

**Submission to the Department of Finance
Commission on Credit Unions**

From

The Society of St Vincent de Paul

**Social Justice and Policy Team
August 2011**



Society of St Vincent de Paul

Table of Contents

1. Introduction	Page 3
2. The Society of St. Vincent de Paul (SVP) and Case Study	Page 3
3. Extent and Experience of Financial Exclusion	Page 4
4. European Policy Framework	Page 4
5. National Context	Page 5
6. Recent National Policy Discussions	Page 5
7. Research on low income households & electronic payments	Page 6
8. Policy Recommendations	Page 6
9. Conclusions	Page 8
Annex 1:	Financial Inclusion: SVP Policy Position, 2011
Annex 2:	SVP and Credit Union Loan Guarantee Scheme

1. Introduction

The Society of St Vincent De Paul (SVP) welcomes this opportunity to input our views to the Commission on Credit Unions, particularly from a financial inclusion perspective. We note that the Commission is particularly interested in people's views on the role of credit unions, their current operating model, shared services, financial inclusion, governance standards and regulatory requirements. Please see Annex 1 with regard to the general SVP policy position in relation to financial inclusion, of which Credit Unions can play a central role. Yet while much of the population have credit union accounts, financial exclusion is high and it is unclear where lower income households 'fit' with current Credit Union strategy given sustained moves by the sector to move toward the financial mainstream.

2. The Society of St Vincent de Paul

The Society of St Vincent de Paul is the largest charity of social concern and action in Ireland, with a variety of services being provided by our 9,500 voluntary members and almost 600 staff across the country. These services include debt advice, the provision of direct financial assistance to individuals and families in need, and partnership working with local services including Credit Unions (see the case study below, and more detail on this initiative in Annex 2). We work closely with the Money Advice and Budgeting Service (MABS) at both local and national level and have developed both a strong working relationship with Social Finance Foundation. In addition we provide a key leadership role among non-governmental organisations (NGOs) with regard to the financial inclusion agenda.

The local community work of volunteers and staff in the course of their household visitation and service delivery work provides SVP with a unique insight into the issues which are affecting the people we assist. We have built up an understanding about the impact of barriers to accessing essential services, including financial services, on those individuals and families. Low income households in particular often experience difficulty accessing the electronic economy, including saving and banking services. While some do or have accessed Credit Union services, many have not or have ceased to do so. If Credit Unions are to continue to develop their role as financially inclusive services, the movement and individual Unions in particular need to place the low income, 'unbanked' or financially excluded household at the heart of their strategic planning. One example of such behaviour is outlined in the case study below.

2.1 Case Study: SVP – Credit Union Loan Guarantee Scheme (Cork)

In 2010 the SVP Cork Region (Cork City and County) and the local branches of the Credit Union offered a loan scheme to households. The purpose of the scheme is to offer loans (maximum value €1000) to households who may have had a poor credit history and / or were liable otherwise to use moneylenders. The process is initiated through an initial contact between SVP and the Manager of the Credit Union introducing the

customer to the Credit Union. With the SVP acting as guarantor, the customer begins a loan & saving relationship with their local Credit Union. The Scheme is supported by MABS locally who will work with the customer on budget plans and other debt negotiations. SVP Conferences (local branches) continue to visit households to encourage repayments, and furthermore the client may receive a 10% completion bonus from the SVP for payments repaid in full and on time. Full and timely repayment also improves the customer's credit rating with the Credit Union. To date over 25 households have participated in the scheme and there is less than a 10% default rate (2 cases). This small but innovative scheme has, with the help of both the Credit Unions and the SVP, the potential to bring families back into regular credit patterns of behaviour. The initiative lessens a person's dependence on the SVP and crucially gives an alternative to people who are opting to use money lenders.

3. Extent and Experience of Financial Exclusion

SVP understands, from the most recent research, that levels of financial exclusion are significantly higher in Ireland than in the majority of the EU15 countries. The European Union Survey on Income & Living Conditions (EU SILC) recently estimated that approximately 17% of Irish people currently live in households that do not have access to a transaction banking account (the standard metric for financial exclusion) – compared to 2.1% or less in 11 of the EU15 countries. This is a big issue for those affected because people without bank or transaction accounts are disadvantaged when it comes to trying to pay for bills, gaining access to their earnings or welfare payments or buying goods and services. Those who cannot access a current account in effect pay more to make transactions, according to the report *Financial Exclusion and Over-Indebtedness in Irish Households*¹.

4. European Policy Framework

SVP also notes that wider Irish Government financial inclusion policy thinking is emerging primarily from the EU. A commitment was made to the European Commission by the Irish authorities in 2010 as part of the bank restructuring plan process that a review would be undertaken regarding options available to achieve financial inclusion in Ireland. We understand that this would draw on best international practice in ways to resolve this issue. A Basic Payment Account will be provided in the context of the implementation of the review. SVP submitted a detailed paper to the European Commission in April 2009 entitled 'Submission to the European Commission's Consultation on Financial Inclusion: Ensuring Access to a basic bank account' and in July 2011 we made a submission to this Department's Steering Group on Financial Inclusion, of which we were a full member.

¹ ESRI (2011), Maitre, Russell and Donnelly, Dublin

5. National Context

A Low income SSIA-style Pilot Savings Scheme was proposed in 2002 by MABS, CPA and SVP. This was for low income households to incentivise saving among those without a current account. This was not entertained by Government as a policy for low income and financially excluded households at the time. As stated above, many households have credit union accounts, yet financial exclusion is high and for SVP it is not entirely clear where lower income households 'fit' strategically with overall Credit Union policy given the shift – or perhaps drift - toward the financial mainstream. In a similar vein, Financial inclusion commitments are significantly vague and underdeveloped in existing anti-poverty commitments of Government (e.g. NAPS Inclusion, 2007). Yet SVP see the positive relationship between financial inclusion and moving out of over-indebtedness, where an account holder can build up a financial profile over time; enhancing their credit-worthiness for responsible borrowing. In terms of Social Welfare payment via the post office network, we report a positive experience regarding the Household Budget Scheme to pay for utilities. However, very few people are on the Household Budget Scheme relative to those on social welfare payments. Similarly, and importantly, the Credit Union movement's own Budget Account service, where weekly or monthly bill payments and charges to utilities and local authorities can be made, usually for a charge levied by the Credit union, is a facility with great potential, and for a large population. Lastly, energy prices, utility policies and prepayment options for energy are important factors to keep in mind by the Commission, as should the Government's Affordable Energy and Financial Inclusion Strategies, including Pay-As-You-Save options for energy retrofitting in homes.

6. Recent National Policy Discussions

In early 2011, SVP was involved in a Seminar organized by the ESRI, the Government's Social Inclusion Division and the Social Finance Foundation (SFF) on the issue of Financial Inclusion. The seminar learned that those most at risk of financial exclusion were older people, the unemployed, lone parents, social housing tenants and those on low incomes. Financial exclusion makes it more difficult for these at-risk groups to manage their money and means greater exposure to high-cost financial services and the risk of over-indebtedness – a situation which SVP members know all about in their work. The research showed there is a strong relationship between financial exclusion and:

- Low levels of education / no qualifications
- Being in the poorest 40% of the population
- Those at risk of poverty, and in consistent poverty (experiencing deprivation) in particular

7. Research on low income households & electronic payments (Including SVP clients)

Recent research commissioned initially by CPA, which later became the Social Inclusion Division, drew a number of key findings which should be of interest to the Commission. Among these are the fact that real household budgets must form the basis of the analysis and policy planning. The research found that people prioritise payments for food, energy bills and rent or mortgage. Regarding energy, payment for oil is a big budgeting issue because low income households who use it pay for a full or half tank of domestic oil up front and these are large payments in advance of consumption. In addition, having a lump sum in the house to pay for the oil is a security concern for low income oil consumers. SVP hope that increasingly, pre-payment technology will be used in the payment of domestic energy (electricity and gas) and we believe this should be administered in such a way that low income consumers are no worse off as a result of the use of pre-payment technology. In terms of household 'preferences', many households reported a preference for dealing with cash, however we need to look at people's experiences up to now to understand why they prefer this to non-cash based services. We assume that such services have simply not been available to them heretofore. Where low income households do have current account services however, they are under-used, and future Credit Union policy needs to be mindful of this.

8. Policy Recommendations

Financial Inclusion needs to be the primary priority for Credit unions. Specific policy commitments are set out below from the point of view of suggested short, medium and long term objectives:

1.0 In the Short Term – Next Twelve Months

1.1 Linkages:

There is a need for greater linkage between the Credit Union movement and anti-poverty / social inclusion organisations in the NGO sector at the national level, to share experience and policy ideas, and exchange learning in relation to what works and what does not regarding financially inclusive services.

Credit union services need to integrate with external services at local and National levels, namely budgeting and MABS, welfare rights and the Citizens Information services, and energy advice and payment channels.

1.2 Budget Account Service, Payments Policy and Electronic Funds Transfer (EFT):

The Budget Account service, where weekly or monthly bill payments and charges to utilities and local authorities can be made, usually for a charge levied by the Credit union, has great potential. This 'jam jar' functionality offers people better control over their money, allowing for certain amounts devoted to specific

outgoings, such as energy, on a regular basis. The Commission should consider ways in which the Budget Account service:

- is better marketed to current and potential Credit Union account holders
- is made available in more Credit Unions
- charges associated with the service could be reduced, waived or 'socialised' across all accounts and
- takes into account the changing policy and technology regarding energy payment and prepayment options

There is an onus on the Department of Social Protection to finalise and deliver the National Payments Implementation Programme, including ETF, which when executed can help underpin and support financial inclusion initiatives including measures by Credit Unions.

2.0 In the Short to Medium Term – Next 18 Months:

The Commission needs to consider how Credit Unions best facilitate lending for energy efficiency investment in homes. In order to tie in with plans related to energy efficiency retrofitting under the Government's Energy Affordability Strategy, we recognise the need for a tailored borrowing option for moderate to lower income waged households. Such an initiative could assist with the funding of retrofitting, energy efficiency and greener homes measures. Credit Unions could be a key player in this regard and the Government's Affordable energy Strategy needs to reflect the strong potential role of Credit Unions here.

3.0 In the medium term – Next 24 Months:

The Commission should consider the Credit Unions' potential for the provision of a tailored, basic transactional account for financially excluded households. A number of Credit Unions already provide the aforementioned Budget Account service and this feature could form the core around which a basic payment account could be developed. In the absence of full EFT in all Credit Unions, a joint initiative with An Post should be fully considered by the Commission.

4.0 In the Longer Term: 2013 Onwards

Assuming that basic payment accounts will be launched and taken up by a significant portion of the financially excluded, other issues need to be considered by the Commission. These include credit, savings and insurance. The first two, savings and credit, are cornerstones of the Credit Union service, and issues of access and usability need to be further developed for this particular group. Small savings, no matter how apparently humble, are 'assets' in the same way as – and are currently more reliable than – property and housing. The process of financial inclusion requires a mental paradigm shift where the savings of low income people are seen as vitally important for the resilience of households and communities alike, and to be supported by Government and Credit Union policy.

9. Conclusions

SVP see the need for a champion or champions in the Social Economy / Community and Voluntary sector in Ireland to facilitate, promote and enable access to financial inclusion with their clients. This could be done much in the same way as Housing Associations have succeeded to fulfil a financial inclusion role to a considerable extent in the UK. Credit Unions in Ireland are well placed to develop into this role from within the community sector. The expertise of Credit Unions in designing products and delivering training and public awareness campaigns are key tools in this regard.

We acknowledge that there will be a population who will need extra support to access products, and ‘trusted’ organisations are important gatekeepers in this regard. Input from MABS and SVP will be important in developing the capability of Credit Unions as a whole to become more financially inclusive.

Assuming the success of the basic payments / banking initiative via the mainstream banking sector, and looking toward the issue of responsible lending, we should also consider both the successes and the lessons learned by the Community Development Finance Institutions (CDFIs) in the UK in assisting in the development of future models here. Again MABS will be required to assist people with regard to such appropriate borrowing options when this arises and Credit Unions would appear to be the most appropriate vehicle for such CDFIs.

The SVP hopes that the above findings will be taken on board by the Commission so that people who are currently ‘financially excluded’ will have, over time:

- greater overall use, confidence and trust in financially inclusive services
- a sufficient ‘buffer’ of savings to cushion them against external shocks or unexpected events
- the skills and knowledge to deal with their personal finances, and make informed choices, and
- access to the use of appropriate financial services and protection from irresponsible lending.

Annex 1: Financial Inclusion: SVP Policy Position, 2011

1. Vision for Financial Inclusion in Ireland

The achievement of financial inclusion and ending of indebtedness, where people have access to appropriate financial services regardless of means, are protected from irresponsible lending, can make informed choices and have sufficient income to save to cushion themselves from shocks

2. Presenting problems regarding Financial Inclusion²

- Twenty per cent of Irish households do not have a bank current account; those most at risk are older people, unemployed, lone parents, social housing tenants, those on low incomes
- Financial exclusion makes it more difficult for these groups to manage their resources and means greater exposure to high-cost financial services and the risk of over-indebtedness. There is a strong relationship between financial exclusion and:
 - o Low levels of education / no qualifications
 - o Being in the poorest 4 deciles (the poorest 40% of households in the population)
 - o Those at risk of poverty, and households in consistent poverty in particular

3. Existing or anticipated policy frameworks

- EU Commission decision on restructuring of Bank of Ireland: state commitment to review options to significantly enhance financial inclusion in Ireland in the next 3 – 5 years
- Financial Inclusion Steering Committee chaired by Department of Finance (DoF)
- DoF commissioned a Basic Bank Account (BBA) proposal by Social Finance Foundation

4. Key policy requests and direction that SVP policy should go in / commit to

- Ensure adequate levels of income upon which to live with dignity and support low paid
- Prioritise access to basic current account (BBA) services, initially through the banking sector
- Ensure that views of financially excluded people inform design and roll-out of services
- Include Welfare rights and debt advice, and a strong partnership approach to services
- That local authorities / housing associations facilitate tenants to use BBA / related services
- Over time, roll out basic credit, savings and insurance products for financially excluded
- Dept. of Environment to support Housing associations offer 'Mortgage rescue' measures
- Invest in pre-school education and the tackling of disadvantage in school (both levels)
- MABS and similar services to provide one to one advice and support and awareness raising of existing schemes, particularly with regard to appropriate borrowing (e.g. credit unions)

5. Advocacy, e.g. meetings with Department officials, Ministers, Committees, Media

Dept. of Social Protection: prioritise payments to underpin Basic Bank Account (BBA) and related
Dept. of Environment: request local authorities facilitate tenants to access & use BBAs as above
An Post and Credit Unions: encourage them to develop a Joint initiative BBAs or related services
Community and Voluntary organisations: that they support service users to access and use BBAs

6. Anticipated outcomes from this policy approach on Financial Inclusion - People have:

- a sufficient 'buffer' of savings to cushion them against external shocks / unexpected events
- the skills and knowledge to deal with their personal finances, and make informed choices
- access to the use of appropriate financial services and protected from irresponsible lending
- recourse to a humane, fair and holistic system if things go wrong and offering a fresh start

² ESRI (2011): Financial Exclusion of Irish Households, Maitre, Russell and Donnelly, Dublin



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Annex 2: Cork SVP and local Credit Union Loan Guarantee Scheme

Following on from discussions with many SVP clients of many Cork City SVP Conferences, and further discussions with MABS and local Credit Unions we have decided to introduce a Loan Guarantee Scheme (LGS) whereby SVP will, on a case by case basis, guarantee repayment of Credit Union loans extended to its clients on the recommendation of individual Conferences.

The primary objective of the LGS is to reduce the dependency of SVP Clients on the traditional door to door Moneylenders. Consider the following:

1. Borrowing from moneylenders is incredibly expensive. For example, €1000 borrowed from a legally registered moneylender and repaid over 12 months can cost interest of €880 whereas the same amount borrowed from a Credit Union might attract interest of under €50.
2. We are aware that there are unlicensed moneylenders operating in the market also and that their interest rates can be considerably higher than licensed moneylenders.
3. The difference in remaining disposable income to the borrower is very significant and eliminating this excessive interest payment would also have the knock on effect of reducing demand for financial support from SVP.

We recognise that the convenience factor makes the door to door moneylender very attractive and that many clients have no concept of excessive nature of the interest charged by the moneylender in comparison to the Credit Union. We need to educate our clients on the interest issue and make access to the Credit Union easy. Please note the following:

1. We have produced a simple brochure “Doorstep Credit.....NO WAY!” (see attached) to highlight the difference between the moneylender and the Credit Union. We need to distribute these to those clients we feel would be willing to try this. We need to take time with them explaining the benefits of borrowing from the Credit Union.

2. We also need to make their introduction to the Credit Union easy, provide them with a Credit Union Membership Application form and make an appointment for them to meet the Manager of the Credit Union. Remember the competition (the moneylender) calls to their front door! The Credit Unions are fully supportive of the LGS and will instantly approve a loan for a new Credit Union member with the SVP guarantee.
3. We also need to persuade them to seek support from MABS for their existing moneylender loan repayments, set up their first meeting with MABS and follow up on the outcome of this meeting with the client and with MABS. Those clients unwilling to put in the effort of seeking advice and support from MABS are unlikely to have the patience to develop a relationship with a Credit Union.

We are very mindful of the difficulties in bringing about a significant client behavioural change particularly where the moneylender is a regular caller to the front door. For this reason we are proposing a loan completion bonus of 10% of the loan amount for the client who repays the loan on-time and in full. Repayment on time also guarantees the client that the next loan application will be approved on the spot

Loans from moneylenders are frequently for amounts of €100, €200, €500 and occasionally more. They are for all sorts of purposes including birthdays, holidays, Christmas, School expenses, replacement of domestic appliances or furniture and for ordinary household/living expenses. Loans from the Credit Union can be for exactly the same purpose. Our clients have to develop a belief that the Credit Union will be as accommodating as the man calling to the door. The savings to our clients make this a compelling initiative on our part, especially for those clients who are willing to give it a try.

The following are the guidelines governing the operation of the LGS.

- As a Priority the president and Treasurer (or other nominated member) should arrange to meet the Manager and/or credit controller of the local Credit Union.
- The conference needs to agree with the Credit Union that they will monitor the repayments and advise them once there are arrears on a loan.
- No loan to exceed €1000, most loans will be for much less than this amount.
- Loan Guarantee form (see attached) to be completed for each loan and signed by the recommending Conference President and Treasurer, sent to the Credit Union and copied to Tuckey Street.
- The Society will not be exposed for more than €25000 at any one time; this will be monitored by Justin White in the Regional Office. This figure may be reviewed later following experience with the scheme.

- The purpose of the loans will be for Communion, Confirmation, Christmas, Household items and any other normal living expense except for the repayment of Moneylender loans.
- Those who have existing loans with Money Lenders must show commitment by agreeing to go to MABS. MABS will negotiate the repayment of the moneylender loans on terms that the client can afford and the moneylender will be obliged to accept these terms.
- Each client in the LGS must also sign an Authority to share information (see attached) for the Credit Union and MABS to share information on the clients outstanding guaranteed loans with SVP
- As an incentive a 10% bonus of the loan repaid (up to a Maximum of €50) will be lodged to the clients savings a/c on full repayment of the loan.