

FINANCIAL INCLUSION

helping credit unions

Barclays knows it cannot single-handedly tackle the problems of financial exclusion, so over the past three years it has been supporting an initiative that aims to increase the capacity and efficiency of community-based financial organizations, which offer a cheaper alternative to loan sharks

If the Southwark Credit Union was a living organism, it would be little more than a tick on the hide of the great animal that is Barclays. But that doesn't mean the UK's third-largest bank is indifferent to its fortunes. In fact, Barclays has done much to help Southwark Credit Union over the past couple of years through its financial support for Pearls, a financial and business planning tool developed by the World Council of Credit Unions that is now being used in more than 20 countries.

Essentially Pearls is a piece of software, backed up with training, that helps credit unions analyse how they are organizing their financial and administrative affairs. It provides 46 financial ratios in areas such as bad debts, membership growth and asset levels, enabling credit unions, which have limited resources, to monitor their performance.

Pearls has certainly worked for Southwark Credit Union, a community-based financial co-operative in south London that has 17 staff, 5000 members and a £3.6million (\$6.3m) loan portfolio. Its chief executive, Lakshman Chandrasekera, has made full use of the service, which has been funded by Barclays to the tune of more than £200,000 over the past three years.

Pearls has, for instance, prompted Southwark Credit Union to alter a loan policy that until recently allowed members only to borrow two-and-a-half times the amount of money they had saved with the union, even if they had the ability to repay much bigger sums.

'Having gone through Pearls we realized that wasn't the right way to do things,' says Chandrasekera. 'So we changed our policy to take account of people's ability to repay, their outgoings and other factors. We no longer have a ratio, and as a result we can lend more money to people who can afford it. And of course we can lend less to certain people who are struggling, or sometimes not lend at all. It's a more responsible and flexible way of doing things.'

Similarly Chandrasekera has also scrapped a rule that prevented members from taking out a loan until they had been with the credit union for three months. 'If someone's fridge or cooker blows up, they need the money to buy a new one

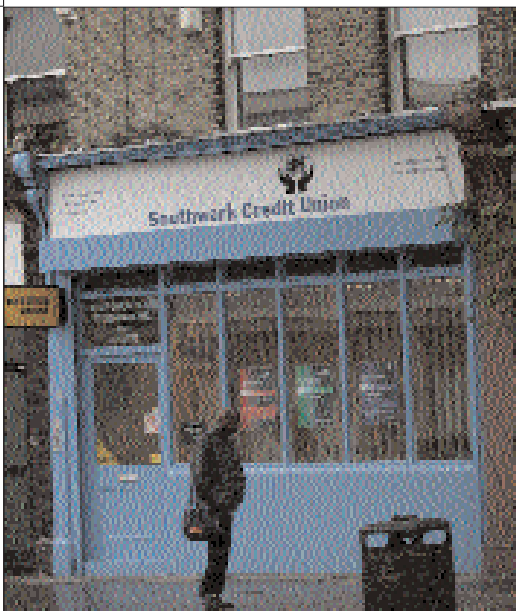
straightaway; they can't wait for three months,' he says. 'It was penalizing the very people we are here to help. So we dropped the rule altogether, and now someone can open an account and apply for a loan on the same day.'

There have also been improvements in internal management and data gathering. 'We can now report headline figures on membership growth, income and expenditure, and we can identify trends and take any corrective action if necessary,' says Chandrasekera. 'Pearls has enhanced our ability to do that – it's made things more structured and allowed us to present information in a way that everyone can understand.'

Southwark Credit Union is one of 20 similar organizations to have piloted Pearls in the UK over past three years, thanks to Barclays' decision to begin championing the system in April 2002 (*EP Best Practice*, summer 2002). Barclays began by paying for nine credit unions to begin using Pearls, then agreed in early 2004 to fund a further 11.

Each of the 20 has been given access to the Pearls website, nine weekend training sessions for two members of their staff, software upgrades and support by phone and email – all administered by the Association of British Credit Unions Limited (Abcul), which represents more than 70 per cent of credit unions and has developed a close partnership with Barclays. The cost to the bank so far has been £220,000.

Pearls has instigated a major cultural shift for many of the credit unions that have used it



the south London-based Southwark Credit Union (left) has used the Pearls system to improve its management and monitoring procedures for making loans

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JON WALTERS

■ Pearls-inspired changes to lending policies at Southwark Credit Union have made it easier for members to access a loan when times are hard

Abcul's chief executive, Mark Lyonette, says that using Pearls has led to a major cultural shift in many of the credit unions. Abcul has analysed their performance since they began using Pearls and found that most now have fewer bad debts and a higher net income as a result. Indeed, the Pearls pilots have been so successful they have generated a great deal of interest from other credit unions. As a result, Barclays has agreed to support Abcul for another two years to make Pearls available to a further 75 credit unions at a cost of around £180,000.

The success of the project to date is important to Barclays, which sees it as one of its major initiatives to promote affordable financial services among the UK's poor. Financial inclusion is high on the bank's corporate responsibility agenda, and while Barclays is making its own efforts to improve access through its no-frills cash card account, the bank recognizes that it can also play an important enabling role by supporting financial institutions such as credit unions that reach poorly served parts of the market.

Its work in the field has pre-empted the UK government's recent moves to set up a Financial Inclusion Taskforce to look at what banks should be doing in the area – and so has put Barclays ahead of the curve. 'The social impact of what we are doing is key and yet the big prize moving forward is to develop commercial solutions,' says Peter Kelly, head of Barclays' Financial Inclusion Team. 'That will require incremental steps and there is no short term fix. If we can help credit unions become stronger and more innovative then fewer people will be going to loan sharks. Credit unions are able to lend small amounts of money and by providing crucial advice and guidance on money matters they can reach the most disadvantaged in society. Of course we hope that some people will then graduate into the mainstream banking sector, so it makes sense on all counts for us to do this.'

■ Further information: Jenna Eastlake, senior financial inclusion manager, jenna.eastlake@barclays.co.uk

the company

Barclays operates in more than 60 countries and employs 78,000 people. It has more than 18 million customers and clients worldwide and made pre-tax profits of £4.6 billion (\$8.1bn) in 2004. It:

- in 2004 invested more than £800,000 in community finance-related initiatives in the UK
- works with The Passage, a London-based charity for homeless people, to open bank accounts for its clients who cannot provide usual forms of identity
- runs the Barclays Spaces for Sports programme, a three-year £30million investment in community sports facilities launched in 2004
- is a signatory to the Equator Principles, which set out ethical standards for big project loans
- committed a total of £32m to community projects in 2004

the background

More than three million adults in the United Kingdom currently have no access to a bank account, according to official statistics

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Financial exclusion is an important issue: 1.5 million families in the United Kingdom do not have a bank or similar account. When it comes to needing a loan in (say) an emergency, how do they cope? One answer is that they turn to a local credit union. Until recently many of these suffered from inadequate systems and administration. Recognizing this, Barclays has been championing the introduction into credit unions of Pearls, a software product for managing and accounting. Where it has been piloted in 20 credit unions, the resulting benefits have meant that more poor families than before are being helped.

features of interest:

- Barclays has shown admirable willingness to support organizations that are in the same sector
- training in the use of the software is provided
- the scheme is being extended to a further 75 credit unions

SIMON WEBLEY, INSTITUTE OF BUSINESS ETHICS