part-time, currently borrowing from the credit union and past borrower of a moneylender)
>
> Easier payment methods, hassle free. (22-year-old in full-time employment, past borrower with numerous moneylenders and the credit union)
>
> Because you can see every week what you are paying in and also the interest you are paying – it's great. (Lone parent working full-time, currently borrowing from the credit union and past borrower with a moneylender)

While repayments can be made on a weekly basis, the members must travel to the credit union to do so or, if they have a bank account, they can set up a standing order into their credit union account. In the case of the moneylender who calls to the door at the same time every week, repayment becomes part of the weekly routine. The moneylender will also call at a time when the customer has just been paid. This makes it easier for the borrower, whereas credit union members must make a conscious choice to call to the credit union office, queue and pay. If the credit union has the ability to offer EFT facilities, where loan repayments are deducted from income/social welfare, it might well make it easier for the members to make their repayments.

In terms of the manageable nature of the repayments, the moneylenders interviewed highlighted that they have a strict policy of responsible lending. They determine over time what is a manageable repayment sum for the customer. However, we found in our survey that those who only borrow from moneylenders, when compared with those who borrow from mainstream sources, pay back a higher percentage of their weekly income on loans. Both moneylenders interviewed felt that credit unions do not lend responsibly, as they have a tendency to offer 'top-up' loans to members.

However, moneylenders are often accused of a practice called 'reloaning'. An example of reloaning is where a person borrows €100 and then halfway through repayments the borrower is offered a further €100, where a part of it is used to repay the original loan. However, the person now pays interest on the original loan and on the new loan and the amount repaid is not taken into consideration. While both of the moneylenders stated that they have a strict policy against 'reloaning', MABS noted that they often come across clients who have experienced this practice with the main regulated moneylenders.

While both moneylenders highlighted their responsible lending policy, the agents' job is structured in such a way, through commissions, that they are under pressure to collect the full repayment and also to encourage people to borrow more. One of the researchers, while waiting for an interview in a Provident office, noticed an advertisement on the wall aimed at agents, which clearly reminded agents that if they do not collect the full amount, their commission will suffer.

- **No hidden charges or penalties for default**

The credit union is very proud of the fact that there are no hidden charges or penalties for default. However, both moneylending companies interviewed highlighted that their loan product did not involve any extra or hidden charges. One of the companies noted that if customers pay back their loan early, they are entitled to a rebate. They also indicated that if somebody is late repaying, the moneylending company renegotiates the loan to a more manageable weekly repayment. They stated that, in this situation, there is no extra cost to the customer because the company bears the cost. However, it must be remembered that the cost of the moneylending loan is very high to begin with.

- **A flexible and sympathetic approach to repayments**

Kempson and Whyley (1999b:31) highlight that loan products must incorporate flexibility for low-income households. They indicate that such flexibility should involve the availability of 'payment holidays' or 'reduced payments for longer periods' or 'products which can be scaled down to a minimum during times of hardship'. The credit union is generally seen as very understanding and sympathetic to members who fall on hard times or have a change in circumstances. Loans are normally re-negotiated with reduced payments. The credit control staff interviewed stressed that they always tell the members that:

> if they have trouble repaying, they should always come and talk to the credit union where they will find that the credit union is very understanding.

The following quotes from credit union members highlight the flexible and sympathetic approach of the credit unions:

> Because they (the credit union) will help you if in difficulty – no question about that. (Pensioner, who is currently borrowing from a number of moneylenders and the credit union)

> They (the credit union) make it easier to repay loans. There is no threat of losing your home. They give you free financial advice. (Lone parent and unemployed. Currently borrows from the credit union, past borrower with numerous moneylenders)

> Because if you are in arrears, they are very understanding. (Married mother of three, working in the home. Currently borrowing from the credit union)

> The credit union are very understanding if you have a difficulty in repayments. (Currently borrowing from the credit union, has borrowed from moneylenders in the past)

However, both moneylenders interviewed stressed that if one of their customers has difficulty in repaying, they re-negotiate the loan at no extra charge to the customer. One of the companies highlighted that if somebody is three weeks late with their repayments, the manager will go out to talk to the customer and come up with a new repayment plan, if that is what is required. They indicated that calling out to the customer ensures that the customer does not become over-indebted.

The moneylender interviewees also stressed that they do not take people to court, as it is usually cheaper to write off the debt. However, it was stated by the MABS officers that credit unions have an increasing tendency to take indebted members to court and this is a grave concern.

- **A close relationship with the lender**

All our key witnesses highlighted that one of the main sources of success of the moneylending service is that the moneylenders build a very close relationship with the customer. Therefore, they become part of the fabric of the family and become more like a family friend than a moneylender.

Jones and Barnes (2005) points out that low-income customers do not like remote transactions and favour one-to-one contact. They like to have a contact name in the financial institution that they trust and can talk to if they have an issue with their account. Irish credit unions have a huge number of transactions per day – often up to a 1,000 or more. This makes it difficult to form a very close one-to-one relationship with all the members. And thus, for those members who require close contact, this gives the moneylender the competitive advantage.

However, we can see from the survey that low-income members do develop a very close relationship with the credit union:

> Because the credit union has always been there for me and has never let me down – to me it's the best there is. (*Lone parent, currently borrowing from the credit union, has borrowed from numerous moneylenders in the past)*

> You can trust them – they know who I am; they would not push me to get a loan bigger than I can afford. It works out cheaper if I pay back faster, as you only pay interest on what you owe, not what you borrowed in the first place. They are very humane. (Separated mother of five, unemployed. Currently borrowing from the credit union and relatives. No borrowing relationship with anybody else)

> Good people to deal with – very understanding. (Lone parent and unemployed, only borrows from the credit union)

If the credit union is to build a relationship with low-income groups, there must be an understanding of the needs, concerns and routines of this group. The credit union key witnesses were asked if thy thought there was an understanding of this section of the community on their board. While the majority said yes, some indicated that the understanding could be better. The following quotation from one of the credit unions depicts this very well:

> Sometimes the understanding is not there, would not come from this background, some on the board would be socially conscious, but would not feel encouraged to bring the subject up (of the needs of low-income groups). Not something that is really discussed. At credit committee level, it would be discussed somewhat.

It was highlighted that boards of credit unions tend to come from the middle classes. Recent research carried out at the Centre for Co-operative Studies found in a study of 557 credit union volunteers that only 13 (2 per cent) were unemployed (Byrne, McCarthy, O'Shaughnessy, 2004). However, many credit union directors also work in other voluntary organisations, and they may gain a very good understanding of low-income groups from this. In this study, we found that some of the credit union directors were also involved in MABS. Burger and Zellmer (1995:28) indicate that board composition is less important than the board's commitment to serving low-income individuals. They indicate that 'the board must understand and support the necessary changes and accept the outcomes of changes in ratios and expenses'.

However, it was clear from the majority of the credit union key witnesses that there was a real understanding of the issues facing low-income groups. Many of those interviewed were the managers on the ground, who hear the stories and the concerns of those on low incomes in their offices on a daily basis. The following quotation from one credit union manager clearly highlights this understanding:

> I came across a girl of 13 years of age thumbing to school. Her mother could not afford the annual fee of €31 for the school bus, so she stands

> on the road, thumbing, while her school friends pass by on the bus. What would that do to your self-esteem? I invited the mother into the credit union and gave her the €31, out of my own pocket, for the bus.

However, a number of the MABS officers pointed out that in some credit unions there may be a judgemental attitude on the credit committee. The following account is an excellent example of this:

> A woman wanted to borrow €2,000 for Holy Communion. She had it worked out to the last penny – the dress, the shoes, the meal, the two drinks for her relatives etc. She was a credit union member and had flagged at Christmas that she would need a loan in April for Holy Communion. When she applied, she put down the purpose as Holy Communion and was refused.
>
> She was very upset and went to MABS. Both were furious that the credit union had made that judgement on her. They had decided that it was a waste of money and would not give her the money. Friends of hers, who were borrowing also for Holy Communion, put down 'home improvements' as the loan purpose and got the loan. She was honest and was punished for it. She was a good credit union member and MABS and the woman felt this was very unfair. She wanted to do this for her daughter and she wanted to take her parents out for a meal and a few drinks – she felt it was not too much to ask. She slaved away for the rest of the year and wanted this day to be different.

Therefore, neither an approach of charity or judgement is useful but instead what is required is an approach based on real understanding. From such understanding the credit unions will build trust and they can start to proactively build financial autonomy through a process of self-help.

To conclude, the credit union loan product would appear to be accessible to low-income groups in terms of how loans are assessed, the availability of small loan sizes, the reasonable cost of loans (with no hidden charges or default penalties) and the geographical proximity of the credit union office. However, it could be said that a condition of credit unions, particularly for first loans, is that the member builds a savings record. While this may be seen as a barrier, Burger and Zellmer (1995) highlight that it is essential that savings come before loans in order to bring people into the financial system.

However, there may be a need to encourage those on low incomes to save, even very tiny amounts, through a proactive savings educational campaign. The credit unions in this study do not actively promote savings and there is no structured promotion or educational campaign highlighting the importance of saving even very small amounts.

While the credit union does issue very small loans, there would appear to be a tendency to gradually move towards larger loan amounts. Credit unions need to watch this trend, because if they stop issuing small loans, they will be excluding a significant percentage of people. It was highlighted by both MABS

and the studied credit unions, that at times of emergency, credit union loans may be too slow, thereby encouraging people to borrow for such purposes from a moneylender. Can credit unions design a service or product which offers small emergency loans on an almost immediate basis?

Another major and linked shortcoming of the credit union is its limited marketing to all members, including low-income members. Research highlights that marketing may be even more important for low-income groups, as these often confine their information search to advertising material. It was also pointed out that if marketing material is to effectively target low-income groups, its language and content must relate to the daily financial routines of people who live on a low income.

In terms of the simplicity and transparency of the credit union loan product, the possibility of weekly repayments, lack of charges and a flexible and sympathetic approach to repayments, the credit unions perform very well. Many people, especially non-members, may not be aware of the benefits of credit union lending if the credit union does not market them.

In terms of building a relationship with the low-income member, the credit union cannot do it on the basis of charity or judgement, but must do so on the basis of trust. Much of the literature also focuses on the need to build one-to-one contact with members who are least familiar with financial services.

4.4.4 Financial services for ethnic groups

Irish credit unions do not gather or store information on the nationality or ethnicity of their members. Therefore, it is not possible to determine the percentage of credit union members from different ethnic backgrounds or the number of Travellers who are credit union members. However, all of the credit unions studied indicated that the number of foreign nationals joining their credit unions has increased dramatically over the last few years. A number of the credit unions highlighted that, due to transient work and living arrangements, they are often cautious about lending to people in these circumstances. However, they did indicate that they believe that there is illegal moneylending among these groups. Quinn and Ní Ghabhann (2004) indicate that illegal moneylending is an issue among Travellers in Ireland.

Ethnic minorities in the US and the UK tend to suffer financial exclusion and then to use services such as Pay-Day Loans, cheque cashing and money transfer services. They avail of these services through fringe financial providers at a high cost. There is evidence to suggest that a small number of Pay-Day loan services operate in Dublin. Financial service providers, including credit unions, must consider how they can meet the needs of ethnic groups before these types of services multiply, as they have in the United States, for example (growing from only a small number in the mid-1990s to over 8,000 by 2000).

4.4.5 Financial information and advice

Collard, Kempson and Whyley (2001) and Brown, Conaty and Paterson (2005) highlight the importance of providing financial information and advice services to low-income and financially excluded people. The credit unions studied do not have a formal advice service, although they all tend to provide informal advice to members. Financial information and advice can be divided into two categories – debt advice and general financial advice and education. We will deal with each separately.

- **Debt advice**

It is now recognised that personal debt is a major issue in Europe. It is estimated that at least 20 million people are over-indebted in Europe (Korczak, 2004:2). Debt is spread across all social classes, although our focus here is on low-income groups. A number of MABS officers highlighted that people who are long-term unemployed have learned how to live on a low income and 'know where to get help'. The people who find themselves in most trouble are the newly unemployed. This is highlighted in the following quote from one of the MABS officers:

> People who were working and are now on social welfare have accumulated possessions and are used to a very different standard of living. It's very difficult to get used to surviving on social welfare and they end up getting in debt trying to maintain their previous standard of living, which is impossible, and by the time they realise or accept this they are deep in debt.

The MABS officers noted that another group that can find themselves in debt are the:

> couple with the new baby – they are used to budgeting for two and now there are all these extra costs that must come out of their income.

MABS highlight that when people fall into debt with the credit union, they often go to a moneylender and when they get into debt with that moneylender they will go to another moneylender and so on. One of the key witnesses from the credit unions indicated that sometimes these members will finally return to the credit union:

> Some people were bad payers and got into trouble with the credit union so left the credit union and went back to moneylenders. Now they are in trouble with moneylenders and are back to the credit union again.

Both credit unions and MABS offer debt advice but at different levels. We discuss each in turn.

– *Debt advice in the credit union*

Each of the credit unions studied has a volunteer credit control committee and paid credit control staff. If a member falls into arrears for three consecutive weeks the credit control staff will contact the member and, if required, will request the member to visit the credit union for a discussion of the reasons

and problems behind the arrears. The loan repayment amounts will often then be re-negotiated to a more manageable level until the member is in control of his/her financial affairs again.

Credit control interviewees indicated that once a person falls into debt, he/she usually stops paying the credit union first. The moneylender will be prioritised over the credit union.

> A member who owes the credit union can pass the door of the credit union and not feel guilty, whereas the moneylender will call to the door and will keep knocking. He will call at the same time every week as a constant reminder. The person will be embarrassed in front of the neighbours, will feel guilty and will pay him.

The credit unions all indicated that they always give people a second chance, but members must prove themselves, as the following quote from a credit controller shows:

> Three per cent of people will always default. If they continue defaulting, the credit union will stop granting them loans, thereby pushing them back to the moneylender, but the credit union cannot keep issuing loans. It would mean that the 'good' members would be subsidising the 'bad' – this would not be good for the credit union.

The key witnesses from the moneylending companies indicated that if one of their customers is in arrears for more than three weeks, the office manager will call to the customer's house. They will discuss the reasons behind the arrears with the customer and, if there is a problem repaying the loan, the repayments will be re-negotiated to a more manageable level. Both moneylending representatives pointed out that there is no charge or penalty fee for late or slower repayment of the loan. There is also no penalty fee in the credit union. So far, according to both accounts there would appear to be little difference between the credit union and the moneylender in terms of their general procedure for members who are in arrears.

However, a key difference may be in terms of debt advice where the credit union will encourage the member to look at his/her spending and to start budgeting *as well as* renegotiating the loan repayment amount. When the member is in more serious arrears or has a number of debts, the credit union will encourage the person to go to MABS. The credit unions pointed out that MABS was a very valuable resource in this regard. While the moneylenders will also renegotiate the repayment amount, they do not appear to offer any budgeting or financial advice to their customers. This is understandable, as they only offer a loan service through an agent system, incentivised to collect as much as possible and to encourage further borrowing. It would not be in the moneylender's interest for customers to start analysing their spending or changing their financial behaviour. Unlike credit unions, moneylenders do not appear to encourage their customers to go to MABS. It is interesting to note that in the Kerry MABS office, for the year 2003, there were no referrals to MABS from moneylenders (Annual Report, 2003).

The credit unions studied would appear to have a debt advice system in place, in particular through their referral to MABS. However, as pointed out above, the credit unions studied do not have general budget accounts, which could greatly help a member before he/she falls into serious debt.

– *Money Advice and Budgeting Service (MABS)*
MABS is a state-supported network of debt advice centres around the country. There are approximately 65 MABS centres in the Republic of Ireland. The overall purpose of MABS is to offer support, advice and education to those who are experiencing debt problems. The general procedure is outlined in Box 1.

Box 1 MABS general procedures

- The client must first make an appointment.
- The MABS officer then meets with the client to talk through his/her financial problems – this may take a number of meetings, as MABS states that there is usually some background problem such as addiction, marriage break-up, illness, lost job and so on. The exact cause and extent of the debt problem is explored in detail. MABS indicated that sometimes the female in the household is carrying all the responsibility of financial management for the household and when a problem starts to occur with this financial management, she may not tell the male partner in the house, thereby carrying the financial burden herself. MABS and a long-term Credit Control Officer in the credit union noted that this situation can be quite common. They both indicated that the first thing to do in this case is to encourage the parties to communicate so that both can start to carry the responsibility.
- MABS, from the first meeting, makes it clear that they provide advice only and have no money to give. The majority of MABS officers felt that this was a strength of the MABS system and that the relationship between MABS and the client is more honest as a result.
- The MABS officer and the client then list out all the financial in-comings and out-goings of the household. The MABS officer tries to identify any possible savings that could be made, while also identifying any social welfare entitlements that the person could avail of. MABS stated that they come across plenty of people who are not availing of their full entitlements and that even €10 extra a week to a low-income household can make a 'huge difference'.
- The client is then encouraged to produce a budget which prioritises his/her needs (e.g. food, rent and ESB). The MABS officers highlighted that this process of budgeting restarts the process of control for the indebted person. MABS then encourages the client to set up a Special Budget Account in the credit union, which organises the client's repayments to creditors. The purpose of the Special Budget Account is to help to break the link with the moneylender. MABS will also encourage the client to incorporate savings into the Special Budget Account. MABS indicated that when people come to MABS,

  > they will feel hopelessness and will need to start feeling in control again. When they start to pay back their debts, even if only small amounts, it gives them back some hope, self confidence and a feeling of control.

- MABS will assist the client in making long and medium term financial plans. For example, they will highlight to them, 'You have young children now, but as they

grow up to be teenagers, costs will increase' or 'Christmas is coming up and you should make out a list of what you need to buy' and so on.
- MABS officers indicated that they will try to link the person into other activities and organisations in the community. One MABS officer gave the example of encouraging one woman to take out membership at the local library. The woman later told MABS that she had become a 'regular reader and that it had given her a new lease of life'. MABS indicates that as people become more included in society, their confidence, sense of control and choice increase.

The MABS officers stated that they do not exist 'to judge people' but to engender 'trust' and to get people back in control over their own financial affairs. They also indicated that the central element of their service is to encourage people to take responsibility for their financial affairs.

MABS was set up to offer advice to people who were in debt and are reliant on moneylenders. However, over time its client base has greatly increased and it now includes all social categories. This has put pressure on its service to the original target group. Therefore, staff are currently considering a tiered system of advice, depending on the client's capacity. For those who are educated and accustomed to dealing with financial services, advice will be given over the phone. For those with less capacity, a more detailed one-to-one service will be available (Edwards, 2005).

A general criticism of MABS has been that it only deals with those who have already fallen into debt and that it does not act as a preventative measure, keeping people from falling into debt in the first place. The local MABS offices are trying to incorporate a community educational element into their work. Some talk on local radio, write articles for local newspapers and newsletters, and give presentations in local schools and to local groups. However, they stated that due to limited resources it can be difficult for the officers to engage in these activities regularly. MABS is currently developing a national community education function. This is only in its infancy and it is not clear yet what form it will take.

- **Financial advice and education**

Gloukoviezoff (2004:2) highlights the importance of building a relationship with people through education and building their 'autonomy'. Gloukoviezoff (2004:9) states that while it is necessary to develop banking products tailored to the needs of financially excluded persons, this approach by itself is 'doomed to fail if it is not also based on developing clients' autonomy'.

However, a number of the MABS officers pointed out that, for a number of reasons it is difficult to build financial autonomy. Firstly, people on very low incomes do not have surplus income to build financial autonomy. Secondly, the double pressures of a consumerist and borrowing culture make it difficult for people on any income, but especially for people on low income, to build financial autonomy.

In terms of income, many of the MABS officers pointed out that for somebody on social welfare, their income is so low that it is possible to survive but never to live well on it or to have any form of a disposable income or savings. From their observations, people learn to survive on a low income with 'great effort'. This is summarised very well by one MABS officer as follows:

> Some people will put huge effort each week into working out the special offers in each supermarket – doing their shopping across a number of the shops, taking advantage of the special offers.
>
> There is nothing MABS can tell the person on long-term social welfare about budgeting – they know it all already. Everyday is spent budgeting – the income is basically too small.

In terms of the pressures of consumerism, many of the MABS officers and credit union key witnesses pointed out that people tend to overspend at times like Christmas, Holy Communion, Confirmation and Weddings. One credit union pointed out:

> a lot of the problems caused by consumerist culture – keeping up with the Joneses: events such as 'debs', holy communions, weddings – are becoming more extravagant and spending keeps increasing. People need a lot of mental strength to withstand the pressure.

Ashley (1983:57) points to some evidence that certain luxuries are particularly valued by poor families. She cites Marsden (1969) who states that these small luxuries become a 'symbolic reward for other deprivations' and a form of 'emotional release'. This was also the general consensus from the credit union and MABS key witnesses who believed that people were over-compensating and that it was a form of escape. As one MABS officer indicated:

> people on a low income scrimp and save for the rest of the year, and at certain times of the year just want to be like everybody else.

And possibly, if people are also socially excluded, there are limited opportunities for escape other than through consumerism. This may highlight, even more, the importance of MABS efforts to encourage people to be involved in activities in the community.

In terms of the pressures of a borrowing culture, all the key witnesses highlight that there is now a culture in Irish society where if people cannot afford something they borrow to pay for it. The key witnesses highlighted that in the past people only borrowed if they really needed to. They indicated that not only is borrowing seen as acceptable, being in debt is also seen as acceptable. MABS indicated that a wide variety of people, some even with substantial incomes, are falling into debt. They believe that the 'Celtic Tiger' and the media hype surrounding this have raised expectations to a very high level. However, they highlight that incomes have not increased so much as to match these expectations and this has left a 'gap'.

All the MABS officers were of the opinion that credit was too readily available, through banks, credit cards, credit unions and moneylenders. And all the messages being communicated to people are geared towards raising further expectations and increasing spending and borrowing. Aggressive loan advertising by financial institutions helps to further feed these expectations.

To conclude, the overpowering dominance of a consumer culture, the limits of a very low income which is not flexible enough to deal with even small non-essentials or luxuries, and the ready availability of credit push many people into a continuous cycle of debt.

- **How does the credit union build the members' financial autonomy?**

While access to credit is essential, Jones and Barnes (2005) indicate that unless financial literacy is also increased, people will continue to borrow from moneylenders and other 'fringe' suppliers. Our own survey highlights that many of those who borrow from moneylenders also have access to mainstream sources of credit. Therefore, we are of the opinion that providing 'access' is just one part of the solution. Education in the use of financial services is also required.

None of the credit unions studied provide formal financial information and/or education to their members. However, all provide informal advice. Financial information and education is provided through the encouragement of thrift, sensible borrowing and developing a regular savings pattern. Members learn financial autonomy through their transactional dealings with the credit union in terms of the building of routines.

Kempson and Whyley (1999b:26) found that people tend to have 'strong feelings of insecurity' about the future, where many felt they have no 'safety net'. They found that security for families and children was a central issue of concern, in terms of ensuring that families were provided for should anything happen to the main breadwinner or carer and also putting money aside for children's future. The former was the most important to people who sought peace of mind in terms of a safety net should anything unexpected happen. Many credit union services provide such a safety net.

All credit unions provide loan protection insurance where the loan is cleared in the event of the borrowing member's death or permanent disability. Credit unions also provide life savings insurance where the member's savings are doubled in the event of death.[9] Many credit unions provide death benefit insurance (DBI), which contributes at least €1,000 towards the cost of the member's funeral.

[9] There are certain conditions – In terms of loan protection insurance, the borrower has not reached his/her 80th (or 70th birthday in the case of some credit unions), the borrower is actively at work and able to carry out normal occupational duties, or if not working, the borrower is in good health. In the case of life savings insurance, the member is entitled to this insurance cover if he/she joins the credit union before the age of 70 years and is actively at work, or if not working, is in good health.

However, transactional dealings alone with the credit union may not be enough as this is dependent on the member having an active relationship with the credit union and a good understanding of its services. As Gloukoviezoff (2004:9) states, it is often necessary to 'supplement [this] with parallel teaching efforts' in order to develop a financially excluded person's autonomy. Jones and Barnes (2005) assert that formal training may not be successful as it may be overly reminiscent of a school system. They highlight a number of approaches used by some credit unions and MABS offices in the UK which seem to have greater success.

One interesting approach is the 'financial buddy' system. This is where a well-known person from the community (not necessarily a community leader, but someone who is seen as one of 'our' own and is well-respected) participates in financial training. It becomes known that this person has a particular knowledge in this area and can be approached in the pub or on the street and asked for his/her advice in relation to financial issues.

Another approach is the use of stories in a discussion group format as a method of teaching, whereby participants are encouraged to tell their own stories in a discussion group. Jones and Barnes (2005) indicate that people appear to relate far better to this approach than to any formal theory or explanations.

- **Other potential approaches to building the financial autonomy of low-income people**

The credit union alone cannot build the financial autonomy of financially excluded people. Other approaches are required.

– Financial literacy

Financial literacy is the ability to make informed judgements and to take effective decisions regarding the use and management of money (Noctor, Stoney and Stradling, 1992). The National Adult Literacy Agency (NALA) highlights that financial literacy requires basic numeracy as well as general literacy skills (NALA, 2004). An OECD study carried out in 1997 found that 25 per cent of the Irish population have literacy and numeracy difficulties. NALA advocates that a diverse range of organisations, such as financial institutions, MABS, statutory agencies, and adult education providers should come together to provide financial planning education, with IFSRA playing a key role in 'initiating, developing and co-ordinating' such a programme. IFSRA is conscious of the need to improve financial literacy in Ireland and has produced a simple 'plain English guide' to financial planning together with information on its website (It's Your Money).[10]

Many of the MABS officers and credit union representatives interviewed felt that financial literacy education needs to be part of the school curriculum, either through a civics type course or through outside speakers making presentations in the school.

[10] www.ifsra.ie

– Financial autonomy and self-help

A number of the MABS officers and credit union representatives felt that many people on low income are socially excluded and that often their only outlet for participation in wider society may be through consumerism. This is very disempowering for the individual, and provides a fertile ground for the business of the moneylender. The authors are of the view that financial autonomy is strongly linked to general autonomy. Therefore, any approaches to building financial autonomy must also focus on building general autonomy. We suggest a number of areas worthy of further investigation, research and experimentation.

Building capacity (DIY skills): A number of local authorities insist that housing tenants attend an information session incorporating a MABS presentation, before they are handed their keys. Could this information session be extended to the acquisition of certain useful DIY skills?[11] If this were possible, it would promote the maintenance of local authority housing and would empower the tenants through their development of their skill base and also their general autonomy.

Building capacity (healthy eating): The Combat Poverty Agency (2004) cite a study by Conlon and Friel (2004) which indicates that 'low-income families in Ireland consume lower levels of healthy foodstuffs and show lower levels of compliance with dietary recommendations and have poorer nutrient intake'. While an inadequate income is one of the problems, the Combat Poverty Agency also recommends the development of a food and nutrition policy, which 'addresses gaps in dietary knowledge and skills' and increases the 'capacity of people to choose healthier options'. Community development initiatives which build people's knowledge and skill with regard to food choice and preparation should be investigated and researched and best practice models documented. The idea of growing 'our' own food could be encouraged through community gardens or through the development of the family's garden. Children could be involved in such projects and there could be an educational element which places such a project within the wider social, economic and global context.

Building capacity (social capital and skill base): Possibly, 'Time Banks[12] also have a role to play in empowering people, developing skills and building social capital among low-income communities. Seyfang (2004) gives an account of a Time Bank operating in a deprived inner-city area of Glasgow in Scotland. He indicates that the Time Bank has a high number of unemployed participants and has achieved success in terms of building community capacity and social inclusion. He highlights a number of examples:

[11] Possibly the liability of the local authority as landlord makes this difficult.

[12] Time Banks were invented by Edgar Cahn in the US in the 1980s. Participants in a Time Bank receive time credit for any time they give to their neighbours or the community such as befriending, giving lifts, tutoring, small household repairs, gardening etc. Each hour of service given earns a time credit, and a broker finds participants to meet others' requests for help, and keeps track of the exchange of time credits. Credits can be redeemed by purchasing services from other participants, saved for the future, or donated to others.

> a woman … had waited a long time for social services to repair her kitchen, but when she joined the time bank, it was done immediately.
>
> an autistic member … receives one-to-one tuition that he would not get elsewhere; in return, he earns time credits by delivering leaflets.

Time Banks may also have interesting impacts on financial autonomy. As Seyfang (2004:67) states, some 'members joined the project to get work done on their houses and save money, and some had earned time credit but were saving them for a rainy day – literally building up a safety-net of credit and support in the community'.

Building asset base: Conaty and Bendle (2002:19) point to evidence that 'asset ownership is important in helping move households out of poverty'. Therefore, greater focus could be put on how to build the asset base of poor communities. Possibly a second round of the SSIA[13] which only targets low-income groups might help this sector to build their asset base. It should be noted that MABS, in association with Combat Poverty Agency, submitted an alternative to the SSIA in 2001 which was aimed at low-income families. The development of locally owned enterprises also has a role to play through social lending.

Possibly, also, tenant ownership rights over local authority housing should be considered. However, this can result in those with community and leadership skills buying out their houses and later selling on and moving out of the area, thereby leaving the community much worse off. Nevertheless, asset ownership, according to Conroy and O'Leary (2005:58) is important with regard to building a family's current and future wealth and security – in that a tangible asset can be passed on to the next generation, whereas a 'job cannot'. Conroy and O'Leary also highlight that it offers security against debt and cite an OECD report on indebtedness which found that in all but one country 'all those who own assets have no debt and those who have debt have no assets'.

To conclude, Ireland has a very good debt advice service in the form of MABS. And MABS is also developing a community education function to prevent people from falling into debt in the first place. While the credit union does provide an informal advice function to members, similar to MABS, members are most likely to receive advice *after* they have fallen into debt. Thus, there is a definite need for a preventative financial advice and educational service. Perhaps, a partnership between MABS, the credit union movement, the Irish Financial Services Regulator and the National Adult Literacy Agency is required.

[13] State-supported investment accounts, a savings incentive scheme in Ireland.

We also highlighted that other bodies outside the financial services sector and MABS have a role to play in building the financial autonomy of those on low incomes.

4.5 Current initiatives from credit unions – focusing on low-income groups

4.5.1 Studied credit unions

Special Budget Account: All the credit unions in this study participate in the Special Budget Account programme, initiated by MABS. This account allows the MABS clients to pay their creditors through the credit union. The advantages of this account are that its helps to break the link between the indebted client and the moneylender, it introduces the client to the credit union and it helps the client regain control over his/her finances.

Loan Guarantee Fund: MABS can discreetly guarantee small loans for up to €300. These loans are not issued to clear existing debts but are instead issued for emergency needs. Jones (2003) indicates that in the case of a real need, and in order to prevent the person reverting to a moneylender, MABS will help to negotiate a small loan in the credit union. According to MABS and the studied credit unions, this has worked well and there have been very low rates of default. In fact, Jones (2003) highlights that 'MABS loans are not granted easily' and are subject to the member's record and ability to repay. It should be noted that in some cases where loans become bad debts, the guarantee is not brought into effect. This may actually undermine the usefulness of the fund and, if it were to become regular practice, might make the guarantee meaningless. However, in this study the majority of the credit unions do, in fact, use the guarantee.

Social Fund: One of the credit unions studied (Charleville Credit Union) has introduced a special fund of €50,000 for small loans at a nominal rate of interest. To avail of this loan, members must be referred by MABS. MABS personnel meet the client and give him/her a contact name in the credit union. The client then goes to the credit union, asks for the person responsible, and the loan is issued immediately, without question. The purpose of the fund is to meet the emergency needs of people who may resort to moneylenders when an unforeseen need arises. The fund is still at a pilot stage and is in operation since early December 2004. The board of the credit union recognises and accepts that there will be some losses. One issue of concern, however, is that there does not appear to be any long-term procedure in place to transfer such members to the standard credit union loan service at the higher rate and normal conditions.

What is interesting about both of these initiatives is that they involve a partnership between MABS and the credit union. All the credit unions involved in this study indicated that they would be open to future initiatives with MABS in relation to meeting the needs of low-income groups. In Ireland, we are very fortunate to have such a developed money advice service in the form of MABS. Many European countries, as well as the US, do not have such an

established money and advice system and are looking to replicate the Irish MABS system (Korczak, 2004). Conaty and Bendle (2002:23) compare the situation of the US with Ireland, and indicate that 'money advice linkages are weak in the US and strong in Ireland, whereas the innovation in credit union product development for low-income groups is strong in the US while it is clearly weak in Ireland'. Credit unions do not actively seek low-income members and when people on low incomes do become members, services are not tailored to meet their specific needs. It is interesting to present a number of examples of community banking and credit union innovations[14] from the US and the UK (see Box 2).

Box 2 Various initiatives targeted at low-income groups

Individual development accounts
These accounts have been credited with encouraging people to help themselves and make a lifelong change in their behaviour. Individual development accounts (IDAs) are used to help people achieve educational and savings goals, which are typically linked in a single programme. These accounts are similar to the Irish SSIA accounts (state supported investment accounts), but are targeted only at those on very low incomes. Eligibility is dependent on income being below a certain poverty level. The participant saves a certain amount on a regular basis and the credit union matches the person's savings with a contribution of $1 to $4 for every dollar saved.

A study of IDAs found that they have a strong influence on behaviour and that even those on the lowest incomes are able to save. Some credit unions have created innovative solutions to help IDA participants to maintain and increase their savings, by offering an emergency loan fund that allows participants to borrow small amounts so that their savings account remains intact. Gallagly and Dernovsek (2000:49) state that, as a result of these strategies, credit unions offering IDAs reported that they helped people to really focus on building their savings.

Lending tied to education
A number of credit unions in the US offer small loans to members with a poor credit history, if they first agree to take part in financial management training. Once they qualify for loans, they must also agree to take regular refresher courses.

Community banking partnership
This is a pilot programme in the UK where the credit unions, community development finance institutions (CDFIs) banks and money advice agencies have come together to provide 'one-stop' services to the financially excluded. Brown, Conaty and Paterson (2005) highlight that because of the high costs involved, it is difficult for the credit union sector (where the amount it can charge for its credit is capped at 12.68 per cent APR) to serve fully those who are financially excluded. Therefore, a key element in this pilot programme is to charge a higher rate of interest, at 25 per cent APR. This is well below the moneylenders' rate but allows the CDFI to develop its services. Loans will be given out without a savings record and once the member develops a repayment record, future loan requirements of the member will be passed on to the credit union at the usual credit union interest rate.

[14] While there are also state innovations such as the UK Social Fund which are targeted at low-income members, here we are only interested in innovations that could be operational at the credit union level. For further information on the UK Social Fund and its relevance to Ireland, see Quinn and Ní Ghabhann (2004:46). Also see Quinn and Ní Ghabhann (2004:50) for a discussion of the Community Reinvestment Act in the USA.

Community development credit unions
Community development credit unions (CDCUs) originated in the US and were set up to serve those on low incomes. These organisations arose because traditional credit unions were not meeting the needs of low-income communities. They receive some state assistance for start-up costs and various funding for certain programmes. Many of these CDCUs have grown to a substantial size. Brown, Conaty and Paterson (2005) highlight that in 2002 American CDCUs had savings of $2.3 billion mobilised in disadvantaged neighbourhoods, new lending of over $1 billion advanced to members, over $300 million in interest saved (which otherwise would have been paid to predatory lenders), and dividend income of $37 million paid to members.

Predatory relief and intervention deposits
Predatory relief and intervention deposits (PRIDEs) is a special fund which community development credit unions can draw on and which allows them to give out loans to people who are indebted to predatory lenders. CDCUs can offer short-term, medium-term and long-term PRIDE loans with interests ranging from 3½ , 4¾ and 5 per cent respectively (Quinn and Ní Ghabhann (2004:50).

4.5.2 Best practice factors

The following best practice factors are taken from a number of reports (Gallagly and Dernovsek (2000); Brown, Conaty and Mayo (2003); and Burger and Zellmer (1995)) which focus on the potential of credit unions to meet the needs of low-income groups.

- **Be innovative**

Writing from an American perspective, Burger and Zellmer (1995:9) assert that, if credit unions are to serve low-income groups in a cost-effective way, they 'must be innovators'. Conaty and Bendle (2002:23) maintain that Irish credit unions have been weak innovators in terms of developing products for low-income groups. O'Connor, McCarthy and Ward (2002) indicate that innovation in the credit union has been driven by the desire to improve efficiency rather than based on members' needs. They point out that many of the services recently introduced by credit unions are already widely available in other financial institutions. They conclude their study with the following question:

> most of the services recently introduced (in the credit union) are widely available through other financial institutions … rather than look at what banks and other financial institutions are doing, would credit unions' interests be better serviced if they took time to identify what these financial institutions are not doing and at who they are excluding?

- **Price the products according to costs and risks**

Brown, Conaty and Paterson (2005) highlight that meeting the needs of financially excluded people is a costly business, as these members need greater one-to-one contact and also pose a higher risk. They present the

business dilemma for the credit union by comparing various types of transactions and the number of members that can be served with limited financial resources and time.

With £5,000 and 750 hours per annum, the credit union can use the resources in any of the four following ways:

Types of accounts	*Transaction 'costs'*
Payroll accounts	1000 members
Standing orders	750 members
Cash transactions	500 members
Financial exclusion services	100 members

For the credit union manager, who has to meet business targets, the dilemma is clear. Therefore, Brown, Conaty and Paterson (2005) indicate that unless credit unions can charge a higher rate, it will be difficult for them to offer services targeted at the financially excluded. Gallagly and Dernovsek (2000:33) and Burger and Zellmer (1995:24) are of the same view. They state that 'credit unions must approach the issue of expanding services to low- and moderate-income individuals as a business proposition, and not as charity'. They assert that this approach will 'engender competition' and thereby benefit low-income groups with lower prices and a better service. A programme that is developed as a charity will often mean that the services are provided below cost, resulting in an over-utilisation of the service and acting as a continued drain on the credit union. This offers no incentive to the credit union to expand the users of such a service. In the long run, they predict, the decision will usually be to 'discontinue' the service.

None of the credit unions studied would be willing to charge a higher price for riskier accounts. And the social fund recently developed by one of the credit unions charges a nominal rate of interest. The problem with this is that there is no incentive for the member to move on to the mainstream credit union loan.

- **Develop products which encourage changes in financial behaviour and which build financial autonomy rather than mimic moneylender services**

Burger and Zellmer (1995:26) also highlight that credit unions must 'not just mimic' the service offered by moneylenders but must develop products to 'change financial behaviour' and increase financial autonomy. Therefore, such services should be viewed as a transition into the mainstream financial system.

- **Make savings a key part of the pack of services offered**

Gallagly and Dernovsek (2000) and Burger and Zellmer (1995) highlight the importance of encouraging members to save before and during borrowing. They assert that it is only through savings that the member will learn how to use and repay credit.

- **Build commitment in the credit union**

Burger and Zellmer (1995) highlight the importance of building commitment at all levels in the credit union to the philosophy of serving low-income groups. They argue that while it may not be necessary to alter the structure or composition of the board, it is necessary that the board is committed to making the policy changes required to meet the needs of low-income groups.

- **Be prepared for more one-to-one effort and involve them in the development of services**

Much research highlights the fact that low-income members need more one-to-one contact and a greater degree of financial advice and education to encourage the take-up and use of financial services. It is also stressed that it is important to involve the people who are being served in the design of the services.

- **Build links with other community groups**

Gallagly and Dernovsek (2000:27) point out that if a credit union wishes to develop a plan to meet the needs of low-income groups, it needs to form strong links with other community organisations, local businesses and local government. We found that the links of the studied credit unions to other community groups tend to be weak and of an informal nature, e.g. where a credit union volunteer is also a volunteer in another community organisation. Gallagly and Dernovsek (2000:29) indicate that the credit union will want to draw on as 'many allies as possible' in developing alternatives to the moneylender.

- **Targeted marketing and education**

Gallagly and Dernovsek (2000:64) highlight a number of factors to consider when designing education programmes for low-income members (see Box 3).

Box 4.3 Best practice factors for educating financially excluded people about financial services

- *Recognise that some members may have minimal literacy skills:* Explain everything in the simplest possible terms; don't use jargon and speak in cash terms rather than APRs.
- *Start fresh with every member*: The goal is to ensure that nothing is assumed about the member's financial background or understanding.
- *Use concrete examples*: Tell members exactly how much they will save by using a credit union loan instead of a moneylender loan, for example.
- *Include information about how to qualify for loans, in financial education efforts:* This helps members anticipate the changes that must be made before they apply for the loan, rather than waiting until after their loan application is rejected.
- *Make it easy to make deposits and payments:* This can be done through, e.g. ATM cards and EFT payments.
- *Emphasise the value of steady deposits*: Indicate how share accounts can grow from very small amounts.
- *Reinforce key messages constantly*: Changing habits takes time. Changing financial habits also takes fortitude, especially when it requires

giving up short-term pleasures for long-term benefits. Take every opportunity to reinforce the value of good financial habits.

To conclude: In this section we examined the current initiatives of the studied credit unions which were specifically targeted at low-income members. Apart from the pilot Social Fund in Charleville Credit Union and the MABS Special Budget Account, the studied credit unions are not offering any specifically targeted services to low-income members. However, the credit unions are open to developing initiatives, in particular with MABS. It is the view of the researchers that all the credit unions studied would be open to developing special services for low-income groups, but at present have no best practice models to follow or even to work from. Therefore, a 'showcase' of international best practice would be very encouraging and welcomed by these credit unions and by MABS.

4.6 Conclusion

Section Four focused on analysing the credit union service and, in particular, the credit union loan service, in terms of the extent of its contribution to financial inclusion. It also compared the credit union and moneylender service in terms of meeting the needs of low-income groups. Apart from the convenience of the moneylender loan over the credit union, there is also a key difference in the nature of the credit. The credit union loan could be categorised as 'premeditated or considered' borrowing, whereas the moneylender's loan is closer to 'impulse' or 'emergency' borrowing. Best practice from the US would indicate that it is necessary to move people from impulse to slow and budgeted credit.

However, both the credit unions and MABS pointed out that at certain times, such as in emergencies, people need money very quickly and the credit union is often too slow. Charleville Credit Union is currently running a pilot Social Fund, which was set up to address this particular need. At present this fund is only available to MABS clients. While the credit union loan would appear to be accessible, in normal circumstances, the credit union is not proactively marketing itself or its benefits to low-income communities. Best practice highlights the importance of one-to-one contact and education for those who are in danger of financial exclusion. While the credit union does provide informal education, it does not provide any structured education programmes.

Therefore, the major shortcoming of the credit union would appear to be its limited marketing to all members, and in particular, to low-income groups. Another, related, issue is that it does not gather data on its members and thus cannot systematically monitor if it is meeting the needs of certain segments of its membership, such as low-income members.

5. Conclusion and Recommendations

The purpose of this research was to determine the extent of moneylending in a number of communities and to examine the credit union service in terms of financial inclusion. The study also placed particular emphasis on comparing the service offered by the credit union with that of the moneylender.

The extent of moneylending was estimated in two communities. It was found that 35 per cent of respondents out of a sample of 253 people are currently borrowing from moneylenders. Of these, 65 per cent are also currently borrowing from other sources such as the bank, building society, credit union or through a credit card. It is often put forward in financial exclusion literature that people who borrow from moneylenders are financially excluded. However, our results show that this is not the case for a significant number of people.

Nevertheless, it must not be forgotten that 35 per cent (31) of respondents who are currently borrowing from the moneylenders are not borrowing from any other mainstream sources. When this group was examined it was found that 11 of them are credit union members. While some had borrowed in the past from the credit union, others had never borrowed from the credit union. From their responses, it would appear that some of these have self-excluded themselves, as a result of incorrect perceptions of the credit union. These credit union members are within the financial system and thus, through targeted marketing, may become more included. Two-thirds of those who are currently borrowing from moneylenders only are not members of a credit union. Again, when the comments made by this group are examined, it is clear that some of these are also excluding themselves because of incorrect perceptions of the credit union. Targeted marketing may also greatly help here.

From our sample, credit union membership would appear to be comprised of a significant percentage of low-income members. We found that 69 per cent of all the unemployed respondents are members of the credit union. Forty per cent of these are currently borrowing from a credit union. While recognising that the credit union does have a high percentage of low-income members, it does not appear to actively provide targeted services or products for them. While it may not be necessary to offer special services, it would be in both the members' and the credit union's interests that the credit union help these low-income members to build their financial autonomy through proper use of credit union services and through education. This is in line with the credit union philosophy of improving the welfare of their membership through self-help.

It should also be noted that credit unions do not store information on the socio-economic or ethnic background of their membership. This means that the credit union cannot easily demonstrate to outside bodies or to itself how it is performing in relation to financial inclusion. It also hampers the credit union's ability to develop targeted marketing.

The study set out to compare the service of the credit union with that of the moneylender in terms of meeting the needs of low-income groups. Firstly, the nature of credit offered by both would appear to be very different. In terms of the credit union, credit is of a more 'premeditated or considered' nature while moneylender credit tends to have more of the characteristics of 'impulse-borrowing'. Best practice from the US indicates that credit unions should not 'mimic' the products offered by the moneylenders but should develop products that 'change financial behaviour' and bring people into mainstream banking.

However, on occasions, people need money very quickly for an emergency, and the moneylender is better able to meet that need than the credit union currently is. This is a crucial point. Can credit unions come up with an innovative product or system that allows people to access small loans in times of crisis quickly? Charleville Credit Union's pilot Social Fund may be one way of approaching this issue. Further discussion between credit unions and MABS should help with the development of such services. Those who will be the future users of such services should also be consulted.

Credit unions appear to be moving slowly away from issuing small loans. Nevertheless, very small loans are still issued. The credit union needs to continue to offer these small loans, or it may well be excluding a large section of its current and potential membership. It is also in the credit union's own long-term interests. US credit unions are now beginning to recognise that all financial institutions, including themselves, are chasing the same market – the middle classes. In the process, credit unions are finding that they are losing their distinctiveness and competitive advantage. To a low-income member, the credit union is a true friend and a life-line, as many of our survey quotes highlight. To a middle-class member who has access to several sources of mainstream credit, the credit union may well be just another provider. The former type of member will form a bedrock of loyalty for the credit union, whereas the latter may not have the same sense of loyalty. However, if the credit union is to grow and thrive, both types of member are needed.

In terms of general banking, the credit union service is limited as it does not offer electronic funds transfer (EFT) services. However, we pointed out that one of the studied credit unions is currently running an EFT pilot programme and is hopeful that it will be able to process social welfare payments. There also appears to be a belief in the credit union movement that EFT facilities are for students and middle-class members. On occasions, it is said that credit unions need to concentrate on less well-off members and have less of a focus on technology. However, the authors are of the view that EFT is even more crucial for low-income and social welfare participants than it is for other members who are already well established within the financial system.

Ireland is privileged in that it has an excellent money and debt advice infrastructure in the form of MABS. One of the key strengths of MABS is that it has a close relationship with the credit union movement. MABS and the studied credit unions highlighted that they would like to develop targeted initiatives for low-income groups. During the course of this research one credit union was operating a Social Fund on a pilot basis and another was in

preliminary discussions with MABS in relation to potential initiatives between the two. The researchers felt that both MABS and the credit unions are very open to initiatives and are very interested in developing programmes. However, these bodies need models from which to work. Therefore, a show-case of best practice models from both an Irish and international perspective would be useful.

One of the major questions for the researchers was: With such a strong and widespread credit union movement, why do we have an established and thriving moneylending business in Ireland? One possible reason is that the moneylender has a highly targeted approach and a very effective marketing system in place, where the agent is always nearby and can spot a borrowing need even before the customer does, or can plant such borrowing needs in the customer's mind. This could also be said of much of the aggressive marketing from the mainstream banking sector. In a sense, both moneylenders and mainstream banks are educating the low-income person towards impulse borrowing. The credit union, on the other hand, is trying to encourage people towards thrift and slower or 'budgeted-for' borrowing.

However, while the moneylender and aggressive marketing from the banking sector are strongly educating people towards impulse borrowing, the credit union is countering this on an *ad-hoc* and passive basis. Many credit union members are learning from their transactional dealings with the credit union, but those who are borrowing from moneylenders clearly need a more proactive educational approach. We highlight a number of innovative approaches from Jones and Barnes (2005) such as the idea of a 'financial buddy' and the use of personal stories as an educational tool that could be explored within an Irish context.

Our overall conclusion is that Irish credit unions are providing a very good service. It is interesting to note that many of the 'financial inclusion' suggestions recommended for traditional US credit unions are items such as reduced charges and lower minimum share. Irish credit unions are already achieving these. So it could be said that traditional US credit unions are being encouraged to return, at least to some extent, to the point where Irish credit unions are currently operating. Therefore, Irish credit unions must be careful that they do not totally follow the path of the US credit unions, and discover at some future point in time that they need to return to where they are today.

On occasions we felt that the credit union is doing the *right things*, but it does not effectively or coherently market this. Therefore we would recommend that the credit union needs to greatly improve marketing to all groups but in particular to low-income members and communities. It must also ensure that its marketing is effectively targeting its audience, by using a content and language that relates to the daily financial routines and reality of low-income members.

In terms of research, we are of the view that the financial exclusion literature is over-focused on access issues, with only limited and fragmented attention given to issues of utility of financial services and of course financial autonomy.

As a number of researchers (Jones and Barnes, 2005; Gloukoviezoff, 2004) have highlighted, if access is increased without a corresponding focus on increasing financial literacy and autonomy, then moneylending will continue. However, as we pointed out earlier in this report, credit unions, other financial institutions and MABS alone cannot build the financial autonomy of low-income members, as this is a much wider societal issue and therefore requires policy initiatives at national level.

Recommendations

– Credit Unions

- Develop a targeted marketing campaign which uses varied and innovative approaches to target low-income members. The use of content and language must relate to the everyday financial routines and reality of living on a low income.

- Develop and introduce targeted educational programmes. Formal, class-based training does not appear to have great success with those who are financially excluded. Use innovative approaches such as incorporating personal stories into material and into discussion-group formats. Also consider the 'financial buddy' approach discussed in Jones and Barnes (2005).

- When developing targeted marketing and education programmes or products and services, consult with people from the targeted communities.

- Ensure that they still continue to offer small loans. If they do no, they will be excluding a large section of the membership and potential membership.

- Begin to store socio-economic data and other useful details on the credit union database. Without such data it is difficult to develop targeted marketing or educational programmes.

- Consider how they could offer emergency loans. Charleville's Social Fund should be evaluated and lessons learned should be shared throughout the credit union movement.

- When developing a service for indebted members, price the service according to cost and risk and view the service in business rather than charity terms. Best practice indicates that unless this approach is taken, the service will not develop.

- Consider how they can increase the one-to-one contact with those members who require such contact. Because of the high number of daily transactions, this can prove difficult. In the US, select committees are formed which consist of personnel and representatives of the targeted group.

- Put particular focus on encouraging those who are working in the home to become members of the credit union. These are usually the financial managers in the household and if they are not members of the credit union, more than likely the rest of the household will not be members either.

- Focus on developing the electronic funds transfer (EFT) facilities. This is particularly important for welfare-dependent members.

- Develop budget accounts for the general membership. These accounts can be of particular importance to people on a low income.

- Promote small and regular savings among their membership and, in particular, among low-income members.

- Carry out a social audit to determine how well credit unions are meeting the needs of all their members.

- Initiate discussions with local MABS offices in terms of developing products and services that serve low-income and indebted people. Share any models that are developed with other credit unions and MABS offices.

– National credit union movement – representative organisations

- Develop and disseminate a database of examples of Irish and international best practice models in terms of combating financial exclusion through credit unions and other community-banking institutions.

- Mainstream any successful pilot exercises. The ILCU are currently working with OPEN (One Parent Exchange Network) and MABS in developing advertising material to increase credit union awareness and combat moneylending. This is a pilot exercise with four credit unions involved, two of which were participants in this study – Tralee and Ennis Credit Unions. Once evaluated and if found successful, this pilot exercise should be mainstreamed to other credit unions.

– MABS

- Include a wide range of partners, such as the schools, credit unions, NALA, IFSRA and state agencies in the development and delivery of its programmes.

- Initiate discussion with local credit unions in terms of developing products and services that target low-income groups and indebted people.

– National policy

- Commission research that quantifies the extent of legal and illegal moneylending in Ireland.

- Commission research on the analysis of the long-term social and economic impact of moneylending on low-income households and communities.

- Ensure that MABS is well resourced by the state, in terms of meeting its community education platform objectives.

- Ensure in every possible way that moneylending decreases rather than increases in Ireland. While the nature of moneylending would not appear to be as diverse or as well established as it is in other countries, there is no room for complacency.

- Consider introducing financial literacy education in schools.

- Review welfare supports. Many of the MABS officers highlighted that social welfare income is not adequate and that people have to borrow to make up the shortfall.

- Commission research on the relationship between financial autonomy and general autonomy and on the factors that inhibit or facilitate such autonomy.

- Carry out an audit on mainstream financial services in Ireland to determine how such services facilitate 'access' and 'use'.

- Increase the pressure on mainstream financial institutions to be actively involved in developing products and services that facilitate financial inclusion.

– Research on financial exclusion

- Develop financial exclusion indicators for Ireland.

- Maintain the essential focus on access and provide a corresponding focus on the use of financial services and on financial autonomy.

APPENDIX

Table A1 Respondent demographics

Total Number Surveyed n = 253		
Age		
18-25	49	19%
26-35	86	34%
36-45	54	21%
46-55	27	11%
56-65	9	4%
65+	3	1%
No reply	25	10%
Gender		
Male	39	15%
Female	183	72%
No reply	31	12%
Employment Status		
Part-time employment	38	15%
Full-time employment	48	19%
Unemployed	83	33%
CE/FÁS Scheme	13	5%
Student	3	1%
On home duties	14	6%
Retired	7	3%
No reply	47	19%
Marital/child status		
Married/cohabiting with no children	3	1%
Married/cohabiting with children	62	25%
Single with children	116	46%
Single with no children	26	10%
No reply	46	18%

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