

Community Savings Ltd.

Community Banking in Jersey

1. Background.

During 1996, following the announcement of the United Nations Eradication of Poverty initiative, a co-ordinating group was set up in Jersey to consider a number of different problems being faced in the island by the financially disadvantaged.

On the face of it Jersey residents have enjoyed a superior standard of living in a beautiful environment and the island continues to be considered as one of the best places in the world in which to live and bring up a family.

We have healthy Cash Reserves (£335m), there is no public debt and until recently there were regular annual budget surpluses and it seemed that no capital project was unaffordable.

What was largely ignored until the late 1990s however, was that as the finance industry continued to boom and the majority of islanders became wealthier, the minority became poorer. The economy was overheating, inflation was and indeed still is higher than on the mainland, currently 4.2%, and the high cost of housing especially was causing major problems, particularly for the less well off. Without a comprehensive Welfare State to fall back on, by that I mean inadequate low income support, an increasing proportion of residents were becoming impoverished and as a result disillusioned.

During the first few months of 1997 therefore, negotiations commenced with what was then the Financial Services Department of the States of Jersey, now the Jersey Financial Services Commission, to set up a Community Bank. Provisional approval was readily and speedily given but we did have major problems to overcome, particularly in respect of the design and implementation of a suitable structure within which to operate.

2. Designing a structure.

UK Friendly Society and Credit Union legislation has only been extended to Jersey in part and it proved impossible to form a local entity within this framework. It also soon became evident that the creation of a new local law would not prove feasible, even in the medium term. Although other alternatives were considered, the only practical means of proceeding seemed to be the formation of an institution under the terms of the 1991 Banking Business (Jersey) Law.

Quite rightly, Jersey jealously guards its reputation as an offshore financial centre and it could not afford to allow an unlimited number of what was expected to be relatively small Credit Unions, to be formed and operated independently of one another. Even though the regulatory authority would control them, the amount of monitoring required would be excessive and there would nevertheless continue to be a very real risk that one or more of the common interest groups would get into financial difficulties and the result could reflect on the Finance Industry as a whole.

A structure therefore had to be designed that would prove suitable to the authorities and potential customers alike but would still allow us to operate with some flexibility. It was considered important that we retained a degree of flexibility as we wished to develop activities beyond those normally associated with Credit Unions (http://en.wikipedia.org/wiki/Credit_union) and become a force in Jersey for helping the financially disadvantaged generally.

It proved extremely difficult to formulate a suitably comprehensive enterprise within Jersey's legislative framework and this was the principal reason why it took us over five years, from the time that the Working Party was first set up, until we were in a position to open for business.

Eventually we were successful, the organisation being made up of three components, which formed the basis of our logo design of three coins supporting one another.

Firstly the Community Charitable Trust was formed; of which the Bailiff is Patron, principally to own the shares in the Company to be incorporated under the Banking Law and to be the custodian of donated

funds, certain of which would be provided to the new bank to cover costs but also, ultimately, for a proportion to be used on a wider charitable basis.

One aspect that we envisaged over the longer term was to have sufficient reserves to enable the Trustees to provide either grants or loans without any non-repayment of the latter affecting the individual common-interest groups' resources. More recently, we have learned that this concept is now subject to a pilot scheme in the U.K.

Secondly Community Savings Ltd was incorporated. We would have preferred to name the company The Community Bank Ltd. but the authorities would not allow this to occur, although the enterprise is continually referred to by this name by the media and elsewhere.

Although we were aiming for this to be a self-help enterprise, by necessity the Company would be the 'Head Office' of the common interest groups, providing all computer, administrative and other requirements on their behalves, on a no cost basis.

The final part of the organisation is of course the individual Common Interest Groups that operate as branches of Community Savings Ltd.

Each one requires the formation of a trust that has to be approved by the Attorney General and then registered in the Royal Court of Jersey.

The Common Interest Groups run their own affairs on the same basis as Credit Unions in the UK and elsewhere, subject to Head Office considerations. In fact the only practical day-to-day restriction is that a Director or senior official from Community Savings Ltd will sit on each Common Interest Group's Lending Committee in order to provide recommendations and guidance.

To summarise therefore, whilst we have a more extensive long term vision our main objectives are:

- i) To educate individuals, within common interest groups, on how to budget for their everyday requirements, manage their resources and give basic financial advice.
- ii) To provide a means of saving modest amounts on a regular basis for a particular purpose or as a general discipline.
- iii) Once a suitable savings record has been established to consider the provision of loans for necessities, on a secured or unsecured basis and at reasonable rates of interest.

3. Funding and Profits.

During the early days, after some effort, we were fortunate in obtaining a donation of £10,000 from a local Trust, which sum the Finance and Economics Committee of the States of Jersey was persuaded to match. In addition, a little later, we bid for and obtained the profits from one draw of the Channel Islands Lottery.

These funds however, were largely depleted by the time we were ready to commence operations, not only because of the expenditure of setting up a corporate structure, fitting out an office and the like but also because as with any new 'bank', accountants had to audit all our systems and controls in order to confirm to the Financial Services Commission that everything was in place and we were capable of operating in a totally professional manner. This proved an expensive exercise.

In addition, as a direct result of the manner in which we are to operate, whilst there will be certain economies of scale, the enterprise will be much more costly to administer than a single Credit Union and we had very little cash remaining.

4. How does it work.

Members of the Common Interest Groups save on a regular basis, either weekly or monthly, and the collective savings of the Community Savings Ltd provide working capital from which loans can be made to members.

Interest will be charged on loans at a maximum rate of 1% per month.

Savings can be withdrawn whenever required, although a short period of notice may be required.

5. Savings

The minimum savings amount is £1 per week or £5 per month. There is no weekly or monthly maximum except that the total savings of any one member is restricted to £10,000.

6. Loans

Community Savings Ltd is able to grant loans at low rates of interest. Maximum of 1% per month = APR of 12.68%. Members must have saved for at least 3 months to qualify for a loan.

Loans can be for up to three times the value of their savings.

The upper limit for unsecured loans is £5,000 and loans must be repaid within 2 years.

Borrowers must continue to save the minimum weekly or monthly amount (£1 and £5) in addition to repaying the amount borrowed.

Loans must be used for essential purposes e.g. rental deposits, white goods, carpets etc.

7. Commencement of activities.

We had already run a trial group made up of people from the Working Party before commencing any public involvement. We commenced live operations with a pilot scheme at Jersey Women's Refuge. This group was chosen largely because the Manager was a director of Community Savings Ltd and she would understand and be able to assist on a direct basis should we encounter teething problems. In the event everything went very smoothly and it was soon decided that we could market our services more extensively.

In addition, we have received a large number of telephone calls from people wishing to open accounts with us but who are not eligible to join an existing group. We will, over time, be able introduce certain of them to appropriate new Common Interest Groups but we are concerned about those that need our help now but to whom we are unlikely to be able to make introductions, either in the short or medium term. Many of these people are financially excluded in that they have been refused bank accounts with the High Street Banks because of their credit rating.

8. Developments now and into the future.

Soon after we commenced operations we were approached for our advice and support in respect of a proposition a senior member of our States of Jersey wished to put forward in respect of a custodial rental deposit scheme.

For many years there have been complaints about landlords unfairly retaining tenants' rental deposits after the latter have departed. We suggested how we could run the banking part of the scheme, the additional administrative functions that would be required and how we could also help with these aspects. We consider that the scheme can be set up at a minimal cost to the government of Jersey.

A custodial rental deposit scheme is of course not an original idea but as far as I am aware this would be the first time that one would have an involvement with a Credit Union.

With the possibility of up to £3 million of rental deposits being involved, if we are indeed successful in obtaining the business, not only will Community Savings Ltd be financially secure, our profile enhanced, membership potential increased but a sector of the community that is particularly vulnerable will have been helped.

Our 'Emergency Fund' scheme, where we consider the provision of grants or interest free loans has benefited a number of individuals who have had nowhere to turn to meet a desperate need. The Government's soon to be introduced 'Citizens Fund' will serve the same purpose and we are presently discussing whether the two schemes may be merged and operated by CS.

It has been a long struggle but we are now up and running and the potential is tremendous, not only to help directly those within our community in need of financial support in one way or another but to ensure that Jersey plays its small part in the U.N. Eradication of Poverty initiative.

**Brian Curtis
Chairman.**

*The Town Hall, Seale Street, St. Helier, Jersey, JE4 8PA.
Telephone: 01-534-737555. Fax: 01-534-485525.
E-Mail: community.banking@jerseymail.co.uk*