

**GENERAL SYNOD****CREDIT UNIONS, THE FINANCIAL SECTOR AND THE CHURCH****A note from the Mission and Public Affairs Division**

1. In recent interviews, the Archbishop of Canterbury has expressed his serious concerns about the social and emotional burden of debt caused by payday lending. Whilst some of his comments have been interpreted as initiating a ‘war on payday lenders, he has given voice to a growing belief within the Church and wider society that there is a need for a more ethical and just financial system in the wake of the various banking scandals, and that more should be done to regulate payday loan companies and develop viable alternatives to high-interest lending.
2. Currently, credit unions present a realistic option that achieves these aims and the Archbishop is calling on churches to support their local credit unions by becoming members, using the credit unions’ financial services, raising awareness and offering material help (premises, volunteers and expertise).
3. This short paper is intended to give some fuller background to the Archbishop’s initiative, to highlight resources being developed to help churches support local credit unions, and to offer some examples of how that work is progressing.

**The Archbishop and the Finance Sector**

4. Archbishop Justin, whilst Bishop of Durham, became a member of the Parliamentary Commission on Banking Standards and, building on his own extensive experience both in business and in the church, he has been in a prime position to analyse the causes and consequences of the financial crisis which broke on 2008.
5. He shares with many experts the view that the financial crisis was evidence of market failure. He is also concerned that, in some areas, especially those of greatest social need, the banks had vacated the market, leaving the way open for less socially-responsible institutions (not only the payday and other high-cost credit lenders but the loan sharks operating outside any legal framework) to fill the vacuum.
6. As a result, there is currently a substantial gap in the market for the provision of affordable credit and other financial services to around 7 million people on lower incomes. With rising living costs and stagnant wages, this has pushed a large and growing number of people into the hands of payday lenders who are meeting (and fuelling) the demand for small, instant loans and have extensive marketing and advertising budgets which give them a high profile. Whilst payday loans may have a legitimate role in helping people to manage short-term cash-flow problems, they are causing substantial harm to a significant minority of customers who are unable to meet the repayment costs and find themselves in a crippling spiral of debt.
7. One reason for the notoriously high interest rates and APRs associated with payday lenders is that they offer very rapid loans and have to offset against more potential defaulting than would be the case for more cautious lenders who conduct more rigorous

credit checks. Even so, a major anxiety about the rise of payday lenders is that they are working to create a consumer culture which regards immediacy in raising a loan as normal, working against the principles of thrift, careful financial planning and management and so on. An alternative model of responsible saving and lending, which is understood, accessible and geared to people's real needs, would offer precisely the competition that would challenge the ubiquity of payday lenders.

8. Credit unions offer just such a model. They are local, mutual and work within a regulatory framework which caps their interest rates, currently at 2% per month (increasing to 3% in April 2014). They are owned by their members and, currently, over 90% of the population falls within the "common bond" of at least one credit union and are therefore eligible to join. Credit Unions may be designed for the benefit of a local community, an employer or a common bond of some other kind. Credit unions have a number of clear aims and values: encouraging members to save, as well as borrow; offering loans at reasonable rates, taking into account what people can afford to pay; empowering members to use their money wisely; and using members' savings for the mutual benefit of members and the local community.
9. So Archbishop Justin's comment about competing, rather than regulating, payday lenders out of business follows from his analysis of the roots of the financial crisis coupled with knowledge of the problems and lack of choices faced by people at grass roots level. If the market for financial services can be helped to function better, alternative ethical institutions like credit unions can flourish and serve people's real needs better. So, how can the churches help this to happen?

### **The Church and the Credit Union movement**

10. Early in 2013, following a meeting between Archbishop Justin and the then Moderator of the Church of Scotland, MPA staff met with staff of the Church of Scotland to see what could be done together to work creatively with the credit unions. The Scots shared some of the research which had been developed with academics at Heriot Watt University who had both studied and worked with credit unions for many years.
11. That research, and subsequent discussions with ABCUL, suggested a number of factors which had held back the development of credit unions and prevented them reaching their full market potential. These included:
  - Credit unions are often regarded as "poor people's banks" or treated as anti-poverty strategies. To thrive, they need to attract a broad range of members, including people on middle and high incomes who can save and borrow larger amounts in order to balance out smaller, riskier loans.
  - Knowledge of credit unions is limited. Unprompted awareness is as low as 7% according to a recent national survey, and even fewer people understand what they are and how they operate.
  - The local nature of credit unions is a strength but could introduce weaknesses. The local people running them may have limited experience and lack the skills and resources to develop the credit union beyond a certain point.

- Credit unions often lack sufficient physical outlets to make them accessible to all the people who could benefit from using them, or the technology to serve their members remotely.
  - The sector is very diverse and fragmented, making it more challenging for credit unions to collaborate effectively. Countries with a large credit union presence are all highly integrated with shared IT platforms and centralised back office functions.
12. Although there is much more that could be said about the strengths, weaknesses and potential of the credit union movement, this analysis suggested some obvious synergies with the churches, which, like the credit unions, are locally-based associations rooted in local communities. Churches have many people with relevant experience and skills among their members. They also have a deep rooted culture of volunteering. And, with our partners in the Church of Scotland, we have a portfolio of buildings, literally from John O’Groats to Land’s End, in every community – not just churches but halls, schools and other community facilities. We also have 1.7 million regular attenders, who are potential members and ambassadors of credit unions with their own networks and a concern for social justice rooted in their Christian faith.
  13. Not all the able people will be available or in the right places. Not all the buildings, by any means, will be suitable as credit union outlets. But many will be a good match. We already have examples of local churches hosting shops and post offices. Church schools often have an extraordinary reach into local communities. The potential for partnerships which would be advantageous to local credit unions is huge.
  14. Throughout, we have been in dialogue with the principal trade association for credit unions, ABCUL.<sup>1</sup> We are encouraging them to see dioceses and local churches as potential partners and to point their members towards us to explore ideas for future development.
  15. Both MPA and the Church of Scotland have begun to offer resources for dioceses and local churches to consider how they can work creatively with their local credit unions. Our resources, which are being continually updated, can be found on the Church of England website: [www.churchofengland.org/creditunions](http://www.churchofengland.org/creditunions)

### **The Churches’ Mutual Credit Union**

16. How can we help spread the idea that credit unions are not just alternative banks for the poor? The interesting paradox is that credit unions can often do most to help the financially vulnerable by not focussing exclusively on that sector of the market.
17. Many people who support credit unions in theory don’t see the potential benefits of membership for themselves. One way of securing greater awareness of, and involvement in, credit unions within the church was already well developed when MPA’s work on credit unions began. A credit union designed specifically for the clergy and staff of the churches had been slowly emerging for some years thanks to the dedicated work of a small group.

---

<sup>1</sup> The Association of British Credit Unions Limited.

18. The Churches' Mutual Credit Union, as it is now called, has extended its common bond so that ecumenical participation is straightforward. The Church of Scotland has contributed capital, as have our own dioceses and the Church Commissioners are exploring ways to support the venture including the purchase of deferred shares to build up the initial capital requirement. The project is gaining momentum towards a planned launch next summer – possibly at General Synod in York. In the meantime, the Credit Union fringe event on Wednesday 20<sup>th</sup> November will be a chance to hear more about the CMCU.
19. Geared initially to the needs of clergy and church staff (although with scope to serve a wider church-based constituency) the CMCU is not only a valuable resource in itself but is, strategically, an opportunity to create a constituency of church people for whom credit unions are not just for other people but are a normal element in the overall financial sector and in their personal financial management, alongside other banking and financial services. This helps the churches as a whole to be more effective and credible advocates for credit unions and their potential.

### **A Task Group and a 10 Year Plan**

20. Supporting credit unions and developing a credit union for the churches is an important part of the Archbishop of Canterbury's vision for ways in which the church can influence the financial sector for good. He is clear that serious institutional change does not happen overnight – we are looking at a ten year programme, at least, in pursuit of cultural and institutional change. Developing a more competitive and functional market and seeing the fruits of that in the way communities – especially vulnerable ones – are served, is going to take a generation. What we are beginning now must build momentum and build on achievable local initiatives to make a much bigger impact.
21. The public impact of the Archbishop's comments on competition and payday lenders in July led to an overwhelming postbag of supportive and appreciative comment from across the political and social spectrum. His articulation of how the financial crisis which affects us all has caused real harm in vulnerable communities, and his experience of finance and business, attracted offers of help and support from many organisations, from the government (who are developing a substantial credit union expansion programme) and from senior figures in the finance sector keen to see the church give a lead in this field.
22. To drive this vision, Archbishop Justin is convening a Task Group which will be chaired by a senior figure from the banking industry with much relevant experience of the whole sector. We are hoping to make an announcement about this before the end of the year. The chair of the task group will be well placed to keep the church mindful of the challenge it has taken on, to deal direct with senior figures in the financial sector and to work with government, politicians and their civil servants and advisers.
23. MPA, with the Archbishop, have developed an outline plan for immediate action by the church and for the decade ahead. The Task group's main role will be to make this plan a reality. It includes several discrete strands:
  - Facilitating the partnership between churches and credit unions already described.
  - Working with the CMCU to contribute to its launches and future growth.

- Ensuring that the commitment to practical action by the church does not eclipse the wider vision of a financial sector which serves people better.
- Linking to the banks and other major institutions to encourage greater support for the credit union sector – such as promoting secondments of executive staff, development of shared IT platforms, mentoring schemes for credit union executives and so on.
- Ensuring that the church goes on thinking theologically about money and finance – both at academic level in interdisciplinary work between theologians, ethicists and economists, and at parish and local levels with study programmes and resources. We must not lose sight of why this work is integral to the church’s mission.
- Political pressure and lobbying for regulatory and legislative changes that would enhance the credit union sector and eliminate the worst practices in the payday loan industry.
- Linking with other partners and institutions in the wider community finance sector to share experience and opportunities to support each other.
- Developing a number of strategic initiatives with other organisations to help grow the credit union sector, as well as exploring other innovative ideas to meet the need for affordable alternatives to payday loans and other forms of high-cost credit.
- Linking our work on credit unions with the valuable work being carried out by Christian and other debt advice organisations, in order to promote financial education and the value of thrift.

### **What can we do now?**

24. The core message is simple:
- Look at creative ways for you, your diocese, and your church, to support local credit unions and raise their profile. If you have relevant skills and experience, could you make them available?
  - Consider joining the CMCU when it is launched, and/or your local credit union.
  - Explore how membership of a credit union could serve your own needs – credit unions don’t just need savers, they need borrowers too.
  - Think, talk and pray about the financial needs of people in your community and what changes would serve them well.

### **What is already happening locally**

25. The local response to the Archbishop’s initiative has been very encouraging. 45 Bishops and 31 dioceses have already been involved in, or are planning, some kind of activity in support of more than 50 credit unions across the country. This includes:
- Bishops visiting and joining credit unions and inviting the local or regional media along to generate valuable publicity. Around a third of Bishops are now credit unions members.
  - Launching membership campaigns and corporate saving schemes to encourage churchgoers and PCCs to join and put some of their savings into the local credit

union. At least two dioceses have already invested £15,000 of their own money in the local credit union, and others are actively considering this option.

- Convening meetings with all the credit unions operating in their area to discuss how churches can most usefully support them.
- Running information days for clergy and/or training events for potential volunteers.
- Raising awareness about credit unions among churches and the wider community via articles in local papers, parish magazines, diocesan websites, synod debates, and clergy circulars.

26. MPA has produced downloadable resources with additional information and guidance for dioceses and churches, which are available on the Church of England website:

[www.churchofengland.org/creditunions](http://www.churchofengland.org/creditunions)

## **Case Studies of Current activity**

### **1: Lichfield diocese**

The diocese brought together a group of representatives from the ten credit unions operating in the diocese. At the second of these meetings in September, credit unions were asked how churches could most effectively support their work. There was a broad consensus that attracting more members was the top priority, so encouraging churchgoers to join a credit union and raise awareness about credit unions beyond the church is very helpful.

Encouraging local employers to set up payroll deduction schemes is also a high priority for these credit unions, using existing church networks. Volunteers with professional skills – accountancy, business development and marketing, especially - is the next highest priority, as quite a few credit unions struggle to get people with the right skills to join their management boards. Use of church premises as access or collection points would be useful in some cases, particularly in more rural areas, but is generally a lower priority in this area. An unexpected benefit of this forum has been the exchange of information between credit unions. Many of the representatives had never met each other before, but valued the opportunity to share ideas and find out what other local credit unions were planning.

### **2: Louth**

Louth Parish Church got involved with its local credit union when Peta Hill, the church's community worker, became aware that many local families were in debt after turning to payday and doorstep lenders. The church decided to promote Lincolnshire Credit Union as an alternative, enabling the community to find its own solution to tackling debt. Peta started by publicising the credit union in the local community, using the church's connections with the housing association, district council, and the local industrial estate. Four months later, the church opened a sub-branch, where people could join the credit union. Very quickly, this became a "full access" point, where members can deposit savings, apply for loans, and make repayments. The church centre also hosts a multi-agency drop-in for housing and debt advice, who can cross-refer clients to the credit union. The access point is run with the help of 10 trained volunteers, one of whom recently joined the credit union's steering group.

### **3: Stourbridge:**

In a project that will benefit both church and credit union, Castle & Crystal Credit Union has linked up with St Thomas's Church in Stourbridge to promote the credit union and help restore the church's community hall. For every Stourbridge resident who joins and opens one of the credit union's savings accounts, they will donate £1 of their £3 membership fee to St Thomas's Community Hall Fund. The credit union's Community cash-builder scheme will contribute to the restoration and repair of the community hall, which is used by many local groups.

### **4: West Sale**

Sale Credit Union was set up more than 15 years ago by the church and community to help people in the Sale West Estates area to manage their finances, and has around 800 members. The credit union, which is open twice a week for people to deposit savings and take out loans, has its own dedicated room in the local community centre where the Sales West Community Church also meets. Churches provide many of the volunteers that help to run the credit union, including several board members with financial and business expertise, who are helping the credit union to modernise and expand its reach. Alongside the credit union, one of the church volunteers is a CAP Money Coach, and offers money management courses in the community centre and local schools.

**Malcolm Brown and Tom Sefton**  
Mission and Public Affairs Division  
October 2013

31 Great Smith Street, London SW1P 3BN  
Copyright © The Archbishops' Council 2013  
£2