



Credit Unions of Wales Evidence to the Equality and Social Justice Committee September 2021

Background

At the start of the Covid 19 pandemic in spring 2020, credit unions anticipated a significant increase in arrears and reduction in loan applications as Wales entered lockdown and restrictions damaged the economy and people's livelihoods.

During the pandemic, latest Bank of England quarterly figures for Quarter 1 of 2021¹ show that arrears among credit union members stayed relatively stable. Following an initial increase of 13% in arrears from £2m reported in Q1 2020 (pre-pandemic) to £2.3m in Q2, the increase in arrears levelled off with quarterly respective increases of 0.1%, 2% and 1% up to Q1 2021 (latest figures available). However, it should also be noted that credit union arrears in Wales are now at the highest levels ever recorded.

In common with many in the financial services sector, lending decreased during the pandemic among credit unions in Wales. Latest Bank of England quarterly figures show credit union lending in Wales stood at £25.9m in Q1 2020 which reduced by 8.9% to £23.6m in Q1 2021. Our internal surveys showed among Credit Unions of Wales, there was an uplift of loans by value of 9.4% from 2018-19, which was followed by a reduction in the value of loans by 10.5% during 2019-2020.

Credit Unions of Wales surveys also showed that lockdowns result in a significant decrease in loan requests, however this was followed by an uplift, due to suppressed demand, as restrictions lifted.

Savings have increased across credit unions in Wales during the pandemic. Latest Bank of England quarterly figures show that credit unions held £51.1m in shares/ member savings in Q1 2021, up 14% from £44.7m in Q1 2020. This is the highest ever level of savings held by credit unions in Wales.

As financial cooperatives, credit unions loan the money that is saved with them, so this in turn means that credit unions in Wales have record levels of money available to lend to members.

¹ [Bank of England Quarterly Statistics, Q1, 2020](#) published 31 August 2021

In response to the four questions asked, Credit Unions of Wales would like to respond to the following two topics:

- 1. How different groups have experienced debt issues throughout the pandemic, and whether Welsh Government policy interventions have met the needs of particular groups.**

Credit unions traditionally have a significant proportion of low-to-medium income members both in work and on benefits.

Measures such as the furlough scheme, support for the self-employed, uplift in Universal Credit, increase in Local Housing Allowance and Discretionary Housing Payments have provided vital assistance to members in the economic emergency caused by the pandemic.

In turn we are in no doubt that the measures above have contributed to lower arrears levels than we initially expected at the start of the pandemic in spring 2020. The general support schemes, together with some cost savings for those in work e.g. working from home, has meant that savings have risen in the pandemic. There is some evidence that those who have managed to save have also taken time to look at other aspects of their finances and clear debts or arrears.

With the furlough scheme due to end this month and the impending reversal of the uplift in Universal Credit, combined with inflation rising at its highest level since 2012² and anticipated rising costs of fuel this winter, credit unions anticipate an increase in arrears and the use of formal debt remedies to address wider financial burdens in the coming 12 months. Of particular concern is an expectation that high volume credit management companies specialising in Individual Voluntary Agreements (IVAs) for large fees will capitalise on these pressures and encourage more people in debt into IVAs when other resolutions such as Debt Management Plans would be more beneficial for many financially vulnerable households.

Those members who depend on their credit union to access affordable credit lose this benefit when credit union loans are included in IVA applications and are not always aware of the significant long-term damage to their credit rating and access to affordable credit in future of entering an IVA. While this remedy is appropriate for some individuals, there is anecdotal evidence in Wales and the wider UK of sharp practices of among some private sector IVA management companies, to the detriment of our collective members, and the credit union sector has lobbied for such companies to be regulated by the FCA.

Credit Unions of Wales are already reporting higher levels of indebtedness among members applying for loans. While there has been support for many, the pandemic has had an impact on those on lower incomes as shown in the recent report from the Bevan Foundation, *Debt in the Pandemic*.³

² Inflation: [Price rises see record jump as food costs soar in August](#), BBC, 15 September 2021

³ Bevan Foundation, [Debt in the Pandemic](#), September 2021

Credit unions are also reporting that the pandemic has led to changes in shopping and spending habits. As part of their loan application process, many credit unions now offer Open Banking services, which allows real time access to a member's bank statement and therefore enhanced visibility of spending habits compared to what would be available through a traditional application process.

Many credit unions are reporting worrying levels of debt caused by Buy Now Pay Later schemes such as Klarna, Clearpay and Laybuy etc. These schemes sit on most big brand websites offering the option of 'spreading the cost' over 3 or 6 monthly repayments (usually at 0% interest).

However, credit unions are finding that the ease and attractiveness of the Buy Now Pay Later online purchases can mean that people have several commitments, adding up to a significant monthly outlay. Failure to meet payments usually leads to a charge, which in turn increases the customer's debt, damages their credit score and can lead to formal debt collection agencies.⁴

The open banking process has also revealed a worrying increase in online gambling among members. This is borne out by a report by the Gambling Commission, which found that online gambling increased 24% in the year to June 2021⁵ Meanwhile a Gambling Commission report in September 2021 noted that while online gambling levels had 'stabilised': *"It is likely some have picked up new gambling routines and habits during lockdown that may be hard to change as things return to normal, even as normal spending on other things resumes."*

2. The effectiveness of mechanisms such as the Discretionary Assistance Fund and affordable credit in providing assistance to those most in need during the pandemic, and what changes could improve future delivery.

While Credit Unions of Wales cannot comment directly on the Discretionary Assistance Fund, we do note it is one of the forms of support provided during the pandemic that helped mitigate some the negative impacts of the financial fallout of Covid-19.

As affordable credit providers, Credit Unions of Wales have adapted to the changing needs of members and our communities during the pandemic as follows:

Supporting existing members: Credit unions were the only social lenders to continue lending throughout the pandemic. The sector moved quickly at the start of the first lockdown to confirm the status of credit union staff as key workers in order to keep offices open (where safe to do so) and maintain services for its members. Credit Unions of Wales credit unions worked quickly to create safe, remote access for staff, allowing some staff to work from home where possible, to reduce the risk of Covid infection for staff and visiting members.

⁴ Klarna: [What happens if I don't pay for my order](#)

⁵ [Statistics on participation and problem gambling for the year to June 2021](#), Gambling Commission

Improving accessibility online: In recognition of the restrictions on travel, safety of staff and members, and changing behaviours of members, many credit unions worked quickly to improve online access to their services for members and those wanting to join a credit union. This included easier options to join and faster decisioning processes for loan requests.

Reaching new members: To support the improved online services, and reach out to those in need of 'a bit extra' i.e. small, short term loans, Credit Unions of Wales also repurposed its marketing budget to improve signposting to credit union services. We set up a new webpage on the existing Credit Unions of Wales website (www.creditunionsofwales.co.uk), with a loan calculator, allowing members to apply for a loan with their nearest credit union from one all-Wales central hub. This was supported by a series of Google and Facebook Ads to ensure that people needing 'a bit extra' could access fair, ethical and affordable support from their nearest credit union.

Addressing the risk of loan sharks: During the pandemic, a number of payday lenders closed along with doorstep lender Provident's withdrawal of new lending. The Snapshot of Poverty in spring 2021 report by the Bevan Foundation⁶ showed an increase in the number of people on lower incomes borrowing from family and friends. In recognition that 'family and friends' can sometimes be a catch all term that can include loan sharks, the increased risk of loan shark activity due to the economic downturn and the habitual behaviour of doorstep lending, Credit Unions of Wales is working with the Wales Illegal Money Lending Unit to increase awareness of small loans and credit union services. This work has included PR⁷ and advertising.

Pilot of underwritten loans: A pilot project with the Wales Illegal Money Lending Unit, using capital from proceeds of crime fund, is underway with one credit union (Cambrian Credit Union). This pilot underwrites loans to people who would not normally meet affordability criteria for Cambrian Credit Union loans. There was a £20,000 fund of which £19,700 had been allocated across 28 loans as of 17th September 2021.

Supporting Welsh workers: The pandemic has highlighted the need for people to build their financial resilience. Credit Unions of Wales wanted to make it easier for employees in Wales to create a financial buffer and access fair and affordable credit when they need it. Credit Unions of Wales have collaborated on national payroll project – Moneyworks Wales. This enhances the existing payroll deduction savings and loans partnerships that individual credit unions had in place. Moneyworks Wales includes a website (www.moneyworkswales.com), with easy access to joining and saving or borrowing, plus interactive tools and planners provided by the Money and Pensions Service, which help members manage their money and budget for life events, from a new car to expanding their family or buying a new home. The launch of Moneyworks Wales⁸ has had support from Welsh Government, Wales TUC, Money and Pensions Service, the Finance Innovation Lab and 150 employers of all sizes and across all sectors across Wales.

⁶ [A snapshot of poverty in spring 2021](#), Bevan Foundation, May 2021

⁷ [Online loans: 'I went from loaning £150 to owing £6,000 in months'](#), BBC Wales, August 2021

⁸ [Moneyworks Wales](#), a collaborative project across 10 credit unions in Wales, launched September 2021

Tenancy Saver Loans: Credit Unions of Wales moved at pace to deliver the Tenancy Saver Loan scheme across Wales. During the lifetime of the scheme Credit Unions of Wales worked closely with Welsh Government and its stakeholder partners to feedback on uptake and the nature of applications.

Future digital accessibility: The pandemic has accelerated the shift to online services and the expectations of members about how those services should work. Credit Unions of Wales have formed an IT group that is actively assessing back office and frontend IT systems that will improve efficiency, member experience and accessibility.

Recommendations

- Plans for a No Interest Loan Scheme⁹ pilot aimed at those people unable to access most other forms of credit have been drawn up by Fair4All Finance and have the backing of Welsh Government. In order that this pilot true pan-Wales coverage and creates lasting, long-term relationships between the borrowers and fair, affordable social lending providers, we would urge that a collaboration of credit unions is considered to run the pilot.
- To build upon the initial pilot between Cambrian Credit Union and the Wales Illegal Money Lending Unit, we would suggest an analysis of its findings to see if this could lead to a wider all-Wales roll-out. Depending on the results of this analysis, the scheme could include low interest, underwritten loans for debt consolidation coupled with budgeting advice and financial education provided by expert external partners within the credit union setting.
- Credit unions need capital funding to help them to level up digitally. The pandemic has increased expectations of online services and the digital journey. Credit Unions of Wales digital advertising during the pandemic has shown that younger (under 25-years-old) people can be attracted to credit union services. However, credit unions need improved digital services to compete with high interest lenders, and as financial cooperatives with affordable interest rates and limited methods of creating revenue beyond making loans, this level of financial outlay is a stretch for most. The difficulty of making this financial outlay is exacerbated with indications of difficult trading conditions predicted in the near future. Capital funding to improve the fintech capabilities of credit unions will be vital to serving the changing needs of our members and helping attract new members.
- To improve longer-term financial wellbeing and habits, Credit Unions of Wales would recommend a financial education pilot to provide greater access to budgeting advice and coaching (through credit unions but working with partners) to help prevent those at risk of unmanageable debt before it becomes a crisis. This form of

⁹ [Plans announced for new UK wide No Interest Loan Scheme pilot](#), Fair4All Finance

education could mitigate the risk of uptake of formal debt remedies in instances where there are options with better outcomes for those struggling with debt. This could be more efficient if integrated into existing schemes such as the [Moneyworks Wales](#) payroll savings and loans scheme, which already has 150 employer partners, to ensure wider coverage and access.

About Credit Unions of Wales

Credit Unions of Wales are a collaborative group of 10 credit unions including:

- Brecon Credit Union
- Bridgend Lifesavers
- Cambrian Credit Union
- Cardiff & Vale Credit Union
- Dragonsavers Credit Union
- Gateway Credit Union
- Merthyr Tydfil Credit Union
- Newport Credit Union
- Red Kite Credit Union
- SaveEasy Credit Union