National Assembly for Wales
Economy, Infrastructure & Skills Committee
Access to Banking

Introduction

Celtic Credit Union welcomes this opportunity to outline our work, levels of business and the challenges we face in delivering our services across South Wales. We welcome the chance to contribute to the committee's enquiry into the issues surrounding access to banking and seek to illustrate the important and substantial role played by credit unions throughout Wales, how this might be developed to address the challenges that are the subject of this enquiry, and highlight the potentially negative impact that a community bank could have upon the viability and sustainability of the credit union network.

Background

Celtic Credit Union is one of the largest and most progressive credit unions in Wales. We were established in 2005 to serve the county borough of Neath Port Talbot. In 2016 we were granted permission from our regulator, the Financial Conduct Authority, to change our name from Neath Port Talbot Credit Union to Celtic Credit Union and to expand our common bond area to encompass the whole of South Wales. We continue to operate under the trading names of Neath Port Talbot Credit Union and Swansea Bay Credit Union.

We serve a membership of over 10,500 across South Wales – principally in the counties of Neath Port Talbot and Swansea. We have assets of £3.5m.

Our main focus is to provide simple, affordable and ethical financial services to our members through the provision of safe savings and low-cost loans. We play a significant role in providing access to cash for all our members, particularly those in receipt of DWP benefits, and we work to tackle financial exclusion through our partnerships with schools; community groups and with our business partners who subscribe to our payroll savings schemes.

Business Levels

We have three high street branches (in Neath, Port Talbot and Swansea) that open every day Monday to Saturday, as well as a full counter service in Pontardawe one day per week, allowing our members access to £300.00 cash per day. On average we issue around £12m in cash per annum at a cost to the credit union of some £12,000 (this is roughly equivalent to a 0.5% annual dividend to members).

In our last financial year, we processed 230,000 transactions. This figure is forecast to rise to almost 250,000 in this financial year.

We also have a wide network of Community Collection Points where members can deposit savings, make loan payments and access advice and information. These outlets are usually volunteer-led and open on set days for short periods. In many rural areas we are the sole provider of such services.

We have over 2000 junior and Child Trust Fund members as well as an active and successful Schools Savings Programme. These 'mini credit unions' are pupil-led with support from credit union staff and adult volunteers. Our junior members' assets total over £350,000

Annually we lend around £3.5m, receiving approximately 200 loan applications per month. This figure increases to 500-600 applications per month during October, November and December each year. The average loan amount is £1000.00. Our Loan Book averages between £1.5m and £2.0m.

We estimate that when loan advances, the release of secure savings and the withdrawal of Christmas savings are taken as a total – they result in approximately £22m being injected into the local economy p.a.

We receive an average of 180-200 new membership applications each month, 47% of these are online.

We offer a pre-paid debit card through our partnership with The Change Account – part of the Omnio Group which is a global FinTech brand.

Our website receives 66,000 visits per year and in the last quarter alone we achieved over 31,000 searches for ***Neath Port Talbot Credit Union*** and ***Swansea Bay Credit Union***.

Our back-office staff process 131,000 transactions coming into our bank account annually, with a total value of over £15m. These receipts are mainly benefit payments; housing benefit; payroll savings; salary credits and standing orders for savings and loan payments.

The impact of bank branch closures

There has been a gradual but consistent reduction in the number of bank and post office branches in many of the areas Celtic Credit Union serves. This is understandable from a business point of view – the cost of maintaining a high street presence becomes unsustainable for profit-driven organisations when footfall decreases to the extent that costs outstrip income. Whilst the rise in digital services is undeniable, this does not suit everyone – especially people who are not comfortable with the use of technology, those who have no access to online services due to hardship or the lack of internet access (common in many rural areas – sometimes it is impossible to get online!), and many of the more vulnerable members of our communities.

The impact of bank and post office closures is not just about loss of access to cash/banking services. Many rural communities have poor public transport links which further restricts people's ability to travel to where services still exist and for some who may be able and willing to use digital services - broadband provision is still unacceptably poor in many valley communities.

However, it is also the case that many people were excluded from banking services even when branches did exist in their area. Those with poor or no credit history, those of no fixed abode, those with no form of ID that would be acceptable to the established banks, those who are not on the electoral roll, those needing additional support to access basic services due to infirmity/mental health problems/social issues. Despite the move to compel banks to provide a ‘basic bank account’ to all, in practice this doesn’t happen because banks fundamentally do not want this business.

This is where credit unions become indispensable with their commitment to serve ***everyone*** (not only those who are financially vulnerable) on a not-for-profit basis.

Celtic Credit Union also has anecdotal information that in areas where there is no access to financial services there is often a rise in doorstep lending and loan shark activity. A properly financed and sustainable credit union network is essential to combat this.

The creation of a new all-Wales community bank could also increase the challenges faced by credit unions if our core business of encouraging thrift through the provision of safe savings schemes, access to affordable loans and the provision of access to cash is eroded by such an enterprise targeting the same customers and offering similar services. Celtic Credit Union and many other credit unions across Wales have a solid track record of working in partnership with public, private and third sector organisations to target and reach those who need our services most. The community bank concept could pose a risk to the sustainability of credit unions and will divert public money that has been essential in supporting the service provision and capital adequacy of many credit unions.

Kesho Back Office Platform

At the heart of all financial services provision is the banking software platform upon which it sits. Most credit unions in Wales – indeed, probably most credit unions across the UK – use a system called Curtains, provided by Kesho Systems Ltd. Curtains is a very basic system and is, in truth, not fit for purpose for the volumes and complexity of the business at Celtic Credit Union.

It is, therefore, hugely reassuring to have received the announcement this week that Kesho Systems has been acquired by Omnio Global who will integrate it into The Change Account banking platform ensuring that partner credit unions have a reliable and capable system for the future. The following announcement was issued by The Change Account on 25th June 2019:

Omnio Global Signals Growth Ambitions with Acquisition of Kesho Systems

Dear Partner

In a significant move for the fintech industry, Omnio Global a leading fintech, has signed a major deal to acquire Kesho Systems. Kesho Systems provides banking software to financial institutions and membership organisations across the UK and France, serving more than 150 clients and 2.1 million customers, including 140 credit unions.

The acquisition of Kesho Systems is a key development for Change Account, significantly growing its client portfolio and strengthening the company’s commitment to the credit union sector. The agreement was negotiated by Ian Hossack CEO of The Change Account – who will serve as the new CEO of Kesho Systems and Change Account.

Kesho Systems software will be integrated into The Change Account banking platform, powering it to deliver a full banking solution for existing partners and new customers. This means The Change Account will be able to provide a genuine Banking-as-a-Service (BaaS) platform, including: current accounts; savings and ISAs; mortgages and loans; and insurance. As a result, The Change Account are significantly reinforcing their dedication to achieving universal financial inclusion in the UK and beyond. Speaking about the acquisition, Ian Hossack explained:
"This is an exciting time for Omnio and for The Change Account – we're growing significantly and are beginning to have a major impact on the banking and fintech space, particularly when it comes to our championing of financial services for all.
The acquisition of Kesho Systems is a key part of our strategy to take our financial inclusion efforts to the next level. The integration of its offering with The Change Account's digital banking platform will allow us to provide our partners with a comprehensive and complete banking service that will help ensure that everyone in the UK and beyond is financially – and, therefore, socially – included."

This is not the only development at Omnio in recent months. Following the successful launch of its new brand the company recently welcomed a new Chief Financial Officer (CFO), Robin Dear, to bolster the expertise of its executive team. The company is looking to further expand its senior team in the coming months, in order to build on its recent growth and achieve its ambitious expansion plans.

To find out more about Omnio, visit: https://omnio.global/.
To find out more about The Change Account, visit: www.thechangeaccount.com.
Omnio powers valued brands to deliver superior digital financial services that meet the ever-changing needs of current and future customers. Headquartered in the City of London, Omnio has offices in Europe, South Africa and Australia supporting some of the world's leading brands in providing a range of flexible and reliable financial services including digital banking and payment solutions supported by their exceptional global managed services.

Observations regarding the establishment of a new Community Bank for Wales

We consider the costs and timelines outlined in the Banc Cambria Investment Proposal to be substantially under-stated. We have learned that for recent 'challenger' banks, Monzo and Revolute, it took approximately two years to be granted e-money licences and needed investment in the region of £80-90m over four years to get the projects to market. We understand that each of these enterprises currently have around 750,000 customers and sustained losses last year of £35m and £85m respectively.

Starling Bank is the first real new retail bank launched in the last 5 years. This required approximately £28m in set-up costs, took three years to obtain a banking licence and develop a banking platform. We understand that they have recently raised an additional £75m for further platform development to meet the retail market functionality requirements. Capital costs are estimated in the region of £300m.

The Change Account, which is Celtic Credit Union's pre-paid debit card partner - as outlined above - has invested £1.5m over 3 years to develop a new banking platform. They have sustained initial losses in the first two years of trading of over £600k with 50,000 customers. They are investing a further £250k this year to complete the project to be able to provide a fully functional platform to all their partners (see announcement above re Kesho Systems). The platform includes a full suite of budgeting tools which are unique and would take any new platform at least 9-12 months to develop.

Whilst the proposal to address the issue of access to banking and tackle the problems associated with the unbanked is laudable, we would question whether the Banc Cambria model would be the best use of this level of capital funding. We consider that the investment in the set-up phase will likely be insufficient, ongoing investment support is underestimated and timelines are unrealistic. Whilst the provision of capital for lending could work, we suggest it would only service around 10,000 customers on average loan levels. With consideration for bad debt provision and costs of recoveries etc, £20m would not go far. However, £20m spent in partnership with selected credit unions and other providers such as The Change Account under one national strategy, with the infrastructure and skills already in place, would be a much wiser proposition for consideration and development.