

# COMMUNITY BANKING WITH A DIFFERENCE

Corporate treasurers are well placed to lend their experience and knowledge of treasury management to credit unions, while their own companies can benefit as well, writes **Permjit Singh**

**A**ccording to the trade body ABCUL, there are 88,000 credit unions (CUs) across 118 countries, holding deposits of \$2.9 trillion and providing loans of \$2.1 trillion. CUs in the US have more than 100 million members, and India, South Korea, the Philippines, Kenya and Mexico, each have more than five million. By contrast, the UK collectively has a little over two million members, and by far the largest concentration of them are in Northern Ireland, which along with England, account for 78% of all UK members.

CUs play an important financial role in their communities, but what do they mean for the treasury community? The answer is two-fold: first, by serving on a CU board, corporate treasurers will be adding value to individuals and businesses in their local community, especially those excluded from mainstream financial services. Second, by using a CU's services or products, corporate treasurers will also be adding value to their own companies or to their fellow employees.

Like any organisation, CUs need to cover their costs to remain going concerns, but part of those costs do not include payments to the board of directors; they give their time freely and voluntarily. They hire paid employees and/or other volunteers to undertake the day-to-day management of the CU, or

they outsource those functions to paid specialists.

### Member value

Like most other financial services organisations, CUs aim to maximise shareholder (member) value, but in addition to paying them a dividend, CUs also add value to their members in ways that set them apart from mainstream credit organisations.

Members must reside in the community their CU serves, a condition that reflects CUs' community spirit. CUs are described as 'community banks' because their members' savings are lent out to other members, and because net income (essentially the difference between interest on loans to members less operational costs, loan provisions and loan write-offs) is distributed to members.

Empowering its members to be financially capable is a key objective of CUs, and it is all the more important for members on low incomes, excluded from mainstream financial services, susceptible to predatory lenders, or who have little to no understanding of personal finance.

In addition to sharing their expertise with boards of CUs, corporate treasurers could also help individual CU members learn about, and then apply, cash forecasting, budgeting, savings and loans, macroeconomics, risk, and financial markets.

For example, I am working with an organisation to offer members of my CU nationally recognised qualifications on financial capability. Less formal or bespoke courses may also be designed to suit members' aspirations, needs and abilities.

With the current energy crisis and high inflation making it hard for some members to make ends meet financially, it would be worthwhile discussing with them the importance of budgeting, and the dangers of predatory lenders, or buy-now-pay-later schemes.

Bite-size courses could explain the practical application of basic maths and numeracy for everyday use, such as percentages, compounding, calculating interest and tax, discounts, ratios, or fractions.

### Payroll savings and loans

CUs are able to help their members through forging partnerships with local employers that agree to offer free CU payroll schemes to their employees, for little administrative cost to the employer.

Payroll schemes encourage employees to get them into the habit of regular saving, and also enable them to borrow from the CU. The employer benefits, too, because such employee welfare schemes are likely to improve their business's environmental, social and governance (ESG) rating.

Employers can also benefit from employees becoming more productive





## UK CREDIT UNIONS AT A GLANCE

Community-based, member-owned cooperatives offering fair, affordable and accessible savings and loans to individuals and businesses.

- 2.1 million members
- £3.8bn invested by members
- £1.4bn liquid assets
- £544m total capital
- £1.9bn of loans to members
- £2.6bn of other investments
- 6.9% of loan value held as a provision
- 388 credit unions
- savings protected by the FCA's FSCS
- regulated by Prudential Regulatory Authority (PRA) and FCA
- authorised by the PRA
- incorporated under the Credit Unions Act.

(source: Bank of England)

at work because they are more confident about their finances, or they feel more positive about their employer because they care about employee welfare.

With the employer, CU, and employee working together, and the synergistic combination of savings and loan products, a safe environment and affordable solution are created for individuals to manage their personal finances.

### Yoga and the habit of saving

Corporate treasurers can be creative in how they choose to help their local CU, drawing on their other skills and interests. For example, I'm planning a course of 10 'yoga-plus-exercise' classes for low-income students in my community who sign up as CU members. All of their class fees will then be credited each week to their CU savings account. If they stay the course, then after 10 weeks, they will have saved a significant sum of money, and will have become healthier for free.

Local employers could benefit themselves, not only from the increased productivity of happier employees, but also from taking business loans from their local CU. Not all CUs offer such loans, perhaps because they don't have the necessary skills, knowledge, or infrastructure. This is where corporate treasurers could help – by applying their knowledge of credit risk, technology, banking, loan documentation, and

policies and procedures, to the underwriting and administering of CU business loans.

I am, for example, trying to introduce business products at my local CU, such as revolving credit facilities (RCFs) and invoice finance for working capital, and term loans for capital expenditure. CUs might also be able to offer currency exchange and transfers, or forward contracts to hedge currency risk, by partnering with regulated money service businesses. An ABCUL consultation revealed 71% of its CUs are interested in offering car finance.

I can't say my CU will securitise its loan book, not yet at least, or that it will issue a eurobond, partly because CUs are already flush with cash, but it makes sense financially and in terms of ESG, for CUs to use their cash to also help businesses in the communities they serve.

### Business deposits

By investing their surplus cash in the subordinated debt of their local CU, businesses would not only be earning a relatively high interest rate, they'd also be helping to ensure their CU maintains a satisfactory regulatory capital ratio.

Local businesses' cash deposits could be deployed by CUs to regenerate local communities deprived of funding and investment, and to enable CU members to realise their entrepreneurial and business aspirations. Their success could then increase local employment and inspire other CU members.

CUs and corporate treasurers working together, for mutual benefit and for the benefit of their local communities and their employers, are all worthwhile pursuits. I'm finding this out for myself with my local CU, and I encourage other corporate treasurers to do the same. ♥



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