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Credit Unions and the Big Society

Credit unions are uniquely placed to play a key role in the financial side of the Big Society – both directly, providing community based fair and responsible financial services and indirectly by supporting the other pillars of the Big society through their efforts.

Governed by a Board of volunteer directors who are elected from the membership, they are ethical, not-for-profit, financial co-operatives owned and controlled by their members. At the end of each financial year, once costs have been paid and revenue capitalised or invested for the future, the remaining profit is shared amongst the members in a percentage-rate dividend.

So by saving with a credit union, not only do you build your own family's financial security, you also provide access to credit, at a fair rate, to others in your community.

At a time when access to affordable credit is a major economic issue, they provide inclusive financial services to the whole of their communities.

While many 'high street' banks have steadily retreated from many high streets with ongoing branch closures and restricting their lending among the least well off, credit unions actively compete with high-cost lenders to provide fair financial services to those with the lowest disposable income. Meanwhile they increasingly cater to the rest of the market as well, with some now offering current accounts, ISAs, insurance and mortgages.

Credit unions are, at their core, self-sustaining social enterprises and have developed organically in communities and workplaces to address a need for equitable financial services. They are exactly the kinds of community initiatives that the Big Society is all about.

Through promoting saving and providing fair finance where others will not, credit unions are stepping in at the community level to give everyone the opportunity and encouragement to build savings and to begin to break free of a credit dependency which, without affordable finance, is sometimes nigh on impossible.

What excites me most about Credit Unions however is not what they are doing but the opportunities they have to do more.

A Legislative Reform Order (LRO) currently before Parliament is within touching distance of becoming law. Expected in early 2011, the LRO will finally free credit unions from a legislative regime which, in an international context, is very restrictive.

One of the key reforms contained will allow credit unions to serve small businesses and social enterprises for the first time. The credit union sector will be empowered to act as a financial hub for the Big Society groups looking to use their financial resources to support the economic development of their local community.

Depositing funds with a credit union ensures that while waiting to be spent, that money is used to benefit the community rather than the distant shareholders. Likewise, the new credit union lending rules could help ensure that social enterprises receive the investment they need while the credit union – that community's local financial co-operative – is strengthened.

And as the Government finalises plans for the Big Society Bank, credit unions – freed from outdated legislative restraints – are ideally placed to act as intermediaries to channel support to those communities where it is needed.