

Setting up for Success

Your guide to setting up a credit union

What is a credit union?

A credit union is a financial co-operative owned and controlled by its members.

Each has a "common bond" which determines who can join the credit union. The common bond may be for people living or working in the same area, people working for the same employer or people who belong to the same association, such as a church or trade union.

Credit unions offer mutual savings and loans to their members, the people that use their services. The members of a credit union pool their savings together; these savings then provide a pool of funds from which loans can be made. A credit union borrows money from its savers and may pay them a return on their money (dividend). The money borrowed from members is lent out to other members, who pay interest on the money loaned to them.

They are licensed deposit takers, authorised and regulated by the Financial Services Authority and they are covered by the Financial Services Compensation Scheme, so the first £50,000 of a member's savings are completely safe.

The operation of the credit union is managed and controlled by an elected Board of Directors. All officers of the credit union are members of the credit union, who are elected by the membership at the Annual General Meeting. All members of the credit union have one vote, regardless of the amount of their savings.

What is a Study Group?

A credit union Study Group is a steering group of individuals and representatives of organisations all working together with a common aim - setting up a credit union. The group would meet together regularly and assign responsibility for tasks amongst themselves. After developing a project plan, the group would work on the development of the new credit union.

The group may choose to use experts and consultants to help them deliver the project and may employ a development officer to carry out the bulk of the work.

Credit unions can take between 6 months and 2 years to set up and so a lot of work is involved, ABCUL is able to support a Study Group in all aspects of development and give you the opportunity to learn from others who are in the same situation.



What makes a successful credit union?

There are six key areas to creating a successful credit union:

1. A Vision for Growth. Successful credit unions start out with a vision for growth. From the beginning they strive to achieve a significant impact as ethically based, democratically controlled, community-owned financial institutions. They aim to bring the credit union advantage to all who can benefit from credit union membership within the community or workplace they serve.

Because they exist to serve their members rather than make a profit, and because they are institutions controlled by their members, credit unions bring an entirely different dimension to the provision of financial services. But only by reaching a membership of several thousand, can a credit union achieve long-term self-sustainability and thereby make a significant positive impact on its community.

At the same time, a credit union must employ the principles of sound business planning to assure that it will be a safe and reliable provider of financial services to its members. Successful credit unions recognise that they are custodians of their members' savings, and that they must operate in a safe and secure fashion.

They realise that their social goals can only be achieved if they follow sound commercial practice, with proper management procedures and financial controls.

2. Leadership. The officers of a credit union are not legally required to possess any particular qualifications, although the Regulator does require that all officers receive training in how to run a credit union. What is needed to create and sustain a successful credit union, however, is a committed group of volunteers who come from a variety of backgrounds and who possess a variety of skills.

Accountancy, banking, computer, bookkeeping, management, supervisory, community development, counselling, committee and marketing skills are all useful ingredients in building a team of officers. But without leadership, the project may lack the drive and direction to succeed. People are needed with the enthusiasm and commitment to keep the organising group motivated and to earn the respect of potential members in the local community. The group needs to be able to sell the idea of a credit union to potential members and sponsors.

3. Diverse common bond. For a credit union to really make a difference, it needs to have some members who will be 'net savers' as well as people who are attracted to the credit union as a source for low-cost loans. A credit union whose common bond contains a mix of income groups and ages has a better chance of becoming sustainable. Credit unions are not only for people excluded from mainstream banking services. They provide an ethical, democratic, good value service for anyone seeking an alternative to the banks and building societies.

Facts about credit unions

There are currently 443 credit unions in Great Britain serving 900,000 members and junior savers.*

Most cities and counties in Great Britain are covered by a credit union.

Worldwide there are 49,000 credit unions in 97 countries serving 184m members

* June 2011

A 'live or work' common bond can add diversity to the potential membership. If there is a large employer in your area it may be possible to obtain a payroll deduction agreement with them. Supporting a credit union is an excellent way for an employer to offer a unique benefit to its employees. A town centre branch may also attract owners of small local businesses to join the credit union. This can add greatly to the credit union's growth.

4. Sponsorship. There are two sorts of sponsorship which are necessary, especially for a credit union in its early stages. Firstly, sponsorship can provide the resources necessary to start a financially sustainable credit union. Secondly, sponsorship can provide credibility.

It can cost from £50-100,000 to set up a credit union with premises and staff for the first 3 years, after which time it should be self-sustaining. Funds can come from a variety of sources. For example, the involvement of an employer can be of mutual benefit to the employer and the community. A local employer can provide financial assistance or help 'in kind', such as by seconding a worker to help with setting up or running the credit union, or by providing office space, equipment or other resources, such as printing, photocopying or stationery.

You could also approach your local council, which may be able to provide grants or loans to help in setting up. Local government may also help you tap into other sources of money.

Local councils, employers, housing associations, respected individuals or community groups can all lend weight to the idea of a credit union and help it develop a respected image. Their sponsorship imparts an image of stability, security and safety and assures potential members of the credit union's reliability. Many people do not know what a credit union is, or they believe it is not for them. If organisations or people they already respect are behind the idea, other prospective members are more likely to be persuaded.

In some areas, housing associations have provided sponsorship. Tenants associations, trade unions, churches, charities and other voluntary organisations could be useful groups with which to form partnership links. The trick is to be creative and persuasive. Being involved in a growing thriving credit union can be an exciting challenge and can benefit individuals and companies who will be seen to be actively supporting and participating in their community. They will be adding value to the lives of members of the community. Selling this idea and vision will bring real benefits for the sponsor and the community, as well as to the credit union.

5. Premises. If a credit union is to attract a diverse range and a large number of members, it needs to project the right image and be accessible. If a new bank were to set up in a dingy backstreet office, away from where people usually carry out their daily business, and open only at inconvenient times, it would be unlikely to attract much business. The same is true for a credit union.

If the common bond you wish to serve has a natural centre, then this would be the best place to situate an office. People are more likely to stop in and make a deposit or talk about a loan if the credit union is near the post office or the supermarket. If they have to walk over to the other side of town, to an estate they would normally have no reason to visit, they are likely to stay away.

The credit union needs to be an attractive proposition to people who can access mainstream financial services. For these people, joining a credit union may be an ethical choice. Savers are essential to a credit union's viability. Without their money, loans cannot be made to the members who need them. If a business does not look as if it will stay around, then people are unlikely to trust it to look after their money.

In a workplace credit union, the sponsoring employer may be able to provide office space at a subsidy or free of charge. Depending on the wishes of the membership, this may be close to places where people gather, such as the general office or canteen, or it may be better in a discrete location, where more privacy is offered. Again, only your research can tell you where the best location is.

If the credit union has a more widespread potential membership, most of the business may be carried out by phone. However, it should be remembered that a lot of people prefer to talk face to face, so you may wish to consider whether a system of representatives or agents in different locations is appropriate.

6. Staff. Credit unions are member controlled and volunteer led. This does not change if staff is employed. The development of policies within the credit union and the overall control of it stay with the elected board of directors, no matter how many staff the credit union employs. Staff enable the credit union to provide a more comprehensive service to the members, allowing the officers to concentrate on other aspects of running and developing the business.

A credit union can create good jobs which will benefit the local community. Officers of the credit union will then be freed up to plan the development of the credit union. The largest credit unions will employ a number of staff, including a general manager, who is responsible to the board of directors.

If a credit union wants to become sustainable and provide a good service to its members, it will need these resources from the start.

15 steps to setting up your credit union

These 15 steps can be seen in more detail once you register as an ABCUL study group

1. The people - getting your group together

Set up your steering group and agree roles and terms of reference.

2. The credit union - deciding your common bond

What will the criteria for membership be? Who will you be serving?

3. Membership - developing membership

Carry out research on the demand for services and where you will get your members from.

4. Finances - finding the money

Credit unions are expensive to set up. Where will your funding come from?

5. The business plan - setting targets

Develop your business plan for the first three years of operation. Can you get to sustainability?

6. Reviewing progress - keeping track of the plan

Review and monitor progress to make sure you are on the right track.

7. Promotion - getting membership pledges

Now is the time to get commitment from your future members in the form of pledges.

8. The regulator - beginning the application process

You need authorisation from the regulator to operate as a credit union. Now is the time to start completing the application.

9. Training - developing skills and knowledge

Use a training needs analysis to assess the training needs of all those involved.

10. Policy - setting policy and procedures

You must develop a comprehensive set of policy and procedures in preparation for authorisation.

11. Resources - looking at premises and staffing

Now is the time to start looking at staffing and resource needs.

12. Almost there - the application pack

Have you got everything you need to complete the application?

13. Take stock - checking on progress

Time for a final check before submitting your application

14. The application pack - submitting your application

Time to put in your application to the regulator

15. Begin trading - a new credit union!

Congratulations on your new credit union. Now the work begins.

Registering as a credit union study group

ABCUL offers a Study Group Membership package for groups working to start up a new credit union. The programme is designed so that your group can receive the right information throughout the planning and registration process.

For an annual fee you receive a package of information that explains the process and all the terms and people you will come across.

The package includes:

Access to online resources— guiding you through the processes of setting up, registering and developing a credit union.

Technical support helpline – offering a range of advice and information.

Member mailings – keeping you up to date with issues and events

Training – from basic director training to operational training tailored to suit the group. (fees apply)

Consultancy and business development - offering a range of business support (fees apply)

Conferences – with special member rates

Applying for authorisation - Our staff will also help you through the registration process and assist you in dealing with the Regulator. Every new credit union must adopt a set of “Rules” to govern its operation, and those rules must be approved by the Regulator. By using ABCUL’s pre-approved Model Rules, your group can register at a much reduced fee, with the knowledge that it is using an organisational structure that has worked well for hundreds of credit unions.

The next steps

This information has only provided brief details about the setting up and running of a credit union, but it hopefully gives you a taste of what is to come, so that you and your group can decide if it is for you.

If you need any further information before you decide whether to start the process, please contact ABCUL. and we will do our best to help.

If you decide it would be a good idea to set up a credit union, it would be advisable to begin to canvass local support for the proposed credit union.

Do other people also think it is a good idea?

Will they become part of the initial organising group to get the idea off the ground?

Is there another credit union nearby which you could visit?

ABCUL Study Group Membership will provide your group with a step by step guide on developing your credit union. After that, ABCUL membership will give the credit union access to a wide range of support, information and training which will enable it to develop.

If you are interested in registering as an ABCUL credit union study group contact ABCUL for an application form.

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Supporting emerging credit unions

This guide is intended to assist a study group in its development as a credit union and is not prescribed by any body or

organisation. The information contained within it is correct at the time of publication. ABCUL accepts no responsibility

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