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Avoiding sub-prime lenders: credit unions and their diversification in Wales

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Abstract

Considering the increased role for social policy since 1997 in the area of financial inclusion and the financial crises of Farepak and Northern Rock, this paper explores the role of credit unions in provision of financial services. Drawing upon recent research in Wales, the authors explore the different routes to diversification developed by Welsh credit unions to help financially excluded individuals avoid the use of sub-prime lenders. This analysis of credit union development highlights the lessons to be learnt from each strand of diversification before considering the implications of these findings on the wider, UK, credit union movement.

Keywords: Credit union, financial inclusion, diversification

Introduction

Tackling financial exclusion and improving access to affordable credit have been aims of the Labour government since 1997. In power, the New Labour government has developed a strategy to tackle financial exclusion (H.M. Treasury, 1999) which has included a key role for credit unions (Treasury Select Committee, 2006; H.M. Treasury, 2007). The collapse of Christmas hamper company Farepak and the financial crisis of Northern Rock have highlighted the enduring nature of problems in savings and financial services. Farepak in particular shows how instabilities in global capital can impact upon the most disadvantaged in society (Pomeroy, 2007). This paper explores the interface between credit unions and financial exclusion in Wales, where unions have been heavily supported and promoted by the Assembly Government (Thomas, 2004; Kearton, 2006; Drakeford & Gregory, 2007). We explore the diversification of credit union service strategies and highlight future possibilities for credit unions across the UK.

Prior to this research, a number of studies have explored credit union development more generally. Initially, Jones (1999) outlined ways in which credit unions could expand membership and move towards self-sustainability. He dealt with the concern that most credit unions remain small and few are actually self-sufficient (many of those that are sustainable being employer based rather than community based unions). More recently, Goth *et al.* (2006) have explored the development of 'fast track' credit unions, thus showing how credit unions can end their reliance on national (and local) government subsidy and become self-sustaining. The research reported here builds on these issues by exploring some practical ways in which Welsh credit unions have pursued self-sustainability through a strategy of service diversification (see Drakeford, 2003, for an account of this approach).

In doing so, credit unions have had to grapple with some fundamental questions about their future. Most Welsh unions have been established as community organisations, powerfully rooted in an ethos of mutuality and focused clearly on the basic business of providing savings and loans services. The challenge for the future has been to retain the essential character of the movement, while doing more to expand its membership and public awareness. The account which follows concentrates in turn on five different strands in a strategy of service diversification by credit unions which, we conclude, represents the most distinctive characteristic of the Welsh response to this challenge. These strands are: Debt Redemption and Money Advice (DRAMA), instant loans, the Department of Work and Pensions (DWP) Growth Fund, Child Trust Fund (CTF) deposit-taking, and a 'mixed basket' of local initiatives. Each approach is tested here against the goal of achieving long-term credit union sustainability, drawing conclusions, where possible, as to their success or otherwise as a means of expanding membership.

Methodology

In total, nine credit unions took part in our study and 30 interviews were conducted with credit union managers (9), staff (10), Board Members (6), volunteers (4) and one Wales Co-operative Centre representative.

The primary method of gathering data was by audio-taped, semi-structured interview (Rubin & Rubin, 2005). Interviews were designed around themes generated during discussions led by one of the researchers with a number of credit union staff. These themes were aligned with the research aims to form a number of general topics for discussion, while the semi-structured nature allowed the interviewer to follow up on further emerging issues, some of which formed topics of discussion in future interviews. Such an approach provides a valuable tool for obtaining the opinions and exploring the attitudes and experiences of a group of people most closely involved in the contemporary Welsh credit union movement. While interviews were intended to focus on those most closely involved in union decision-making, it is in the nature of credit unions that almost all these individuals are also, themselves, users of the services which unions provide.

Once the interviews had been transcribed, copies were sent to the interviewees so that they could read the recorded interview and check it for accuracy. This was done in an attempt to improve the validity of the research data.

A manual thematic analysis of interview transcripts highlighted key themes emerging from each project, as well as searching for themes which crossed project boundaries. A wide range of observations concerning each theme was then assembled and interrogated in order to develop a commentary which gave due weight to prevailing views and concerns. This analytic approach was applied to each of the five forms of diversification explored in the research and it is to these different practical examples which this paper now turns.

Debt Redemption and Money Advice - DRAMA

For a movement dedicated to assisting those at the margins of financial exclusion, credit unions contain within them a substantial difficulty in reaching out to those most in need. Earlier studies (Drakeford & Sachdev, 2001) report that any new publicity campaign generates an immediate influx of interest from individuals whose circumstances are in crisis. While, in the medium term, credit union membership might lead to an improvement in the level of individual indebtedness, it cannot by definition overcome insuperable barriers to that situation, because such individuals are typically unable to build up even the most modest record of savings. And, in conventional credit union practice, without savings there can be no loans.

In an effort to find a way round this problem, the Coalfields Regeneration Trust (CRT is an organisation dedicated to improving the lives of people living in coalfield communities in Britain) has supported South Wales credit unions to develop the Debt Redemption and Money

Advice scheme. The funding provided by the Trust means that unions are able to make loans without the normal security provided by a savings record, with loans underwritten by the CRT, if repayments do not take place. DRAMA is targeted at individuals who, because of owing money to others, are threatened with the loss of a major social asset such as a utility disconnection, eviction for rent arrears or imprisonment for fine default.

DRAMA operates a dual process whereby the credit union firstly 'buys-out' and reschedules the individual's debt alongside work with money advice services, primarily the Citizens' Advice Bureaux, to carry out a comprehensive review of individual circumstances, thus removing the immediate threat with the aim of establishing long-term stability. Furthermore, DRAMA places an emphasis on building savings at the same time as the loan is being defrayed, so that by the time the loan has been paid off, the individual is able to be a fully participating member of the Credit Union.

The two key distinguishing features of diversification through DRAMA can be identified as follows: firstly, it makes mainstream credit union services available to a particularly disadvantaged group in the population to whom they would otherwise be denied; secondly it brings together a solution to short-term crisis with the prospect of long-term improvement.

Our research suggested that participating credit unions were positive about the potential which the approach possesses for reaching out, and recruiting new members. As one respondent put it:

> *We wanted to help more people, and those eligible for DRAMA are in the most desperate circumstances. Before DRAMA there was no security against high risk lending, even if people had obtained money advice.*

Now, with the scheme in place, the unions were able to bring in:

> *people who would not have been members previously because they would have had no savings ... offering a lifeline to those people.*

Yet a number of practical issues exist in the operation of DRAMA. Firstly, there was variability in the quality of working relationships with money advice organizations. Secondly, staff and volunteer attention could be distracted from normal union activities, leaving people disillusioned with the scheme. Thirdly, while one credit union reported that "we have gathered a few good new members", conversion to full membership could be disappointing: "many of those who have had DRAMA loans have closed accounts when loans have been paid and this is not what the credit union wanted". Finally, the CRT funding of DRAMA, which prevented credit union financial losses, made advertising the scheme problematic. There exists a genuine fear that, in knowing the loan is underwritten, borrowers might not repay the loan. As one respondent explained: "the hardest part was how to advertise DRAMA without going into too much detail, as we couldn't advertise it was underwritten".

Our conclusion is that, in terms of diversification, it seems clear that DRAMA is likely to make a marginal, rather than a central contribution to a strategy of strong growth and future sustainability. A number of intrinsic constraints limit the number of new members which unions recruit in this way. These constraints are inherent in the way the scheme is organised, or the product of wider ambivalences within the movement about developing in this direction. Some respondents, for example, reported anxieties that DRAMA applicants might "come along and take the credit union for a ride". A system was needed, it was suggested, "to make sure that genuine people are getting involved with the credit union, and not people just looking for a quick, cheap loan". More positively, interviewees confirmed that, for a relatively small number of people, DRAMA offers a service of high importance and relevance. For those with whom it works successfully, it really does offer the prospect of short-term relief combined with long-term stability.

Instant Loans

Traditional credit union practice requires a fixed period of savings before loans can be provided. Yet this can create a substantial barrier not only to those whose circumstances prevent any form of saving, but also to those who have only a very narrow weekly margin from which savings can be squeezed. A second established credit union practice has exacerbated difficulties for these most struggling savers. Traditionally, credit unions calculate the amount of money which can be borrowed as a multiple of an individual's shares – for example a ratio of 1:2 would lead £50 in savings to a maximum loan of £100. This has created additional problems for those with low savings ability in dealing with unexpected – or "lumpy" – expenditure, such as replacing a broken washing machine, through the credit union.

The situation has generated recent debate within the credit union movement, focused on the provision of instant loans, available immediately on membership. Instant loans are a form of 'capacity lending' – that is to say eligibility is assessed not on prior savings, but ability to repay. This draws more on commercial financial techniques, another departure from traditional practice. Of the different forms of diversification discussed in this paper, instant loans and capacity lending have gradually become one of the most widely accepted new services: partly because capacity lending can assist existing members with low savings, as well as being attractive to new members. Provided they are assessed as being able to repay, such members are now able to access larger loans than from credit unions operating a traditional multiple of savings policy.

In the accounts offered by our respondents, the decision to move to instant loans was accelerated through their involvement with an advice and training session offered by the commercial sector. This introduces credit unions to instant loan provision based on capacity lending which increased both business and help for the community. As was explained to us, this system "won't hurt the people who don't have the ability to pay it back". The Treasury Select Committee (2006, p.26) also reported how this training had lowered loan delinquency and operating expenses whilst increasing both assets and membership. Furthermore, respondents emphasised that learning from the commercial sector was a supplement to, rather than a substitute for, established credit union activity.

Credit unions listed a number of advantages in the provision of instant loans. Firstly, they allow unions to compete directly with sub-prime, high-cost instant lenders:

> *Having access to instant loans is hopefully stopping them from going to high cost lenders where a big chunk of their basic money is paid in interest … helping socially excluded people move away from the lenders who tend to charge more.*

Highlighting this point, the Treasury Select Committee (2006, p.13) investigation provided a set of up-to-date calculations of interest rates charged in the sub-prime sector, quoting an APR range of 140–400% for recognised home credit companies, and an estimate rate of over 1000% for illegal or unlicensed lenders. By contrast, instant loan credit unions make use of a new ability, provided through the Credit Union (Maximum Interest Rate on Loans) Order 2006 to increase the maximum rate of interest which a credit union can charge on loans from 1% to 2% per month.

Secondly, respondents emphasised that instant loans also allowed credit unions to position themselves in a way which created real market difference and distinctiveness in relation to high street banks. The Treasury Select Committee (2006, p.14) quotes evidence from the HSBC to the effect that, for mainstream banks:

> *provision of short-term, very low value micro-credit is simply not deliverable in a cost-effective manner. To cover our operating costs alone would require charging a disproportionately high APR.*

In our research, instant loans were made for exactly such micro-credit purposes, identified as “telephone bills where you can expect the loan to be paid off in three months time, ready for the next one, or Christmas or holidays, where again loans can be expected to be paid off in 12 months time”. This reflects the typically small nature of loans required by those excluded from financial services (Whyley, 2003; HM Treasury, 2004).

Thirdly, provision of instant loans, through capacity lending, served to erode a distinction between ‘ordinary’ members and ‘instant loan’ users in some important ways. One respondent put this negatively: “one downside was finding out how much debt current members were already in, although they had been good at paying back, they were borrowing money to pay debt.” Put positively, however, this suggests that instant loan applicants were not, necessarily, more likely to default than members recruited in the traditional way. Thus, for some, capacity-based lending had, in important ways, narrowed the perceived gap between different sorts of loan applicants, rather than widening it, as some had feared. The effect of instant loans was integrative, illuminating rather than obscuring ‘common’ bonds between members.

Department of Work and Pensions Growth Fund

Credit unions which have developed instant loans are those able to do so from their own resources. The union must have sufficient funds in savings, and a willingness to take on additional risk, if it is to embark on this form of diversification. Recognising that many unions are not in such a position, the DWP, as part of the Westminster Government’s financial inclusion strategy, has provided new funding to help credit unions offer instant loan facilities. A sum of £36 million has been made available, through the DWP’s Growth Fund, to promote the work of third sector lenders, including credit unions. The scheme works by offering low cost loans to low income individuals in areas of high financial exclusion. The Fund targets people on low incomes currently defined as £123 a week or less for a single person; up to £215 a week for a lone parent with two children; and up to £400 a week for a household with four children. This ensures a reduction in the cost of loan repayments for excluded people in comparison with high cost, alternative lenders, while retaining the value of each loan fund for the long-term benefit of the community.

In order to have access to the Growth Fund, unions have to demonstrate a capacity to administer instant loans to a national standard. While there was an off-putting element to this – “there was a lot of time and effort required to get it all set up, and there was some reluctance from the Board at all the work involved” - for what remains an essentially local movement this was, for some respondents, an important “opportunity to be a partner in a bigger world than our own”.

In practical terms, as with instant loans, the major point made by those of our respondents who most clearly supported participation in the DWP Growth Fund was that, for individual users, the choice is not between such a loan from a credit union and no loan at all, but between a credit union loan and a loan from a door-step lender:

> *our main reason [for taking part in the DWP scheme] is that it is a wide fund of money which we can use to target high risk potential members with instant loans … [if] we have to say, 'sorry we don't do instant loans' they would then go to the Provident at the end of the street. … It will be difficult to actually compete fully with doorstep lenders as they go door-to-door. But it will allow the credit union to enter into areas which we do not penetrate at the moment.*

For unions, and individuals, with this orientation there is no basic contradiction between offering Growth Fund loans and more traditional credit union practice. The link, as one respondent put it, is as much moral as financial:

> *Credit unions exist to help certain groups in the community – groups, perhaps, a segment below those we are currently serving, groups we haven't been able to deliver a service to, or reach out to, so far. ... This credit union has a strong moral feeling … and we saw this scheme as an opportunity to help that segment of the community.*

Our conclusion is that the DWP Growth Fund offers one of the best opportunities for sustainable expansion but one which relies on a fundamental reorientation in traditional credit union thinking. Historically, the default position of previous, credit union loan-making practice has been to place the onus on the applicant to make a persuasive case because, as we were regularly reminded, the risk falls on the savings of other members. Instant loans and DWP loans reverse that position, so that the default position becomes agreeing a loan unless a good reason can be discovered as to why that should not be the case. This shift in thinking will take time to become embedded in credit union practice.

The early evidence we collected gives some ground for optimism. The most thoughtful responses in our research seem to come from those who have moved beyond a position in which unions are regarded as having to choose between a traditional ethos and a new business orientation. A fresh synthesis is emerging, in some places, where the essential purposes and practices of credit unions are retained but applied in new ways. At root, this is about finding effective ways of responding to contemporary conditions. As one respondent put it:

> *unless a credit union can develop products and services to reach these parts of the communities, these financially excluded parts of the community, we will have failed. … Any credit union which has policies and products that will drive people to doorstep lenders is flawed.*

Child Trust Fund - CTF

Thus far, three <u>loan</u> developments have been explored, yet the foundation of the movement is based on savings – for low income members the saving mechanisms are the most valued aspect of membership (Berthoud & Hinton, 1989). The first of the four obligations of unions laid down by the Credit Union Act of 1979 is "the promotion of thrift amongst members by the accumulation of their savings". Our respondents continue to believe that this aspect remains central to the services of credit unions, pointing to recent evidence (Financial Services Authority, 2006; Lister, 2006) of the very low level of savings in the poorest UK communities. Furthermore, the Treasury Select Committee (2006, p.3) highlights the importance that even a small amount of savings can have on the personal finances of those on low incomes. This becomes particularly important for credit unions who provide services in areas where mainstream financial institutions fail to provide facilities and products convenient for those with limited or no saving capacity (Speak & Graham, 2000; Drakeford & Sachdev, 2001).

An experimental scheme run by the Welsh Assembly Government has attempted to forge links between credit unions and one saving mechanism, the Child Trust Fund (CTF). The CTF is the Westminster Government's 'baby bond' scheme, essentially a mechanism to develop the savings habit and provide an asset for all young people when they become eighteen years old. An initial £250 is paid by the Government for every child born from September 2002 with an additional £250 going to children in households in receipt of maximum Child Tax Credit. This payment arrives as a voucher to be invested by the parent into an account of their choice. Parents and family can add up to £1,200 annually to the account, in a tax efficient manner. Moreover, the Westminster Government will top-up accounts when children reach seven and thirteen years of age while, in Wales, the Assembly Government will provide its own additional top up of £50 to all children starting school (in Wales), with £100 for the most disadvantaged children (Welsh Assembly Government, 2007).

The Welsh Assembly Government demonstration project assists credit unions in attracting deposits to the non-stakeholder, deposit/savings account which unions can provide. It is clear from our respondents that, without the financial support of the Assembly, the initiative would not have been possible:

> *we were offered funding to be a demonstration project. Without the costs being covered, credit unions cannot afford to do experimental things because they are a high risk business and rely heavily on volunteers.*

Or, as another respondent put it: "it might have been possible for the credit union to run the scheme further on down the line, but we wouldn't be doing it now without the funding".

It is too early at present to determine the full effect of this diversification strategy and our conclusions are therefore tentative. At present, activity has focused on information-giving and consciousness raising which has involved a range of places, projects and professionals – parent and toddler groups, pre-school groups, family and community centres, surgeries, anti-natal groups and midwives, as well as local shops specialising in baby clothing and equipment. As a basic contextual factor, however, it is important to echo the conclusion drawn by the Treasury Select Committee (2006, p.48) that "saving is not accorded the same priority in the Government's strategy for promoting financial inclusion, as credit, advice and banking". Some of the same imbalance can be detected in the range of initiatives reported here, with the CTF standing out as the only example to fall firmly on the savings side. Yet credit unions are well placed, we would argue, to address this tension, because of the way in which, in their own terms, they place equal weight on making saving easier and providing affordable credit.

For credit unions themselves, there is evidence which suggests that CTF accounts could offer a substantial source of un-tapped assets to credit unions. Such accounts are least likely to be opened in areas where credit unions are most active, and the links between the ethos and purpose of the credit union movement and asset-based welfare are readily apparent (see Gregory & Drakeford, 2006). Once an account is open, any funds deposited in it are available for lending purposes over an eighteen year period. At the same time, many respondents, across the whole range of different diversification initiatives, have emphasised to us that the long-term future for credit unions has to lie in 'normalisation' – that is to say, in making credit union membership as taken-for-granted as any other form of financial institution. In that regard, the Child Trust Fund does, indeed, offer a chance to bring a whole generation into credit union participation, from their very earliest days. One of the unions already had a substantial investment in building up its presence in schools, through junior savers clubs and other initiatives. For them, the CTF project offered some natural affinities with that work: "hopefully now, by offering Child Trust Fund accounts we can teach the children to save … then we'll have all these children coming through knowing a credit union".

The key practical advantage which credit unions were thought to have in the minds of potential depositors was their local presence and personal approach:

> *the credit union is local and more approachable and this is important because some people don't trust banks. And a lot of the areas the credit union is dealing with are the more deprived areas where people are financially excluded and to them we are more approachable and more normal.*

In both participating unions, the point was made by respondents that, in publicising the CTF, the project was also drawing attention to credit union services more generally. For many people contacted, the information was the first time they had heard both of credit unions and the CTF. There was some early evidence of people joining the credit union as a result, independent of any decision about CTF depositing. Respondents were aware of some of the wider benefits which unions could derive from taking CTF deposits:

> *obviously we are allowed to use the money deposited in Child Trust Fund accounts for our day-to-day business, so that gives us more money to be able to loan out and, of course, the more money we get out the more money we get back in interest, so our income goes up.*

Even at this early stage, however, some difficulties and drawbacks were apparent. National figures demonstrate that rates of deposit are heavily skewed by social class (HMRC, 2007) and credit unions face the same difficulties as all other attempts to persuade individuals in difficult and volatile circumstances to give priority to an issue which has long-term benefits, but little immediate impact on their circumstances. Not only are original vouchers, once deposited, locked away for an eighteen year period, but any additional savings which might be added to that account are similarly unavailable thereafter. There were some anxieties, too, about the ability of a credit union account to compete in the market place: "we can offer only two and a quarter percent in interest, whereas the high street banks are offering twice that rate."

To conclude: there is a sense in which, in bringing together credit unions and the CTF, two relatively unknown players in the financial world are being combined. For individuals who have little experience in this area, and for whom finances are a daily struggle, the fear of commitment to untested (to them) organisations is especially pressing. It may be that the effort needed to counteract this feeling will be exacerbated in the case of the CTF initiative where individuals are being convinced both to join the credit union (of which they may know little) and to engage with the CTF (of which they may know less).

Mixed Basket

In preparing for the research reported here, and conducting preliminary inquiries into the pattern of credit union diversification in Wales, it soon became clear that, while there are a number of very specific routes to expansion (as discussed in earlier sections), there are also credit unions which rely on a less concentrated approach or, as one respondent put it to us, as “not having tunnel vision”. In some cases, this amounts to a concerted attempt to develop a wide range of individual initiatives, each one by themselves more modest than others already considered but, cumulatively, amounting to a separate and distinctive diversification strategy, deliberately relying on breadth, rather than depth as its main motivating principle, and aiming to provide a range of new services attractive to different groups in the local population.

We cannot, here, list all the individual initiatives which fall within this approach. They include discounts for credit union members at local stores and services; reduced membership rates at a local leisure centre; loans to young people in order to cover the rent of a scooter needed to access employment; Home Improvement loans and payroll deduction through a partnership with the local authority; funeral insurance, to provide low-cost funeral cover for members; ‘savings circles’ or Christmas savings clubs, where members purchase vouchers to be cashed for goods in the future, and Western Union Money Transfers, a scheme which allows groups of workers such as Filipino nurses, and others with a tradition of remitting money to families in ‘home’ locations, to use the credit union for such purposes.

Perhaps the most striking finding from our investigation of the ‘mixed basket’ approach is the way in which it relies on a whole series of bilateral relationships with other organisations. Initiatives reported to us relied on partnerships, or at least close contacts, with organisations as diverse as the local authority, central government departments, local traders, insurance companies, the Local Health Board, the police, specific professional groups and the Wales Co-operative Centre. Such partnerships can be especially valuable in the hardest, early months of establishing a new initiative. Sometimes that assistance comes in the form of direct financial underwriting, so that new projects can be attempted without risk to the assets of existing members. Other forms of assistance also emerge from working in this widely networked way, ranging from the highly tangible and practical (other organisations taking responsibility for producing and disseminating leaflets, for example) to the less direct but, nevertheless, important way in which working with others both validates credit union membership and provides what one of our respondents called, “real penetration in the community”.

Unsurprisingly, this strategy does not rely on any single strand providing rapid growth. Indeed, in most of the different schemes outlined above, respondents were keen to emphasise the gradual and organic way in which new members were recruited – “you have to be happy with slow growth”, was a regular theme. Unlike single strand strategies, where slow growth can be a source of considerable anxiety, it could be argued that the ‘mixed basket’ approach works *with* the grain of UK credit union development, relying on a steady, rather than spectacular attraction of new members which, cumulatively, amounts to sustainability.

A further finding suggests that, while the ‘mixed basket’ approach relies on a plethora of specific initiatives, there are real prospects of, and advantages in, linking different initiatives into a wider package of services for the individual member: “you have to provide the whole service; that is how you really get people involved”. This was especially reported to be the case in relation to groups who are otherwise even more difficult to reach than those in general financial exclusion. Corporate leisure centre membership, which provides unlimited use of gym and swim facilities for an annual sum of £110, for example, was reported as especially useful in attracting young members:

> *there are young boys, seventeen, eighteen year olds who join for this and would never have joined the credit union before, and who save a couple of pounds a week, so that is brilliant, absolutely brilliant.*

Equally, providing a money transfer facility allows the credit union to become newly relevant to some minority ethnic populations.

A multiple initiative approach also provides some additional possibility for what one respondent called 'rejuvenation' of the union. As well as new members themselves, new projects draw in a new range of contacts and provide a fresh stimulus to those already committed to union activity. The result is a sense of momentum, and of renewal.

The downsides of this approach highlighted in our interviews, included the way in which this strategy is highly demanding of staff and volunteers, both in terms of the intellectual challenge of continual innovation – or "dreaming up these projects", as it was put to us - and in terms of time and effort needed to keep track of each strand of union activity, and to keep those different strands on track. Partnership working, as is well attested elsewhere, had enormous advantages over the long-term, but can be highly intensive, in terms of the energy and effort devoted to building and maintaining the relationships on which partnerships depend. For some of our respondents, there was a sense of looking forward to "a bit of a break before working on the next scheme" – even as a set of new schemes were being suggested!

A second issue which arises in this approach is the way in which unions have to face, continually, the challenge of investing in new initiatives, in advance of the fruits beginning to emerge. "The first few months are the toughest", is a theme which might be echoed by many of the unions reported upon in this research but, for a 'mixed basket' union, this is a factor which has to be faced time and again, as each new initiative emerges and the attempt is made to put it into practice.

Conclusion

This paper has concentrated on a strategy for credit union development in Wales which, in another context, was once described as a "dash for growth". The nature of the change which underlies this strategy has implications across the UK.

Firstly, we conclude that development of credit unions which depends upon competing with mainstream financial services, shaking off the past in favour of a very different future, is both unnecessary and unlikely to be successful. The evidence presented here demonstrates that diversification and expansion can be achieved in a way which remains consistent with the enduring ethical basis of the credit union movement: the 'provident purpose' of union activity, democratic ownership and wider community purpose of their schemes – these remain the motivating purposes which draw volunteers and users into membership. The greatest safeguard against an undermining commercialisation, or a future in which credit unions achieve sustainability by turning their backs on those who need their help the most, remains the vigour with which these issues are debated here in Wales, and beyond.

Our second conclusion is that, for diversification to secure growth and sustainability, unions cannot rely on a single 'big bang' development. Rather, diversity has to be accepted as a key strength. It provides a strategy for both *products* – new forms of loans, new forms of savings – and for *promotion* – leaflets, talks, posters, newspaper articles, door-to-door campaigns and, still the most successful of all, word-of-mouth recommendation.

These are conclusions which hold good not only for Wales, but for the British credit union movement. Through their flexibility and community connections, credit unions can contribute to a fuller and more robust financial inclusion strategy, one which combines a focus on affordable credit with accessible savings, and one which has, as its core aim, the provision of services to those for whom mainstream financial institutions have only a demonstrated record of market failure.

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