

MEETING THE NEEDS OF LOW INCOME GROUPS: CREDIT UNIONS VERSUS MONEYLENDERS

Noreen Byrne, Olive McCarthy & Michael Ward
Centre for Co-operative Studies



INTRODUCTION

- Strong credit union movement in Ireland – Moneylenders still thriving
- Focus of study was to examine credit union service and to compare it with that offered by moneylenders
- Also to estimate the extent of moneylending in a number of communities in Munster

Layout of Presentation

- Short discussion of financial exclusion literature
- Estimation of extent of moneylending in a number of communities
- Examination of credit union service in terms of ;
 - ‘access’ to the services
 - ‘use’ of the services
- Current credit union initiatives & best practice suggestions from the literature
- Conclusion
- Questions and Answers

A QUICK WORD ON FINANCIAL EXCLUSION

Definition

- Leyshon & Thrift (1995) define financial exclusion as the ‘processes that prevent poor and disadvantaged social groups from gaining access to the financial system’
- Gloukoviezoff (2004) includes ‘use’ of financial services and not just ‘access’ in his discussion of financial exclusion.
- Use of moneylenders seen as a consequence of financial exclusion

FINANCIAL EXCLUSION IN IRELAND

- Gardener et al (2004) point out that Ireland has a relatively high level of financial exclusion in the EU, at 19.79% of the population. (however, only takes into account those without bank accounts and does not consider whether the interviewees hold a credit union account)
- Very little work done in Ireland on Financial Exclusion
- Mainly UK Literature
- Ireland with its strong credit union movement adds a different perspective to the discussion of financial exclusion.

Research Method

- Purpose
 - Examine the credit union service in terms of its potential for financial inclusion/exclusion
 - Compare the credit union service to that offered by the Moneylender
 - Estimate the extent of moneylending in a number of communities
- Method
 - 6 Communities
 - Interviews with key witnesses from credit unions, MABS offices, Moneylending Companies.
 - Survey of 329 people at post offices within 3 of the studied areas on welfare collection days
 - Attendance at national and regional workshops/discussion forums

Estimate of the extent of moneylending

- Total Sample – 329 people
- Of these 39% are currently borrowing from moneylenders
- 79% are currently borrowing or have borrowed in the past from moneylenders

- Have socio-economic details for 253 of the sample
- (38%) 96 of which are unemployed
 - Of these
 - 33% are currently borrowing from moneylenders
 - 70% are currently borrowing from the credit union
 - 11% only borrow from moneylenders

- Of the 33% who are currently borrowing from moneylenders;
 - 11 or 34% are also currently borrowing from the CU
 - 4 or 13% are also currently borrowing from the Bank.
 - 17 or 53% are credit union members

- 116 or 46% of the sample are lone parents
 - Of these
 - 33% are currently borrowing from moneylenders
 - 23% are currently borrowing from the bank
 - 50% are currently borrowing from the credit union
 - 75% are credit union members

- Of those lone parents who are currently borrowing from moneylenders
 - 9 or 24% are also currently borrowing from the bank
 - 21 or 55% are currently borrowing from the credit union
 - 27 or 71% are credit union members

Why do people use moneylenders? - perceptions of MABS & Credit Unions

- Tradition
- Fast response
- Convenience/Easy service
- Close relationship with moneylender
- Moneylender not viewed as a problem – use of moneylender seen as a choice and for certain type of credit.
- Consistency
- The cost of credit not an issue
- Credit unions perceived as being more for the middle classes or larger loans.

Credit union service & financial exclusion

- Credit union service is examined in terms of its potential for financial inclusion and exclusion
- Financial exclusion examined in terms of 'Access' and 'Use'.

Access

Access in the financial exclusion literature discussed under the following headings

- Geographical exclusion
- Access exclusion
- Condition exclusion
- Price exclusion
- Self-exclusion
- Marketing exclusion

How does the Credit union fare on these financial exclusion dimensions?

- Geographical access – CU compares well to the banks in terms of location and opening hours, but the moneylenders are more geographically accessible as they call to the door

Access Exclusion

- Defined as the restriction of access through the process of risk assessment;
- Quotes from survey – highlight accessibility of the credit union
 - “Never turned down for a loan” (unemployed)*
 - “you know that you can always count on them and no matter what happens they’ll give you a loan” (lone parent/unemployed)*
- Credit union assesses loans on the basis of member’s previous track record and their ability to repay. While this is fair, it is necessary to build up a savings record. Can be difficult for the unemployed. Moneylenders highlight that there is no need for a savings record and also imply in their marketing literature that previous credit history need not be a problem.

Condition Exclusion

- Defined as being where the conditions attached to financial products make them inappropriate for the needs of some people.
- Joining the credit union – need to have photo ID and proof of address – may be difficult for some – requirement of moneylending legislation.
- Loans – no conditions of loan size, insurance requirement, no/limited waiting time. However, a savings record is required. In terms of loan sizes, all the studied credit unions indicated that they are willing to give out very small amounts. An average of almost 50% of loans issued in the studied credit unions were for less than €1,000. However, the trends are towards bigger loans.

Price exclusion

- Defined as when some people can only gain access to financial products at prices they cannot afford.
- This is not an issue in the credit union – the quotes from the survey indicate that people are aware that the credit union is cheaper but still borrow from moneylenders.
 - “Because it (the credit union) is cheaper and there is an incentive to save as well”*
 - (Pensioner who is currently borrowing from a moneylender and the credit union)
- So price does not seem to be the primary issue.

Self-exclusion

- Defined as where somebody excludes themselves from mainstream financial services because of a perception that these services are not for them.
- Following quote from the survey would support this
“never borrowed from the credit union just any loan I need would be too small”
(lone parent, unemployed, is a credit union member but is currently borrowing from a number of moneylenders)
- MABS highlights that credit union membership is as much a family tradition as is borrowing from moneylenders. If the parents are not credit union members then the children will not be either.
- Self-exclusion and Marketing exclusion may be closely related

Marketing Exclusion

- Defined as where some people are effectively excluded by targeted marketing and sales.
- In the CU do not use targeted marketing, so not purposely excluding people. However, they do use the same marketing material and methods for all the members. Financial Exclusion literature highlights the importance of using targeted marketing for those in danger of financial exclusion
- CU marketing focus on car loans, home improvements, holidays etc. Such products may have little relevancy to those on a very low income.

‘Use’ of financial services

Our discussion of ‘use’ will first focus on certain aspects of credit, followed by a more general discussion of financial advice/education.

User friendly loan service

Kempson, Whyley, Caskey & Collard (2000) highlight that people use moneylenders rather than mainstream financial credit because of the following;

- Simple, straightforward and easily understood products;
- Weekly manageable repayments;
- No hidden charges or penalties for default;
- A flexible and sympathetic approach to repayments
- Close relationship with the lender (our key witnesses pointed out that this was a key success factor for the moneylender

How does the CU fare on these loan factors?

- With regard to the first three (simple products, weekly repayment, no hidden charges) the credit union performs very well
- In terms of a flexible and sympathetic approach to repayments, the credit union performs well to a point, in that they are flexible and understanding. The quotes from the survey highlight this;
“The credit union are very understanding if you have a difficulty in repayments”
(Currently borrowing from the credit union, has borrowed from two different moneylenders in the past)
- However, MABS highlights that the Credit Unions are more inclined to take indebted members to court than other financial institutions.

Loan use factors contd.

- Building a relationship with the member – moneylenders appear to build strong personal relationships with their customers.
- More difficult for Credit Unions – huge number of transactions each day
- Also tendency to treat all members equally
- Sometimes tendency towards judgement

Financial information and advice

- Very important to low-income members
- 2 types of advice – debt and general financial advice
- Debt Advice – credit control personnel & MABS
- Financial Advice – informal in the credit union

Debt Advice

- Credit Control procedure
- Once reach a certain point, credit union puts member in contact with MABS
- One-to-one service provided by MABS.

General Financial Education

- Gloukoviezzoff (2004) highlights that it is not enough to develop products for the financially excluded but must also develop people's financial autonomy.
- Jones & Barnes (2005) indicate that "unless financial literacy is increased people will continue to use moneylenders"
- Difficult to build financial autonomy of those on very low income;
 - Limited flexibility on low income
 - Consumerist culture
 - Borrowing culture – seen as ok now to borrow and ok to be in debt

General financial Education contd.

- Credit unions educate members through the building of routines – savings and regular loan repayments
- However, transactional dealings alone may not be enough – financially excluded often need this supplemented with parallel teaching efforts in order to develop financial autonomy.
- Jones & Barnes (2005) suggest the following;
 - 'financial buddy' system
 - Use of stories
- Credit union alone cannot build financial autonomy of financially excluded people.

Current initiatives focusing on low-income groups

Ireland

- Special Budget Account
- Loan guarantee fund
- Social fund

Abroad

- Individual Development Account
- Lending tied to education
- Community Banking Partnership Pilot in the UK
- Community Development Credit Unions in the US

Best practice factors

- Be Innovative
- Price the products according to costs & risks
- Develop products which encourage changes in financial behaviour and which build financial autonomy rather than mimic moneylender services
- Make savings a key part of the package of services offered
- Build commitment to serving low-income groups at all levels in the credit union.
- Be prepared for more one-to-one effort and involve the potential service users in the development of services
- Build links with other community groups
- Targeted marketing and education

Concluding remarks

- Key difference in nature of credit union & moneylender credit
 - Moneylender credit – would appear to be more of an 'impulse' or 'emergency' nature
 - Whereas credit union credit would appear to be of a more pre-mediated type credit.
- Key difference in nature of credit union & Moneylender education & marketing
 - Moneylender effectively educating people towards impulse borrowing
 - Credit union educating people towards thrift on an ad-hoc basis

- Key difference in relation to credit union & moneylender relationship to customers
 - Moneylender has a close one-to-one relationship with the customer
 - Less one-to-one contact in the credit union
- Building financial literacy/autonomy is a greater issue in Ireland than access
- Credit Union service very good but marketing is poor
- Credit Union has a large % of low-income members – credit union needs to be able to prove this through statistics

- US credit unions now returning to serving low-income groups – seen as a market niche
- No EFT service in most Irish credit unions – EFT may even be more important for low income groups than for other income categories.
- Marketing needs to be more targeted and use a content and language that relates to the daily financial routines and reality of low-income members.
- Financial exclusion literature needs to put an equal focus on 'use' of financial services as well as 'access'.

Questions?