

REALITY OF CHANGE – STRENGTHENING RURAL & URBAN CREDIT UNIONS IN THE WEST MIDLANDS

Crown Plaza Hotel, NEC Birmingham, 3 March 2004

Thank you for inviting me to contribute to an important conference and celebrate another milestone in the development of an important and impressive project.

It was just a couple of years ago that I addressed a conference in Shrewsbury which marked the publication of the research project *From Small Acorns to Strong Oaks* and, indeed, the launch of the *Just Credit Union* in Shropshire.

It's clear that the acorn has seeded and though it takes a long time for mighty oaks to grow, the first shoots are good and healthy.

And that's as well. Because there is a growing need out there both among those currently excluded from mainstream financial services and those disillusioned and often disadvantaged by a market driven exclusively by the profit rather than the cooperative motive.

The most pressing need is among those who are neither affluent nor economically mobile and for whom every technological breakthrough in banking creates not so much new opportunities as new forms of exclusion, making essential services even more remote and inaccessible.

We are all living with - living in - debt. But some can afford it and some can't.

Counter to much of what you hear, this is not a debt-averse society. We take on debt as if there's no tomorrow. It's difficult to do without it. We acquire mortgages, we take out overdrafts, we enter into hire purchase agreements, we buy on credit – and those who can't access these standards means of borrowing are too often driven into the arms of loan sharks.

Debt is a growth industry. According to the Bank of England, total consumer debt rose from £613,719 million in January 2000 to £945,155 million this January. And the growth rate is on an upward curve, from an annual rate of 9.5% four years ago to 14.1% now.

According to the debt advice group *Debt Free Direct*, around 18.3 million people owe an average of £5,993 each in unsecured debt. And with the average income at little more than £15,000, that is a very high proportion.

The *Debt Free Direct* research also found that about 4.1 million people who are not working owe £13.47bn - an average of £3,325 per person.

What's more, according to the Bank of England, unsecured debt as a proportion of income is increasing faster among low income households. With interest rates gradually rising, the cost of that debt will rise too.

I mentioned loan sharks. They make their substantial, parasitical living from people like these.

But actually, we're all being ripped off. We're all, often unwittingly, being fleeced by what we regard as highly reputable High Street multiples which make a fortune not so much out of their retail products as from the extortionate interest they levy on their in-house charge cards.

A survey recently undertaken by my colleague Jonathan Shaw revealed that *Comet* charges 31.9%, *House of Fraser* 29.3%, *Argos* 25.9%.

Perhaps I should pause while you look in your purses and wallets to see what it is that's burning a hole in them!

The Government is seriously and rightly concerned about the problem of debt and high interest charges. And it has long recognised the role credit unions can play in offering people the kind of accessible, reasonably priced and ethical financial services they need.

Of course it should, because the principle of cooperation, mutuality and social enterprise is deeply embedded in Labour's historic values.

But - and this is an important point - there is growing recognition within the movement itself that credit unions can only make a real difference if they are established as safe and sound financial institutions which have the capacity to serve not just a few

hundred, but thousands of members with the kinds of financial services they want.

That means not just the disadvantaged but the more affluent too - potentially, everyone – and that's nothing to feel embarrassed about. The stronger the union, the more use it is to those who need it most.

We have a long way to go before we can measure our credit union movement against those in the US, Australia and the Caribbean.

That's largely because until very recently the potential was simply not properly understood. Credit unions have been regarded as "banks of last resort" for people who could not access or deal with more traditional banking and financial services.

The aims of credit unions typically have been well intentioned but ill defined. Huge importance has been attached to the community base. But the voluntary instinct which underpins many credit unions - indispensable though it is - has also rendered them vulnerable when the commitment of a few individuals does not meet with the success which justifies their effort or, indeed, when their success is not sustainable.

And the very local focus of credit unions has built in from the outset a sometimes fatal diseconomy of scale which for many has proved impossible to overcome, particularly in rural communities.

And, critically, too often the desire to extend credit has overwhelmed the need to attract the savings from which to lend.

We're on the cusp – perhaps we're actually beyond it now – between the old volunteerism and a new professionalism in developing, managing, marketing and sustaining modern credit union models.

And that new realism – for which ABCUL and the work you are doing is in no small way responsible – and of which *Just* and *Fairshare* credit unions in my constituency represent shining examples - provides real hope and real confidence for the future.

Credit unions are being challenged - and rightly so – to meet modern demands and exploit new opportunities to grow, not just in membership, but in the diversity of the people and needs they

serve, the range of products they offer and the quality of service they provide.

This is not a betrayal of traditional values. It is simply a recognition that credit unions which establish themselves as quality financial providers can do so much more for the low income communities and groups they have a mission to serve.

That means competing, by providing the access and service that customers want and that might mean your reviewing your lending policies to reflect the real and developing needs of your membership. For some that will be uncomfortable. Change is challenging. But it is necessary if the movement is to grow and if it is to realise its potential for good.

I know some of the changes that are proposed in the West Midlands project are not always easy for credit unions. But it is essential to attract savings to make the loans that people need.

And credit unions can only attract savings in significant amounts when people see them as financial institutions they can trust and benefit from.

I know that to do this means changes and developments in policies and procedures. But those changes are vital if credit unions are going to play a major role in the economy of the West Midlands.

In this process, it is essential to bring everybody involved in the credit union - directors, staff, volunteers - along with you. And access to funding for this growth is essential too. It can make the difference between success and failure. So it's very encouraging to see the West Midlands Social Enterprise Partnership, Advantage West Midland and the Countryside Agency funding this growth-oriented programme.

And it is great to see best practice flourishing throughout our region. If I may be parochial, I'd like just to mention some ground-breaking work in my own back yard.

Fairshare is working with its local authority and a housing association to enable homeless people access housing. *Just* is operating a network of collection points in some of the most disadvantaged communities of Shropshire.

I'm confident that the movement can and will rise to the challenge. And I want to pay tribute to the dedication of so many directors, volunteers and staff members who have worked so hard to establish credit unions to serve the people of the West Midlands.

You can be proud of the part this project and everyone involved in it is playing in ushering in a new future for British credit unions - one which is robust, confident, progressive and, crucially, so much better equipped to realise the potential of this up-to-now underrated and under-achieving movement.

And it is crucial to recognise that fulfilling that promise means improving the standard of living and quality of life of those who become members of credit unions.

It means empowering, enfranchising and emboldening individuals, families and communities in both rural and urban Britain. That is – is it not? – what we are all here for.

Thank you.

Peter Bradley