Financial Inclusion Commission – Call for Evidence

Response from the Association of British Credit Unions Limited (ABCUL)

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Executive Summary

Our response can be summarised in four separate but interlinked areas:

- Credit unions, affordable credit and the importance of saving
- Credit unions' sustainability challenge
- Structural challenges to financial inclusion
- Monitoring the financial inclusion landscape

Credit unions, affordable credit and the importance of saving

Credit unions are well-known for providing a source of affordable credit in competition with high-cost lenders such as doorstep and payday lenders. The most notable foray into this field took place under the previous government's Financial Inclusion Growth Fund which provided £175 million for on lending to some of the most-excluded groups in society and saved loan recipients between £119 million and £135 million in foregone interest repayments.[1] Around 90% of the Fund was delivered via credit unions. Credit unions, as co-operative financial institutions motivated purely by the needs of their member-customers and operating under an interest rate cap (42.6% APR), are ideally placed to continue to provide a source of affordable credit as they continue to grow past serving one million people and total lending of around £672 million. While the current scale of credit union lending remains small relative to total consumer lending, they are the leading providers of affordable credit to those facing financial exclusion. CDFIs focus their efforts on lending to small businesses and lent only £19 million in personal lending to the same market as credit unions in the last year.[2] Given that much of this is short-term lending of less than a year, the full loan book is likely to be significantly smaller still.

In order to assist people to transform their financial resilience and become truly included, however, more than simply a cheaper form of credit is needed. Crucially, the accumulation of savings to be held against future emergencies and to smooth peaks and troughs in expenditure can short circuit the need for repeated borrowing. Savings therefore are the ultimate route out from a cycle of perpetual debt and financial instability.

Being unique as deposit-taking institutions serving the excluded market, credit unions play a critical role in the promotion of saving in a number of ways, most notably:

- requiring members to save something every month

1 Personal Finance Research Centre, Bristol University & Ecorys, "Evaluation of the DWP financial inclusion Growth Fund", December 2010: http://www.bristol.ac.uk/geography/research/pfrc/themes/finexc/growth-fund.html

2 CDFA, "Inside Community Finance" December 2014: http://www.cdfa.org.uk/wp-content/uploads/2010/02/CDFA-ICF-Report-2014.pdf

- requiring members to save during the repayment of loans
- embedding their services in employment contexts via payroll deduction

All of these methods are proven to have transformative potential and should be recognised, supported and promoted by those working in the financial inclusion field. Only through helping people to save and thereby break the cycle of borrowing and debt can financial inclusion extend beyond remedial interventions. Credit unions have a unique capacity to deliver this as deposit-taking institutions with a financial inclusion mission.

An ideal way of extending credit unions' role in this (as well as supporting remedies to the sustainability challenge, as set out below) would be for government to commit to making payroll deduction available to all public sector workers and to encourage the private sector to do the same.

Credit unions' sustainability challenge

For many years credit unions in the UK have failed to replicate the successes of credit union systems in other parts of the world. While in some parts of the world credit unions provide services to 20, 30 or 40% of the population and play a critical role in providing choice and competition in banking, credit unions in the UK serve only around 2.5% of the population and remain a minority concern. One of the major causes of this stunted development has been credit unions' failure to professionalise fast enough which has been driven by their subsidy as a charitable pursuit or welfare state intervention.

Continual subsidy and revenue support has not only stunted the sector's development but also it has left the sector vulnerable to the withdrawal of support. This is exactly what has happened with the ushering-in of austerity after the financial crisis and the resultant fall in available grant support for credit unions and other such organisations. This has applied unprecedented pressures to the credit union business model. If credit unions are to thrive, therefore, and to guarantee their existence for the future they need to become sustainable so that they are able to fund their operations and required future investments from their own trading.

Achieving sustainability while continuing to serve the needs of the financially-excluded is no small challenge. Key to success in other countries has been a recognition that credit unions must have a mixed membership which does not exclusively focus on those in financial difficulty or exclusion. To do this requires a competitive range of products and services which meet people's needs and are underpinned by credit unions' ethical commitments and member-focus. However, while most credit unions remain small institutions the costs of providing competitive products and the requisite infrastructure is likely to remain outside the reach of individual entities. Therefore collaboration between credit unions will be crucial as it has proven in other parts of the world. This is what the

Credit Union Expansion Project seeks to begin with the procurement of a shared IT banking platform and the development of a shared way of working. Such initiatives must be developed and expanded for credit unions in the UK to achieve their internationally-proven potential.

Other measures which would support the credit unions' sustainable development include:

- capital investment and social investment as opposed to revenue subsidy
- the provision of expertise through corporate volunteering
- the introduction of resolution procedures to deal with failing credit unions
- the clarification of credit union legislation
- the provision of training and professional development for credit union boards and management

Structural challenges to financial inclusion

Credit unions' attempts to extend inclusive financial services, as well as those of others, are also hampered by a number of structural barriers which we feel the government ought to seek to remedy (where it is not already). These fall into a number of areas:

- *Access to banking and payment systems for small providers such as credit unions* – currently credit unions find difficulty in securing banking and investment services as well as accessing transactional banking and payment services to underpin their offer to their members. While efforts such as the Payment Systems Regulator are welcome in this respect, more needs to be done to address the unintended consequences of banking regulation such as anti-money laundering and Basel liquidity rules as well as urgent attention into the free-in-credit banking model which stymies competition and is partly funded on the backs of the poorest and most-vulnerable consumers.
- *Improve the availability of credit data* – credit unions regularly complain that a full view of individuals' financial and debt position is not provided by the current commercial credit referencing regime. Too few sources of data are referenced leaving rent and utility debts un-seen and without access to real-time data on payday debts. Credit unions involved in the Credit Union Expansion Project have worked with Experian to develop a bespoke credit union credit scoring system which uses credit unions' own lending data and also uses tailored credit union risk parameters. The aim of this is to improve the efficiency of credit decisions in credit unions while also ensuring credit unions' typical borrowers are not unfairly excluded and are also able to develop a credit history. We hope that steps can be taken, perhaps through a centralised credit register, to enhance the wider credit data system.
- *Credit unions' position in personal insolvency* – credit unions are disproportionately impacted by personal insolvency as they seek to provide credit facilities to those who are facing exclusion and overindebtedness. As such, measures to redress this balance

would be very helpful to assist credit unions who are operating in this market with extremely tight margins.

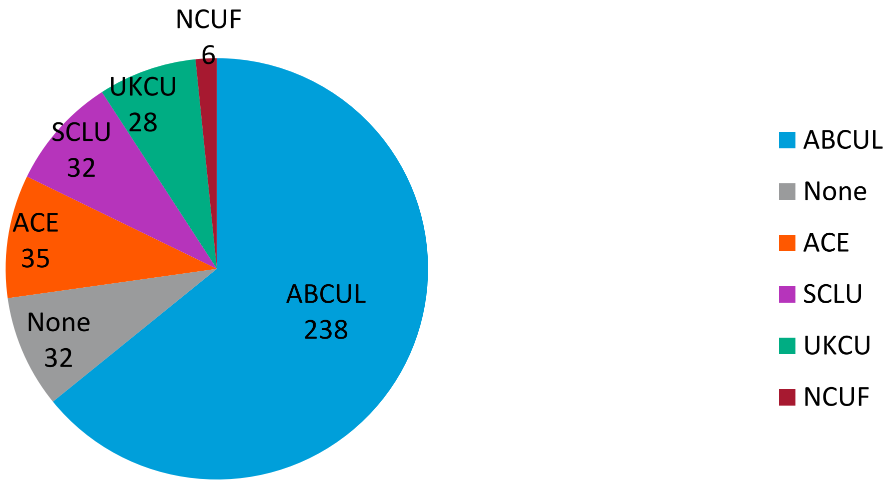
Monitoring the financial inclusion landscape

We would also like to suggest that the Commission considers the ways in which financial inclusion should be monitored in future. The Financial Inclusion Taskforce focussed on monitoring access to bank accounts and there have been marked improvements on this metric over a number of years. This is to be celebrated. However, we are concerned that some of the ways in which consumers face exclusion are not being monitored closely enough allowing exclusion to grow unnoticed as the mainstream shrinks.

Many financial services have adopted a policy of flight to quality since the financial crisis as a result of multiple factors including the increased burden of regulation, the de-risking of balance sheets and the extraordinary monetary policies which buoy the market. As such, the conditions for securing services such as bank accounts, overdraft facilities and credit cards have been tightened over time and the consequent reduction in the availability of credit has been partly to blame for the explosion of pay day lending in the same period. We feel that if financial inclusion is to be effectively monitored in future, steps should be taken to keep track of such metrics in order to gain a richer picture of the landscape and the less-obvious ways in which people face exclusion and limited options.

Introduction

We appreciate the opportunity to respond to this consultation. The Association of British Credit Unions Limited (ABCUL) is the main trade association for credit unions in England, Scotland and Wales. Out of the 338 credit unions which choose to be a member of a trade association, 70% choose to be a member of ABCUL. The following chart shows the breakdown of credit union trade association affiliation.



Credit unions are not-for-profit, financial co-operatives owned and controlled by their members. They provide safe savings and affordable loans. Some credit unions offer more sophisticated products such as current accounts, ISAs and mortgages.

At 31 December 2013, credit unions in Great Britain were providing financial services to 1,122,461 people, including 126,217 junior savers. The sector held more than £1.1 billion in assets with more than £676 million out on loan to members and £949 million in deposits.[3]

Credit unions work to provide inclusive financial services has been valued by successive Governments. Credit unions' participation in the Growth Fund from 2006 – 2011 saw over 400,000 affordable loans made with funding from the Financial Inclusion Fund. The DWP has contracted ABCUL to lead a consortium of credit unions under the Credit Union Expansion Project, which will invest up to £38 million in the sector and aims to make significant steps towards sustainability.

The credit union sector has also enjoyed the support of the Coalition Government specifically as part of its commitment to promote mutuals and competition and diversity in financial services. This was most-recently illustrated by the HM Treasury Call for Evidence *British Credit Unions at 50* which sought views on what Government and wider society can do to support the expansion and development of credit unions in order to provide more competition in financial services.

[3] Figures from unaudited quarterly returns provided to the Prudential Regulation Authority

Consultation questions

As the main trade association representing credit unions in England, Scotland and Wales, we focus our response on how credit unions can be supported to play a greater role in providing financially-inclusive services and the role credit unions can and do play in supporting financial inclusion.

General

Q1. What policy change would most support increased financial inclusion for the client group you represent?

Credit unions can play a crucial role in extending financial inclusion through providing access to affordable credit, encouraging the development of a savings habit and providing a range of other financial services such as transactional banking products, insurance, and in some cases, mortgages.

There are a number of policy interventions which we believe would continue to support the growth and resilience of credit unions, thereby enabling them to extend further their role in financial inclusion. Our key insight here, however, is that in order to maintain and guarantee credit union services for some of the most vulnerable groups in society, credit unions need to be supported to become self-sustaining financial institutions. Many years of revenue support and subsidy has stunted the development of British credit unions by diverting attention away from the need to build a sustainable business and towards attracting further support. This has presented particular difficulties in the context of austerity as many credit unions today face significant pressure due to reduced or withdrawn financial support.

ABCUL's response to the HM Treasury Call for Evidence *Credit unions at 50*[4] sets out in full detail the measures we feel would best support credit unions to play a full and effective role in financial inclusion as sustainable organisations.

Q2. What do you see as the role of the regulator, government, and financial services in promoting financial inclusion?

We see the role of regulator, government and financial services' in promoting financial inclusion as putting in place the conditions in which financially-inclusive services can be delivered sustainably. We are concerned that the effect of subsidy can undermine sustainable solutions and create dependency and a vulnerability to withdrawal.

4 ABCUL, "Credit unions at 50: a call for evidence. Response from ABCUL", September 2014 http://www.abcul.coop/media-and-research/consultations/hmt-credit-unions-at-50

We have set out in a recent response to the HM Treasury Call for Evidence on credit unions the measures we feel would support the sustainable expansion of credit unions and these can be summarised as follows:

Government

- Clarify credit union legislation to enable credit unions to have broad powers to meet their members' financial needs
- Introduce enhanced resolution procedures for failing credit unions
- Address pressures on credit unions' access to banking services
- Acknowledge credit unions' disproportionate exposure to bad debt in personal insolvency
- Encourage capital investment and social investment in credit unions
- Continue to support collaboration between credit unions and shared business models

Regulators

- Improve access to payments systems for credit unions
- Improve access to credit data to enable responsible lending decision-making
- Maintain proportionate treatment of credit unions under dual-regulation

Financial services and wider society

- Provide expertise through corporate volunteering
- Support the provision of training and development for credit union staff & volunteers
- Support links with employers through payroll deduction

Crucially, credit unions need to provide competitive services in order to enable them to attract a range of members in support of their own sustainability. Collaboration between credit unions will be critical in achieving this as under the Credit Union Expansion Project.

Q3. Do you have any practical examples of financial inclusion initiatives that have been successful?

The Labour Government's Financial Inclusion Growth Fund was a resounding success in providing £175 million in affordable loans to those who would otherwise have no option but to use high-cost credit. 90% of this was delivered by credit unions and the initiative saved loan recipients between £119 million and £135 million in interest that would otherwise have been paid to expensive lenders.[5]

However, while the Fund was very successful in supporting the supply of affordable credit while it lasted, it also had the effect of skewing participating credit union business models towards serving almost exclusively those facing exclusion and on the lowest incomes. The scheme's discontinuation under the Coalition government left many credit unions facing difficulty in sustainably continuing this business. It is in this context that the Credit Union Expansion Project seeks to support sustainable credit union development.

Other noteworthy and successful initiatives indicative of credit unions' role in financial inclusion include:

- A partnership between Leeds City Credit Union and Leeds City Council in providing affordable credit as part of a wider financial inclusion strategy which saw a ten-fold return for the area on investment in the credit union through interest savings.[6]
- The London Mutual Credit Union development of a CUOK! affordable payday loan product which, alongside dramatically-reduced interest payments, permits repayment of loans over a period of up to three months.[7]
- Credit unions such as 1st Alliance Ayrshire have developed comprehensive partnerships with social landlords to provide financially-inclusive services and support the transition to Universal Credit.
- Credit unions such as Manchester Credit Union and South Manchester Credit Union have entered into partnership with local authorities to deliver emergency loans for residents under the devolved social fund arrangements.[8]

Digitisation, squeezed budgets and welfare reform

Q4. What impact, positive or negative, does the increasingly digital delivery of financial services (e.g. prepaid cards, online banking) have on financial inclusion?

5 Personal Finance Research Centre, Bristol University & Ecorys, "Evaluation of the DWP financial inclusion Growth Fund", December 2010: http://www.bristol.ac.uk/geography/research/pfrc/themes/finexc/growth-fund.html

6 Salford University, "Financial Inclusion Initiatives. Economic impact and regeneration in city economies – the case of Leeds", October 2009: http://usir.salford.ac.uk/19122/1/ec_impact_report_final_web_version.pdf

7 Financial Inclusion Centre, "Can payday loan alternatives be affordable and viable? An evaluation of London Mutual Credit Union's pilot scheme", June 2013: http://inclusioncentre.co.uk/wordpress29/wp-content/uploads/2013/09/Can-payday-loan-alternatives-be-affordable-and-viable-Final-Report.pdf

8 Manchester City Council, "Welfare Provision Scheme", April 2014: http://www.manchester.gov.uk/download/downloads/id/21680/welfare_provision_scheme_policy

We believe that the effect of digitisation is both positive and negative. Certain groups – generally older people – rely heavily on cash and face-to-face transactions and so the gradual withdrawal of such services and their replacement with digital delivery channels presents challenges here. Most credit unions working in communities maintain a highstreet branch presence in order to address this need. However, the costs of maintaining such services are high and in order to do so sustainably, credit unions need to ensure they have sufficient income from providing a competitive service and attracting a diverse range of members.

On the other hand digital delivery, online and mobile in particular, is preferred by younger demographics as is evident in the rise of online lenders such as Wonga. Credit unions need to be developing digital delivery which will enable them to appeal to broader sections of society and attract younger members. This is both with a view to bolstering the sustainability of the credit union but also engaging younger members who are at risk of financial exclusion but prefer to receive services digitally. As such, the Credit Union Expansion Project and other initiatives taking place in the sector seek to ensure that credit unions are able to deliver their services through digital channels while maintaining a physical presence.

Q5. What opportunities are there to use technology to facilitate financial inclusion?

As above, technology can enable younger groups to access affordable and inclusive financial services alongside the likes of online payday lenders and other exploitative providers. They can also assist credit unions in becoming more efficient and managing costs in order that they can develop sustainably and guarantee their services for the future. The key challenge in delivering such services, however, is the high costs of investment in the required infrastructure and resources in order to enable their delivery. Since credit unions are generally small institutions with limited investment capacity – both here and internationally – the best means of delivering such services and systems is through collaboration between credit unions. The Credit Union Expansion Project seeks to harness the benefits of collaboration in order to enable the digital delivery of credit union services.

Q6. How has the financial downturn changed the nature of financial exclusion?

The financial downturn has resulted in multiple factors of relevance to financial exclusion:

- a move up-market by lenders and a resulting reduction in the availability of credit has fed a growth in high-cost lending, most notably through payday lending but also with doorstep, rent-to-own and other lenders
- pressure on banks' business models has led them to reduce and restrict the availability of basic bank accounts

* significant pressure on the personal finances of low-paid workers due to stagnant wage growth alongside persistent inflation
* a significant tightening of welfare benefits under welfare reforms.
* the business models of financially-inclusive providers such as credit unions have faced substantial pressure due to multiple factors:
  * low propensity to borrow among those on higher-income;
  * rising bad debts;
  * low interest rate environment squeezes investment income;
  * grant and other support from partners is limited.

In our view, more can be done to monitor and evaluate the impact of the shrinking mainstream in financial services. We believe that a major factor in financial inclusion in recent years has been the fight to quality of the mainstream providers but this does not attract sufficient attention due to the ways in which such services are being withdrawn. Through tightening criteria around the income levels required for a bank account or those who are provided with arranged overdrafts or mainstream credit cards, credit and banking services have been progressively withdrawn in recent years and this has fuelled an increase in non-mainstream borrowing. We suggest that more should be done to monitor these forms of withdrawal from the market.

Q7. What is the impact of welfare reform on financial inclusion and what support should be available to people as a result?

In general, the impact of welfare reform has been to reduce and restrict the financial means available to those who rely on welfare benefits for their subsistence. This has the effect of increasing these groups' need to borrow in order to manage financial peaks and troughs and the temporal mismatch between income and expenditure. This has fed an increased use of alternative borrowing facilities and has the potential to exacerbate overindebtedness.

The other key change proposed under welfare reform is that of requiring claimants to manage their financial affairs much-more readily than currently required as part of Universal Credit (UC). Through making UC payments monthly and paying housing benefit direct to the claimant, rather than to social landlords, claimants will be required to manage their affairs in a different way. Many credit unions are working with social landlords and local authorities to ensure that UC claimants have the appropriate budgeting support and facilities in order to help them make the transition to UC and manage other welfare reforms.

Transactional banking services

Q8. What transactional services do households on low or unpredictable incomes, or who have experienced a life shock, need and want?

Households on low and unpredictable incomes require certainty and surety from a transactional banking service. While there have been some improvements around the levels and charging policies of bank account penalty fees, there remains work to be done in ensuring account holders can have more certainty as to when regular payments, such as direct debits and standing orders, will be taken so that they are not penalised for failing to leave the appropriate level of funds in their account.

A significant hurdle here is the free-in-credit banking model which provides the vast majority of consumers with a free transactional account with penalty charging used to cover part of the cost of providing this service. When developing the Credit Union Current Account, research by Liverpool John Moores University found that those on a low income were willing to pay a small, transparent fee in exchange for extra certainty in relation to regular payments.[9] However, for credit unions, operating at small scale, they are often required to charge a fee for accounts regardless of the account holders' need for enhanced certainty. This puts small providers at a competitive disadvantage, particularly in relation to attracting a wider range of members. A more transparent charging structure for transactional banking would assist those who find difficulty in managing these services and enhance competition among providers in general.

Q9. What improvements are needed to make basic banking fit for purpose?

As above, greater certainty around payments and associated charges is critical to ensure enhanced engagement with basic bank accounts. Measures to reform free-in-credit banking would also assist here. Similarly, budgeting account functionality is one area that would assist many on low incomes.

Q10. Can technology help deliver better transactional banking services for people on low and unpredictable incomes?

Modern banking technology and the advent of new payment protocols, particularly in the mobile and online space, are beginning to introduce significant new competitive factors in the transactional banking arena. The incumbent banking groups operate on antiquated and inflexible banking systems which recent failures have exposed. Here smaller players

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9 Research Unit for Financial Inclusion, Liverpool John Moores University, "The Credit Union Current Account", April 2008: http://www.ljmu.ac.uk/Faculties/HEA/HEA_docs/13_ABCUL_Credit_Union_Current_Account.pdf

such as credit unions are at a distinct advantage and this competition is likely to improve available products for those on low incomes. However, in order to maximise the effectiveness of these new competitors, payment systems need to be opened up and we are keen to see the new Payment Systems Regulator fulfil its competition remit in this respect.

Affordable and fair credit

Q11. Is there scope to bring people into mainstream credit who are currently excluded, while also ensuring that this does not risk financial difficulty?

Yes. Many people who currently use alternative and high-cost credit can be supported into a more sustainable borrowing position notwithstanding limitations on borrowing capacity imposed by income levels.

A key role of credit unions is to encourage the development of a savings habit alongside borrowing, particularly by requiring members to save something on a regular basis throughout their membership and particularly while repaying loans. This has the effect of helping individuals to build financial resilience and reduce the need for further borrowing where life incidents intervene. This has proven benefits in terms of long-term financial well-being.

An important area for reform in relation to the availability of credit is the availability of credit data. Currently the credit referencing system fails to provide sufficient insight in relation to non-mainstream debts and non-credit debts such as rent and utilities arrears. This limits credit unions' ability to lend responsibly and to assist members to take better long-term financial and borrowing decisions. Enhanced credit data availability, perhaps through a single, national register, would be of huge benefit to transitioning people into mainstream credit.

Q12. For people who are unlikely to qualify for mainstream credit, what might affordable alternatives be? Should banks, building societies and others play a role in provision?

An expanded credit union sector can play a critical role here, as it already does for a million people across England, Scotland and Wales with total outstanding lending of £672 million. The other main source of affordable credit for the excluded is the CDFI sector, however, here personal lending in the last financial year stood at only £19 million (with a loan book likely to be significantly smaller given the short-term nature of lending) which has grown only slowly compared to credit union lending which has more than doubled in the last decade.[10] It is sometimes suggested that credit unions do not serve the most excluded whereas CDFIs do. We know of no credible evidence that supports this and see much evidence locally that the two sectors serve the same groups. The fact that 90% of the Financial Inclusion Growth Fund was delivered by credit unions and that the Credit Union Expansion Project feasibility study found credit unions disproportionately serve tier three customers (those with a household income under £15,000) supports credit unions focus on the most-excluded.

Credit unions need to be supported to collaborate in order to improve the competitiveness of their products and services and to build a sustainable business model if their role in providing affordable credit is to continue to grow. Banks and building societies can play a critical role in supporting the expansion of credit unions through providing support and expertise to the sector as Lloyds Banking Group and Barclays have done in recent years.

Q13. How does credit scoring contribute to financial exclusion, and are there viable alternatives to traditional credit scoring?

Credit scoring, when used inappropriately, can reinforce exclusion from mainstream credit by creating a barrier to mainstream borrowing in the first instance and limiting opportunities to develop a credit profile thereafter. Credit unions participating in the Credit Union Expansion Project are seeking to address this through the introduction of the Automated Loan Decisioning system which is powered by Experian but uses data from thousands of credit union loans and bespoke risk parameters. This enables credit union members to build a credit profile while assisting credit unions to make more efficient loan decisions while not excluding those they traditionally serve but might be rejected by Experian's off-the-peg scoring systems.

As set out above, a unified national credit register which drew on all forms of lending and also incorporated non-credit debts would be a significant boon for credit availability and would open opportunities to build credit profiles to those currently excluded by the commercial system.

Q14. What reforms could be considered to ensure that consumers getting into financial difficulty are protected including those who become insolvent?

Consumers in financial difficulty need consistent, high-quality advice and education in financial matters which is impartial and delivered with the consumers' interests in mind. ABCUL has significant concerns in this respect in relation to the growth of commercial debt

[10] CDFA, "Inside Community Finance" December 2014: http://www.cdfa.org.uk/wp-content/uploads/2010/02/CDFA-ICF-Report-2014.pdf; Credit union statistics provided by the Prudential Regulation Authority: http://www.bankofengland.co.uk/pra/Pages/regulatorydata/creditunionsstatistics.aspx

advice and claims management companies who often operate to the detriment of those they profess to help.

In general credit unions would like to see a more constructive and trusting relationship developed with the non-profit debt advice sector. Sometimes there can be tension due to the apparently-opposed interests of credit unions as creditors and debt advisers. However, since credit unions seek to disrupt harmful cycles of overindebtedness and insolvency, we would like to develop stronger understandings between the sector and the debt advice industry. The welcome introduction of a savings trigger figure under the Common Financial Statement is one example of how an enhanced understanding between the two sectors can deliver better outcomes for consumers.

Insurance

Q15. What role should the state and the insurance sector play in providing a financial safety net in the event of an unexpected life event? e.g. bereavement, family breakdown, unemployment and illness

No view

Q16. Is the insurance market functioning appropriately and competitively?

No view

Q17. How can we ensure that people on low incomes, especially private tenants, have access to appropriate and attractive insurance products for their possessions and property?

No view

Q18. Will pension reforms enable inclusion, and what further improvements could be made?

No view

Savings products

Q19. Should policymakers enable and encourage people on low incomes to save, particularly in the economic downturn?

Yes. The development of a savings habit is crucial to the successful transition from overindebtedness into a more resilient financial position. Credit unions actively promote savings among their members by requiring members to save whilst repaying loans and generally as part of their membership. This is despite their economic interest in repeat borrowing and speaks to the motivating values of credit unions as opposed to commercial lenders.

A key means by which policymakers could encourage greater savings would be to support the wider availability of credit union services in employment settings and the facilitation of this via payroll deductions. Where credit unions are most successful, both in the UK and internationally, is where they operate embedded in employment contexts. The ability to deliver services via payroll deduction provides a secure source of payments but also addresses the behavioural biases against good decision-making as highlighted by Behavioural Economics through making saving as easy as possible. These schemes have benefits in terms of supporting credit unions' sustainability but also enhancing employee's financial resilience and thereby benefiting their productivity at work.

Q20. To what extent can savings act as a preventative measure, helping people to avoid debt?

To a great extent. Through building a fund to be held against emergencies, people can avoid a repeat cycle of borrowing and indebtedness thereby enabling them to avoid interest charges and recycle foregone interest payments in order to support an improved quality of life.

Q21. What incentives to save work best for people on low incomes, and how might the costs of these incentives be met?

Credit unions' practice of requiring borrowers to save while repaying loans can be extremely effective. Similarly, making saving as easy as possible via payroll deduction can also have huge benefits. The abortive Saving Gateway scheme also demonstrated the benefit of match payments in encouraging those on a low income to save. Another scheme that has been developed in the US is the “Save to Win” lottery-based saving programme whereby an entry into a monthly lottery is generated by saving a set amount in a month. While there might currently be legal barriers to this in the UK, it is worth exploring as the results have been encouraging in the US.

Q22. What practical steps could be taken to foster a savings culture in the UK?

As above – Government should commit to making credit union services available through payroll deduction for all public sector workers and encourage the private sector to do the same.

ABCUL – December 2014