Community Credit Unions and Payroll Deduction

A report on a field trial

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Acknowledgements

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- The Scottish Government
- Let's Build Credit Unions
- The Chartered Institute of Payroll Professionals
- Cornerstone Mutual Services
- The True Potential Centre for the Public Understanding of Finance at the Open University London Capital Credit Union
- CUNA Mutual Insurance

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While acknowledging the contribution of these many sources of support, the authors are responsible for the contents of this report. The arguments and views expressed in this publication are those of the individual authors and are not necessarily those of our collaborators.

Foreword

The Chartered Institute of Payroll Professionals (CIPP) is the UK-based professional association, committed to highlighting the important contribution of payroll expertise to both business outcomes and to the lives of individuals. Even whilst in work individuals can struggle financially, which causes stress leading to illness. Our survey evidence shows that financial ill-health can trigger employee absence from work. Sickness and absence cost UK businesses £11.5 billion in 2014. Against this background, the CIPP considers that offering financial awareness and education as part of an organisation's benefits package is a "no brainer".

The CIPP recognises the role of credit unions in tackling financial exclusion and in providing financial services and products to a wide range of customers. By investing in a credit union, employees have the ability not only to save through payroll, but also borrow money at a competitive rate, to which they may not otherwise have access. Uniquely, among financial services providers, credit unions have a statutory obligation to provide their members with financial education. Through partnership with credit unions, and by offering payroll deduction, employers can demonstrate their commitment to employee financial and mental wellbeing.

Payroll deduction is a low-cost workplace benefit that can assist with employee recruitment and retention. We consider payroll deduction as being operationally on a par with payroll giving. In terms of liability it is similar to engaging in a pension scheme, whereby the employer signposts the availability of the benefit but does not recommend or advise a particular course of action. Employee confidentiality is maintained as employers do not have any information on whether an employee is borrowing or saving.

Despite these benefits, payroll deduction through employer-credit union partnerships is not universal. Implementing payroll deduction requires credit unions approaching employers, employers responding to this approach and employees signing up to payroll deduction. Understanding the barriers and facilitators of this process are key to its widespread adoption. In their project *Fostering Community Credit Unions through Payroll Deduction,* Dr Robbie Mochrie and Dr Kathryn Waite have provided insight into the challenges which exist in aligning the elements of the payroll deduction system. This report underscores the strategic opportunity present for both employer and credit unions through facilitating access through payroll to financial services. The recommendations provide an insightful agenda upon which to develop.

Allan Isdale
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Executive Summary

This knowledge exchange project, funded by the Scottish Universities Insight Institute, involved

- academic inputs from Heriot-Watt University,
- professional services inputs from the Chartered Institute of Payroll Professionals, and
- the practitioner knowledge of two community credit unions based in Glasgow (Drumchapel Credit Union and Greater Govan Credit Union),

The project explored how community credit unions might initiate payroll deduction agreements. The project drew on widespread interest in expanding credit unions' use of payroll deduction agreements, using material developed by a variety of external partners, including the CIPP, Cornerstone Mutual Services, the Scottish Government and Glasgow City Council.

Knowledge exchange activities were designed to identify the challenges facing community credit unions who wish take advantage of the current policy environment, captured in the Scottish Government's report, *Scotland's Credit Unions: Investing in our Future*. As part of the academic input, we designed knowledge exchange activities to support community credit unions in approaching local employers. These knowledge exchange activities covered:

- The mechanics of payroll deduction;
- Business-to-business relationship building; and
- Service design challenges

As a result of this project there have been several evidence-based insights gained in terms of employer readiness to engage, existing member advocacy, augmenting organisational resources, establishing flagship relationships and positioning payroll deduction as a transformational development.

We recommend that:

- The Scottish Government publicises its inclusion of payroll deduction as an element of the Scottish Business Pledge;
- The Scottish Government and local authorities work together to develop a payroll deduction standard for community credit unions;
- The Scottish Government and local authorities and their associated agencies should enable approved credit unions to form flagship relationships with public service organisations;
- Glasgow City Council should work with approved credit unions to establish a co-operative payroll deduction development unit;
- All agencies working with credit unions should review their support for payroll deduction development, recognising the potential advantages of community credit unions mobilising their members as payroll deduction advocates; and
- Materials promoting payroll deduction should explicitly recognise the context in which community credit unions operate, and guide credit unions and employers through the whole of the relationship formation process.

1. Introduction

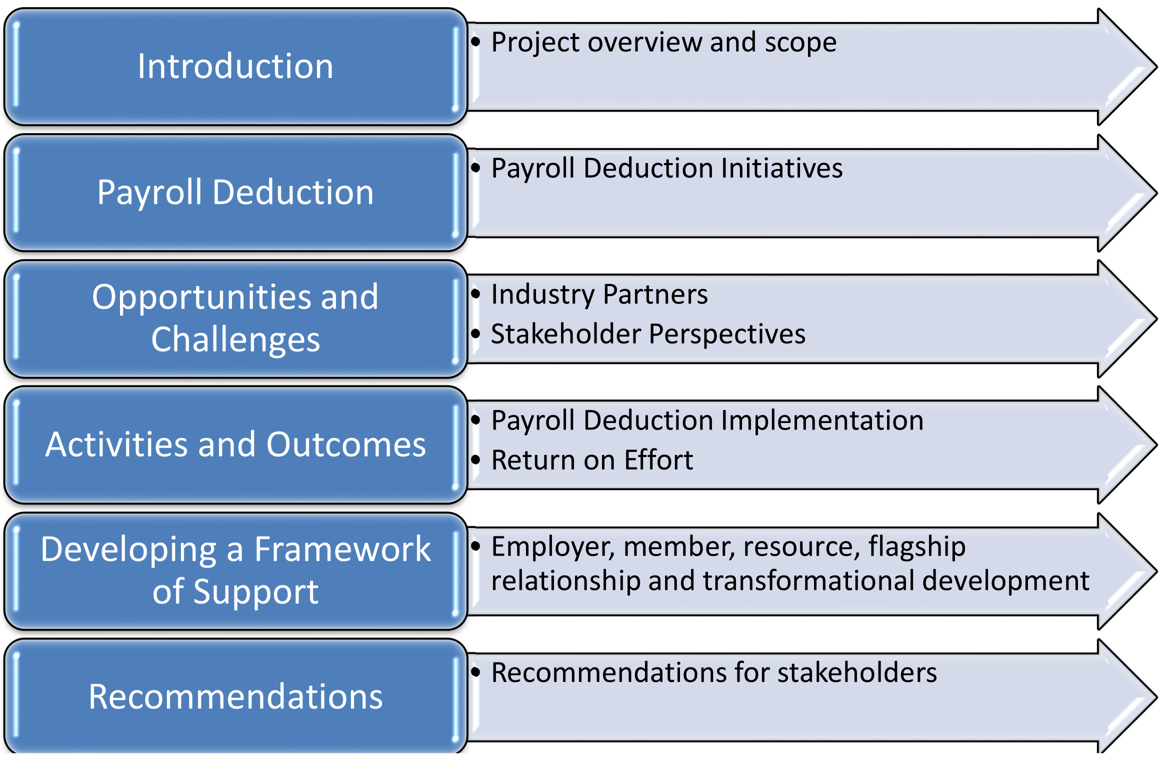
This knowledge exchange partnership has been funded by the Scottish Universities Insight Institute, in order to explore the opportunities and challenges facing community credit unions wishing to initiate payroll deduction agreements with employers.

The industry partners in the project were two community credit unions (Drumchapel and Greater Govan), both based in Glasgow, and the authors, both based at Heriot-Watt University, were the academic partners. The participants were able to draw on the expertise of practitioners from the Chartered institute of Payroll professionals, credit union representatives and policy makers from local and national government. The project's objective was to identify the extent to which approaches to the development of payroll deduction are of value to community credit unions. The five month project, which began in May 2016, supported initial consultation and the design, delivery and evaluation of a range of knowledge assets.

This report summarises (Figure 1.1):

- The background to the project
- The process of knowledge exchange between the academic and credit union partners
- The development and delivery of knowledge assets
- The outcomes experienced by the credit union partners and the insights gained
- The recommendations for future development of a comprehensive framework for the adoption of payroll deduction services by community credit unions.

Figure 1.1 Overview of Report



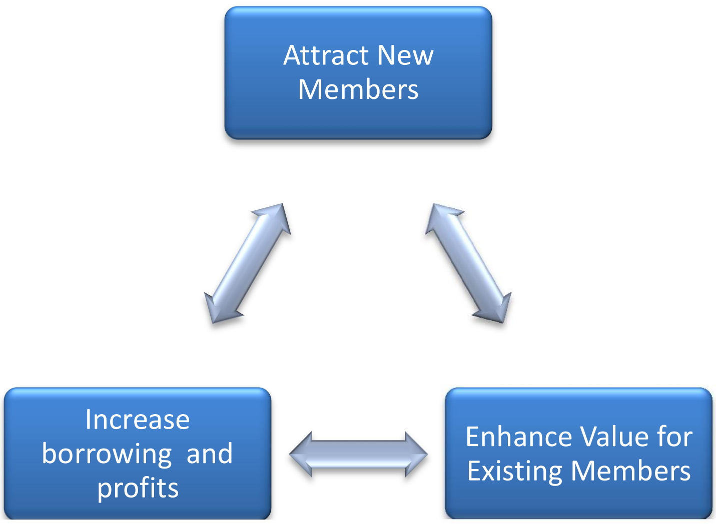
2. Credit Unions and Payroll Deduction

A credit union is a cooperative financial institution owned by its members, with membership restricted to individuals among whom there is a "common bond". The nature of the common bond directly influences the resources available to the credit union. While common bonds among Scottish credit unions traditionally have been either community-based or employment-based, increasingly credit unions are switching to 'live-and-work' common bonds, in which the basis of association amongst the members is either place of residence or place of work, substantially expanding the opportunities for credit unions to develop their service offering to members. According to the annual returns made to the Bank of England in the year ending 30th September, 2015, there are 103 credit unions operating in Scotland. Of these, 34 are in Glasgow, and 13 of those have adopted a live-and-work common bond which covers the whole of the 'G' postcode area.

Payroll deduction requires a credit union and an employer to reach an agreement that employees who are members of the credit union can instruct the employer to make payments to the credit union directly from net salary payments, with the credit union then allocating these payments across each member's accounts according to a separate instruction. In effect, the employer acts as the employee-member's agent, facilitating regular payments to the credit union. Payroll deduction is generally considered as being quick, reliable, and, typically for employer, member and the credit union, either free or else low-cost. Sponsoring employers typically offer this service free of charge to their staff, considering it to be a valuable employee benefit.

Payroll deduction agreements have been a core element of the service offering of employment-based credit unions for many years. The current consensus is that for community credit unions in Scotland, payroll deduction offers the opportunity to acquire new members, to increase member value and hence their use of credit union loans, strengthening revenue flows and profits and allowing the credit union to increase the dividends payable to members. (Figure 2.1).

Figure 2.1 Payroll Deduction Opportunity



While it seems a small step for employment-based credit unions to adopt a "live-and-work" common bond and then to expand their membership beyond the workplace into geographic-based communities by entering into new payroll deduction agreements, it seems likely that for community credit unions, offering this service to members for the first time, there will be additional challenges.

The considerable challenge facing the credit union sector in Scotland can be captured in a few statistics, which we have extracted from the Bank of England's annual summary statistics of credit union performance data. These show the extent to which the trading environment facing credit unions has become more difficult since the onset of the financial crisis in 2008. The share of loans in credit union assets has decreased from 72% to 53%. Scottish credit unions have seen substantial growth in the real value of share deposits over the last eight years. They have not been able to recycle these to members in the form of new advances at the same rate.

The financial consequences of the falling loan: asset ratio have included reductions in the income: asset ratio, profitability and dividends paid to members. Continuation of these trends would threaten the sustainability of many credit unions. Support for extending the use of payroll deduction has emerged as one way of challenging these trends.

The argument is that payroll deduction offers a relatively secure source of funds for loan repayments since money is being advanced to those in regular employment. Our work has been designed to investigate these claims.

2.1 Payroll Deduction Initiatives

Several stakeholders including government, local authorities, and professional organisations with an interest in credit union have developed resources to facilitate payroll deduction. We were therefore able to use material and ideas developed independently in several projects, bringing these together for the first time:

- Cornerstone Mutual Services' B2B toolkit, which is intended to support credit unions wishing to develop a payroll deduction service;
- The payroll deduction standard developed by the Chartered Institute of Payroll Professionals, which sets out for employers the technical standards to which credit unions might adhere;
- The prominence of payroll deduction services within the Credit Union Charter launched at the ABCUL Scotland conference and adopted by all political parties represented in the Scottish Parliament;
- The addition of payroll deduction as an element of the Scottish Business Pledge (a values-led partnership between Government and business), as an outcome of the deliberations of the Credit Union Working Group in the report *Scotland's Credit Unions: Investing in our Future*; and
- Within the Working Group report, an open letter from the first minister to all employers urging them to sign up to credit union payroll deduction schemes.

These outputs offer sources of guidance, written standards and marketing assets. This project has examined for the first time how effectively these materials work in the context of community credit unions.

The project is a continuation of the earlier knowledge exchange project, *Financing the Future: Achieving Sustainable Growth in Credit Unions*, which was part of the SUII's programme, *Increasing Equality and Realising Human Potential in Post Referendum Scotland*. In addition to the authors of this report, the programme team comprised Dr Alasdair Rutherford, University of Stirling, Professor Tina Harrison, University of Edinburgh and Edward Percy, Glasgow City Council. That project allowed the engagement of a broad range of credit union stakeholders in developing pathways for robust, sustainable growth of Scottish credit unions. It became clear during the earlier project that credit unions and support agencies wanted to understand more fully the programme developed by the Chartered Institute of Payroll Professionals to promote a standard for the operation of payroll deduction schemes.

This interest, and activities in our own project, led to the formulation of one of the five policy interventions in the Scottish Credit Union Charter, "encouraging all employers to partner with credit unions to make saving and repaying loans via payroll deduction a standard workplace benefit for people across Scotland" (launched in October, 2015 by the Association of British Credit Unions).

Having finished work on the earlier project, we obtained follow-on funding from the SUII to build on project outcomes with the CIPP, and to develop a fuller understanding of factors that are likely to affect payroll deduction implementation. The project design has required the active participation of two community based credit union partners and with the academic partners tracking their progress in forming payroll deduction partnerships with local employers.

3. Initial assessment of opportunities and challenges

Throughout this work, consultation and discussion has been central. While the most extensive contact has been between the academic and industry partners, we have involved a diverse group of stakeholders including representatives of:

- Scottish Government
- Accountant in Bankruptcy
- City of Glasgow Council
- Chartered Institute of Payroll Professionals
- ScotWest Credit Union
- Let's Build Credit Unions.
- Credit Unions of Glasgow
- Association of British Credit Unions
- Scottish League of Credit Unions
- CUNA Mutual
- True Potential Centre for the Public Understanding of Finance, Open University

3.1 Selection of Industry Partners

We restricted our search to community credit unions based in Glasgow. With 26 community credit unions active in the city, there was widespread choice, and there is already an extensive network of support, facilitated by the City Development Department in the City of Glasgow Council. City Development helped us to prepare a shortlist of candidate credit unions, restricting our search to those credit unions with:

- 2,000 members and £2m. in assets
- 5% loan: asset ratio
- 4 FTE staff
- Management information system with online access and capable of uploading .csv files.

We considered that credit unions meeting these criteria would have the resources needed to engage actively with the project. We drew up a short-list, and the City Council invited two credit unions to join the project. Throughout the project, our main point of contact has been the chief executives of the two credit unions. It was confirmed that each credit union had IT systems with the functionality required to enter into payroll deduction agreements with employers.

When we first met with the credit unions' chief executives, after reviewing the extent and nature of their operations, we discussed what they hoped could be achieved from using payroll deduction. The credit union partners highlighted to us that they considered payroll deduction to be an important strategic initiative. In particular, payroll deduction offered the potential to recruit younger (female) members, who were considered the most likely to be regular, satisfactory borrowers, repaying advances in full and on time. The focus was upon developing a route to acquire customers who would be good borrowers, and we started a discussion about the products and processes that might facilitate borrowing.

3.2 Stakeholders' Perspectives

We summarise the outcomes of discussion with a range of stakeholders in terms of the opportunities, threats, barriers and facilitators of establishing payroll deduction amongst community credit unions

Among the barriers to the successful introduction of payroll deduction in community credit unions are the extent of competition, often from larger competitors, which have more robust systems. These competitors include existing employment-based credit unions, which have strong relationships with many of the larger local employers, especially providers of public services. Even these larger credit unions are now facing competition from the emergence of specialist payroll lending services. Financed by private equity, since these lenders not deposit takers, they avoid PRA regulation, and have chosen to provide services through digital channels.

For public sector employers, who have often been very supportive of the credit union sector, entering into a payroll deduction agreement with a community credit union will take a justification based on being able to offer additional benefits to employees. One simple justification is that many employees have already chosen to be members of their community credit union, rather than the employee credit union. Allowing them to make regular payments to their preferred credit union through payroll deduction should be (almost) cost-free for the employer, but benefit the employee-members.

In the private sector, there are rather different challenges. It is very unlikely that employers will know what credit unions are, and this is likely to make it very difficult gain employers' attention. Larger credit unions admit to struggling with this, especially where they do not have someone inside the organisation who supports setting up payroll deduction. Community credit unions are therefore likely to need support to get to the point where they are able to get in front of many employers and pitch their proposal for a payroll deduction agreement.

Although it is possible to argue that credit union services have the potential to reduce financial stress and thus increase workforce attendance, there is no strong evidence of a direct cause and effect relationship and we are concerned that sceptical employers could quickly dismiss this argument.

Even if employers understand the credit union concept, there is a risk that they will see it as serving the unbanked, and so not obviously a benefit for its employees. It may well be that community credit unions have successfully developed cost-effective services, which allow them to provide services to members who might otherwise struggle to obtain them. Rather than demonstrating that credit unions are innovative and efficient, this could have an adverse reputation effect when trying to expand the credit union's business.

Assuming that is possible to get to the point of making an initial presentation to employers, credit unions need to have good knowledge of the mechanics of the process underpinning payroll deduction that they will use, since as they are likely to have to train the employer on how the process will work.

There are also technical challenges. Employers might run payroll on a weekly, four weekly, or monthly basis. Payments are therefore likely to be received at several different times, and there is a perception that the management of data entry is likely to be challenging for community-based organisations. Even at the start of the project, the credit union partners were confident of managing their internal processes and expressed a strong preference for building relationships with large, local employers to obtain benefits from the volume of business.

Associated with this is the question of credit unions' management of the relationship with employers. An important part of the offer that credit unions make to employers should be that there will be almost no cost to the employer, which simply acts as its employees' agent in making payments to the credit union. There are several questions that are still open here:

- Might public sector employers agree to offer payroll deduction to several credit unions, which can meet a common payroll deduction service?
- Should credit unions insist that members provide them with the payroll deduction mandate, which they send on to the employer, or should employers simply take the mandate from employees?
- To what extent should credit unions build a relationship with employers? Given that the one advantage of payroll deduction is in increasing the certainty that payments will be received, how much information might credit unions obtain from employers about the reasons for changes to payments being made by employees?

Finally, simply having an agreement to allow payroll deduction is not enough. The credit union has to be able to devote time and effort to building and maintaining relationships, both with employers and with employees, who are a source of potential new members wishing to borrow credit unions funds. Identifying ways to build effective relationships with employees will also be important.

- Developing payroll deduction follows on naturally from the report of the Ministerial Working Group. Projects need to be self-sustaining so that if there is any development funding, credit unions will have found ways of generating enough income from it so that they will continue to use it.
- The service offering for members in regular employment may need to be carefully tailored. For example, there may be an increase in self-service members: people who are feel confident about using financial services, and who do not consider guidance and support to be as important as the quality and value of the services on offer.

4. Activities and outcomes

After the initial round of consultations, we commenced an iterative process of design and delivery of activities intended to gain insight into the implementation of payroll deduction.
Topics covered were:

A. The mechanics of payroll deduction
B. Business-to-business relationship building
C. Service design challenges

A. The mechanics of payroll deduction

Drawing upon insights gained from a "live and work" credit union, the workshop outlined a two-step process whereby:

1. The employer and the credit union would agree that every member's initial mandate authorising payments to the credit union from net salary, and all subsequent variations, should be lodged with the credit union, to ensure that the credit union is kept fully informed of members' intentions.
2. The credit unions should seek to build an effective relationship with people managing payroll services with employers, in order to maximise the flow of information. For example, where there is an effective relationship, an employer will often tell the credit union if an employee will be moving to another job, allowing the credit union to manage the need for a member with a loan to provide an alternative payment authority.

The credit union partners were experienced at receiving payments from third parties on behalf of their members, with benefits paid by the DWP the most important source. There was considerable discussion about the transfer and checking of information and how credit unions might trace exceptions to expected receipts.

B. Business-to-Business Relationship Building

The aim was to introduce payroll deduction as a relationship building process. We reviewed the resources being produced across the sector to support the development of payroll deduction, adding material that might be useful in the context of the project, including an introduction letter for employers, checklists and signposts to the ABCUL online marketing assets a complete list from Glasgow City Council of all premises liable for non-domestic rates within the communities in which the credit unions operate, and how to find living wage employers and Business Pledge signatories.

We discussed criteria for identifying employers using local knowledge. The participating credit unions knew of large employers, who already operated payroll deduction agreements with other credit unions, and who might therefore be expected to understand the advantages of offering payroll deduction its employees. We discussed making approaches to local employers, among whose staff were existing credit union members. In both cases, we agreed that there might be a higher probability of a successful outcome than with cold-calling alone.

We were joined by a business development expert to discuss and practice an initial pitch to an employer. The workshop emphasised the importance of being systematic, and husbanding the limited resources available to the credit unions as effectively as possible.

C. Design features

This was a two part workshop which began with a general discussion of questions relating to strategy that would be considered as a credit union seeks to incorporate payroll deduction as a core element of their operations. The workshop involved not only the partner credit unions but also practitioners from the CIPP, policy advisers and also credit union board members from several credit unions.

The workshop was designed to facilitate reflection upon the extent to which existing practices and policies might become potential barriers to lending in a workplace setting. It began with discussion of the loan application and lending decision processes, including the time taken and information used in making decisions, the medium of communication with members, and eligibility criteria affecting the amounts that members might borrow.

This session was problematic and viewed as lacking relevance by the credit union partners. The material presented failed to engage them at the level that we had intended, so that they concluded that we were telling them what they already knew, and obtained only a few practical insights into operational matters.

4.1 *Payroll Deduction Implementation*

The credit unions began approaching employers from the beginning of June 2016. Progress reports were gathered at approximately fortnightly intervals. Discussion centred on the progress in making contact, the use of materials and reflection on the barriers encountered. The academic and credit union partners then came together for a final meeting at the end of the project to review experiences and perceptions of participation in the project.

The credit unions found that cold-calling use of the databases was ineffective, even after sending an introduction letter with the First Minister’s endorsement of payroll deduction. A more effective approach was to suggest to members who were interested in switching to payroll deduction that they might tell their employers about what would be involved. The credit union would then follow up on the initial interest. This approach which focused on a smaller but warmer number of leads resulted in actual conversions.

Within Drumchapel, the employer recruitment was conducted by the CEO and an officer with a member-facing role, and this made it easier to raise the subject with members when they visited the credit union office. At Greater Govan the CEO had extensive sales experience and took sole responsibility for employer recruitment and testing of a variety of sales techniques:

- a letter-based approach then follow-up,
- a phone-based approach and e-mail follow-up and
- using existing member networks.

Positive responses to payroll deduction came from doctors’ and dentists’ surgeries and social service providers, especially housing associations. Private sector businesses seemed to have little interest in engagement with the community credit unions, often because local managers lacked the authority to initiate discussions.

Within our project, the credit union participants selected the marketing materials to use, given the constraints imposed by their organisation structure and available resources. The range of operational and selling experience led the credit unions to develop contrasting approaches, one a network-marketing approach and the other a sales management approach. Both credit unions tested all of the marketing assets produced by the project, but these did not often seem to generate substantial interest or increase in understanding. Employers often claimed not to have received any information, even when the materials had been hand-delivered. After three months of activity, Drumchapel Credit Union has signed up two employers to their payroll deduction scheme, but are still waiting to receive their first payments through the agreements.

It was felt that the timing of the project not ideal, since initiating the project during the summer holiday period meant having to combat holiday absences both within the credit unions, the academic partners and amongst employers, and the credit union staff found it very difficult to find the time needed to achieve any clear return on effort.

4.2 *The return on effort*

The return to effort has been disappointingly low, particularly given the range of marketing and support materials developed by stakeholders to encourage the uptake of payroll deduction by credit unions. We consider that, in part, this reflects the extent to which there are substantial barriers to initiation of payroll adoption by community credit unions.

Employers gave the credit union partners a variety of reasons for not wishing to enter into a payroll deduction agreement: a small employer felt that it might lack capacity to operate deductions; others that their staff turnover is so high that it would be administratively costly and complex; some stated that they are simply a branch office, with no authority to act; or that their existing employee benefits package includes a share savings scheme, so that there could be no benefit from participation. Credit unions also perceived that some employers appeared to be overwhelmed by other payroll initiatives such as automatic enrolment in pensions.

We conclude that it is important to raise awareness of credit unions among employers, as well as the benefits of credit union membership, before there is any possibility of discussions about payroll deduction bearing fruit. However this is a task which would be more effectively undertaken using a sector-wide approach, with the support of external agencies, rather than by individual community credit unions.

Credit unions are member-owned and -controlled, and so it is important to note the relative success of using the existing membership network to gain access employers. The resources shared among the participants have largely concentrated upon communicating the benefits of joining a credit union to employers and employees, who are not credit union members. A strategy of utilising existing members as the promoters of payroll deduction might enable credit union members to engage in a wider range of credit union activities, potentially increasing member value and members' engagement with their credit union. However, we cannot recommend this approach without further consideration of the challenges and risks associated with it. While the credit union partners found it to be the most successful path to developing payroll deduction agreements, they do not consider that there would be insufficient uptake to justify its use.

5. Developing the framework of support

From the evidence thrown up in the project, we have generated several insights into employer readiness to engage, existing member advocacy, augmenting organisational resources, establishing flagship relationships and positioning payroll deduction as a transformational development.

5.1 Employer Readiness to Engage

Local employers could not see any direct benefit in payroll deduction and perceived that there would costs involved in entering into such a scheme, particularly in terms of non-financial resource. For community credit unions to devote substantial resources to the promotion of payroll deduction, external stakeholders may need to refine their support activities. For example, in spite of sharing a substantial volume of material, there was little that seemed to meet the needs of these credit unions.

- In-house printing of the First Minister's Letter reduced its impact as compared to its being on Scottish Government headed note paper.
- Statistics and fact sheets contained national figures and examples of large multi-national companies such as the NHS and Stagecoach and did not resonate with local employers.
- Evidence of a partnership with a flagship customer might have confirmed the credentials of the community credit union as a payroll deduction partner.
- There was no employer welcome pack that might be used after a successful meeting. This would have set out clearly, in the context of the payroll deduction agreement, what the credit union would do, and what the employer would need to do, giving, for example, contact and bank details for the credit union.

5.2 Existing Member Advocacy

The possibility of using existing members to make initial contact with employer, and the implicit adoption of network marketing is interesting. An examination of the marketing assets that have been produced to date shows a natural focus upon communicating the benefits of joining a credit union to employees and employers, rather than explaining to existing members the benefits of their own credit union promoting this service. This route would mean providing information on payroll deduction to credit union staff and members. The approach offers credit unions a way of engaging their members actively in service innovation which has the potential not only to increase member value but also members' engagement with their credit union. However, it is important to reflect upon the extent to which this provides community credit unions access to different market segments and the desired growth in membership.

5.3 *Augmenting Organisational Resources*

Promoting payroll reduction requires considerable coordination and more time away from the office. We have reviewed the original criteria for the selection of credit unions, and believe that they were broadly correct in terms of identifying community credit unions, which would have the organisational capacity to introduce payroll deduction agreements into their service offering. However, both credit union partners concluded that the introduction of payroll deduction would require a dedicated fixed-term role but that the risks associated with such an approach are so great that it would be very difficult to justify such a position. At the conclusion of the project the credit unions partners could foresee additional risk associated with large, but unquantifiable, amount of administration, such as circulating and collecting payment mandates, which would not fit easily alongside other operational duties.

5.4 Establishing Flagship Relationships

The credit union partners felt that their experience of implementing payroll deduction indicates that it will not deliver the desired business growth without the recruitment of a flagship account. For both community credit unions the majority of their members work for public agencies such as the NHS and Glasgow City Council. These employers have partnerships with work-based credit unions. The credit union partners were disappointed that at the end of the project they had not gained access to either one of these employers and did not know how or who to approach within these organisations.

The credit union partners believe that such a flagship relationship would be very desirable. It would demonstrate to other employers the ability of the credit union to operate payroll deduction and provide opportunities for membership, loan and income growth that would offset the potential costs and operational demands of servicing a range of smaller employers. The credit unions felt it would be very difficult to set up secondary payroll deduction agreements amongst public sector employers as a result of opposition from the employment-based credit unions, which have benefited from relationships with these public service employers for many years.

5.5 Positioning Payroll deduction as a Transformational Development

Influenced by discussions with external stakeholders, but also by discussions about the credit union partners' desired outcomes, we considered it important to examine payroll deduction as a transformational development as well as an operational process. The exploration of how credit unions might adapt processes in order maximise the impact of payroll deduction upon their businesses exposed a clear gap in the expectations of what payroll deduction should deliver between the academic and credit union partners.

For the introduction of payroll deduction to have a transforming effect on a credit union, it must involve more than reaching agreements with a few, small, local employers. Equally, for a credit union to develop a 'flagship relationship' with a large, public-service employer without having a fully developed plan of how to achieve that objective, and then how to make the relationship work well, seems improbable. Before trying to develop such a relationship, community credit unions need to review their products and practices, thinking through what will make the employer interested in entering into a relationship, and then how to make their service offering attractive to both existing and potential members. However, for community credit unions this might require either developing either parallel services or adopting a discontinuous business model. Both these routes seem unattractive and present considerable risks.

6. Recommendations

This project has brought together external stakeholders and credit unions in a collaboration that clarifies some of the steps that community credit unions need to take in order to make widespread use of payroll deduction agreements. This project provides evidence from two community credit union partners engaged in a three month implementation process. There is much scope for trials in different contexts and over a longer time period, especially since the project has identified several key challenges to community credit unions making substantial use of payroll deduction. We believe that success will require extensive coordination supported by limited external investment across the sector. We believe that the following points would be very useful steps toward achieving that objective.

- The Scottish Government should headline payroll deduction agreements within its Business Pledge website, since it has committed to include the promotion of payroll deduction agreements within the Business Pledge.

- The Scottish Government and local authorities should commit to ongoing joint development of payroll deduction standards that reassure employers that approved community credit unions have met service procurement standards.

- The Scottish Government and local authorities should work with associated public sector agencies towards implementing “flagship” payroll deduction agreements with one or more approved community credit unions

- Glasgow City Council should build relationships with employers on behalf of approved community credit unions by using external funding to establish a co-operative payroll deduction development unit

- All external payroll deduction develop agencies should recognise the advantages of community credit unions mobilising their members as payroll deduction advocates and as a result review their forms of support for payroll deduction development,

- Promotional materials for payroll deduction should recognise the context in which community credit unions operate, and utilise examples from smaller, community-facing organisations in order to guide credit unions and employers through the relationship formation process.

About our partners

Heriot-Watt University

Heriot-Watt's vision is to be world-leading within all its specialist areas of science, technology, engineering and business.

We remain true to our heritage of creating and exchanging knowledge for the benefit of society. Our record shows that our research and teaching have always been professionally relevant and we produce graduates who have a distinctive and strong professional orientation.

Scottish Universities Insight Institute

The Scottish Universities Insight Institute supports programmes of knowledge exchange which address and provide insight on substantial issues that face Scotland and the wider world.

Our programmes break down disciplinary and organisational barriers in bringing together academics from different backgrounds, policymakers and practitioners.

We mobilise existing knowledge in fresh ways through sustained and collaborative focus on a shared issue and aim to support decision makers in all sectors of society in being better informed.

Our partner universities are: Dundee, Edinburgh, Heriot Watt, St Andrews, Stirling, Strathclyde, and Associate Member Glasgow School of Art.

Chartered Institute of Payroll Professionals

The Chartered Institute of Payroll Professionals (CIPP) is a leading UK-based professional association and is committed to highlighting the important contribution of payroll expertise to both business outcomes and to the lives of individuals.

Scottish Ethical Finance Hub

The Ethical Finance Hub (EFH) is a platform to promote collaboration, research, innovation and growth in the ethical finance market enabling and encouraging stakeholders to make new connections and informed choices. By raising awareness, developing new ethical finance products / services and increasing access to finance the EFH help create a fairer, more inclusive and socially responsible financial system.