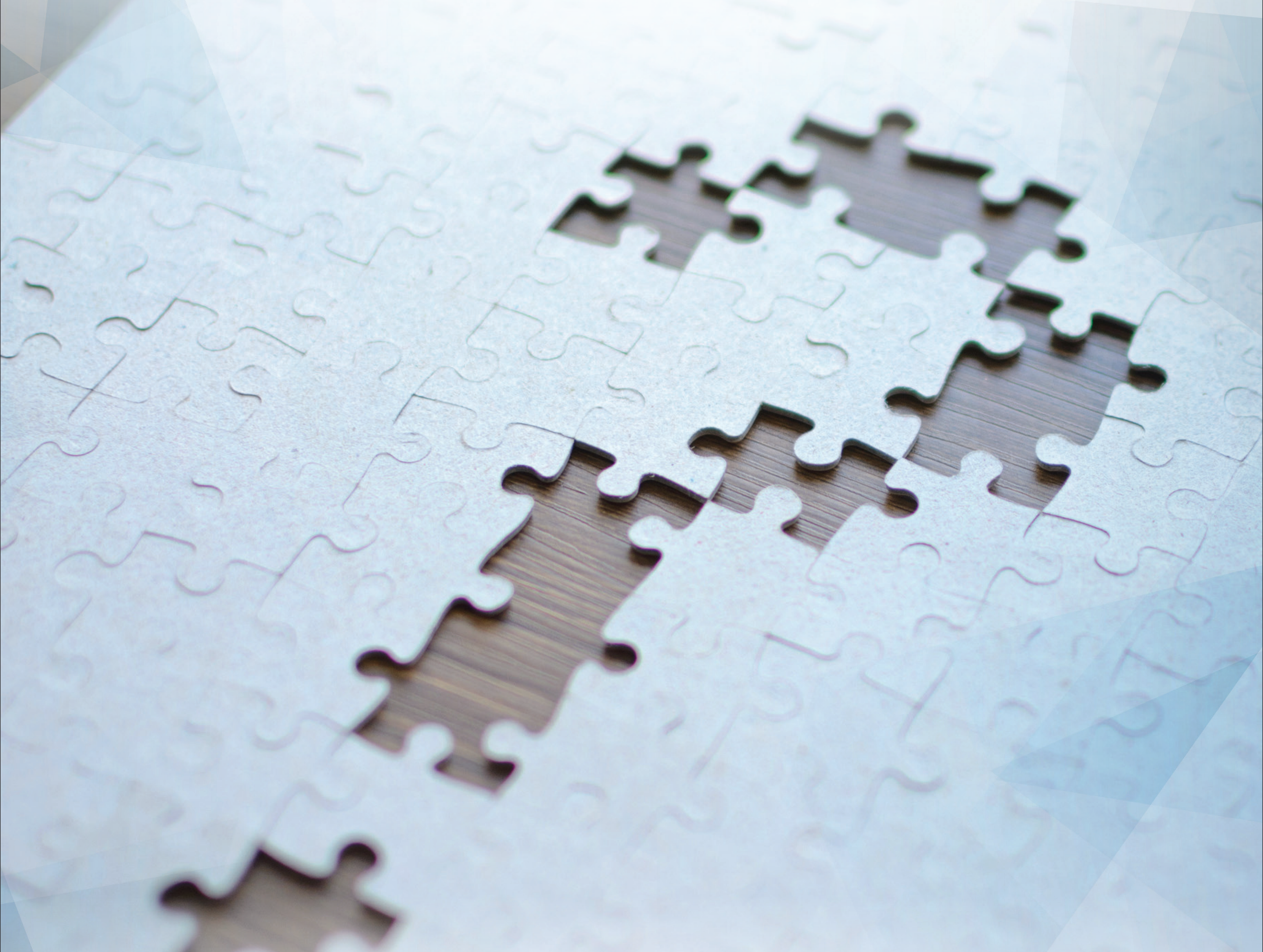
# The Irish Credit Union Business Model:
# Is it still fit for purpose?



## A research briefing paper

CFCFE

Centre for Community Finance Europe

Paul A Jones, Nick Money and Ralph Swoboda

**November 2017**

**The Irish Credit Union Business Model: Is it still fit for purpose?**

**A research briefing paper**

**By Paul A Jones, Nick Money and Ralph Swoboda**

Published by the

**Centre for Community Finance Europe Ltd.**
Dublin, Ireland

In Collaboration with Liverpool John Moores University
Liverpool, UK

November 2017

## Table of Contents

## Introduction and Summary

By any objective standard, the credit union movement in Ireland achieved amazing success during the first four decades after its founding in the 1950s. In the years since, however, it has been in gradual but on-going decline. Despite their current financial strength, credit unions must substantially change how they do business, or their long-term future is in doubt.

The objective of this research paper is to explore the reasons for this decline and to prompt discussion and debate by credit unions and their stakeholders on how that decline can be reversed.

This paper was commissioned by the credit unions that helped found the Centre for Community Finance Europe (CFCFE). It is intended to respond to increasingly urgent warnings that the traditional credit union business model is no longer fit for purpose.

Our approach will be to examine how well credit unions are faring in a rapidly changing competitive, economic and social environment, to explore how in other countries they have modified their business models to overcome similar challenges whilst preserving their core values, and from that analysis to suggest new business models likely to work in Ireland.

The basic philosophy of credit unions cannot change, because it defines what they are. Indeed, this fundamental truism underlies our conclusion that credit unions have declined in Ireland precisely because they are falling short of achieving their basic, philosophical purpose – which is to provide a socially responsible, consumer-owned alternative to banks.

For financial services beyond those few offered by credit unions, today's households have no alternative but to deal with banks and other for-profit providers. For those other services, consumers have left credit unions behind.

The 2008 banking crisis and the more rigorous supervisory regime imposed in its wake have undoubtedly impacted on credit union performance. However, these factors cannot excuse inaction. The crisis has ended and consumer loans are growing again overall, even as the credit union share of household lending continues its decline. What is seen by some as overly restrictive supervision by the Central Bank is no more onerous than credit unions in other developed countries have successfully dealt with for years.

The basic reality, which credit unions can no longer fail to confront, is that the financial needs of Irish households are very different than they were 50 years ago. Credit unions must adopt new business models if they are to meet those needs.

The authors submit that it is the philosophical and ethical obligation of credit union leaders to work out how they can do so.

## 1 Why this paper was commissioned

The 2012 recommendations of the Commission on Credit Unions, the 2015 report of the Credit Union Advisory Committee (CUAC) on their implementation, and numerous statements since by the Central Bank of Ireland (CBI), by elected officials, academics and credit union representative bodies, all point to the same conclusion: Credit unions must modernise their business model if they are to continue achieving their historical mission of providing financial services to ordinary people through a financial co-operative they own and democratically control.[1]

The Minister of Finance's Credit Union Advisory Committee reported that the crucial question of future credit union business models has been left largely unaddressed:

> *"CUAC considers business model development is of critical importance. Without fundamental business model development the future for many credit unions is uncertain."* [2]

The same point has been repeatedly emphasised in recent statements by senior officials of the Central Bank, which supervises credit unions. For example, speaking to the Irish League of Credit Unions 2017 annual conference, Acting Registrar of Credit Unions Ed Sibley stated:

> *"The absence of a vision, and a plan with which to achieve this vision, will inevitably reduce the chances of success. Business model evolution requires coherence, a clear path towards sustainable viability, supported by realistic financial forecasting, assessment of operational capabilities, feasibility studies, cost-benefit analysis and so on"*[3]

Noting that the low level of credit union lending is "unsustainable" for the long-term viability of the sector, the recent report of the Oireachtas Joint Committee on Finance concluded that:

> *"Business model development for the credit union movement is arguably the single most pressing issue to be addressed at present."*[4]

Whilst acknowledging that it is up to each credit union to choose its own business model, CUAC, CBI and the Joint Committee have stressed the imperative need for credit unions collectively to examine how their business models should be developed to achieve future survival and success.

---

[1] Irish League of Credit Union (2016), Re-awakening the “Sleeping Giant” for the Benefit of Members and Irish Society; CUDA (2006), A Call to Action: Re-inventing Credit Unions for the 21st Century.

[2] Credit Union Advisory Committee (2016), Review of Implementation of the Recommendations in the Commission on Credit Unions Report, p.79.

[3] Sibley E. (22 April 2017), Speech by the Acting Registrar of Credit Unions, Irish League of Credit Unions 2017 Annual General Meeting.

[4] Oireachtas Joint Committee on Finance (2017), Report on the Review of the Credit Union Sector, p. 5, 33.

It was for this reason that the Founding Members of CFCFE commissioned this research paper, to stimulate and inform thought and debate on this critically important issue.[5] Its aim is to assist credit unions, their members, policy-makers and other stakeholders to identify how to reverse the course of a great credit union movement that is now in long-term decline.

The goal of this paper is to identify potentially successful future business models for credit unions, taking into account consumer expectations and financial market opportunities and realities. Future CFCFE papers will specifically examine the products and services that are potentially part of those new business models, as well as the changes in law and regulation, funding and capital, risk management, governance, and technology needed for their deployment.

**However, the critically necessary first step is for credit unions to agree on a vision for their future and then identify and define the business models they need to adopt in order to achieve that vision. So far, this has not happened.**

To develop this paper, the authors reviewed published literature on credit unions in Ireland and internationally, which focused in the latter case on identifying the key elements of successful models in other advanced countries. This review has been supplemented by numerous structured and informal interviews and discussions with credit union leaders, regulators and other stakeholders.

The outcomes from this review have been encouraging. There is growing recognition by credit union leaders that the basic business model needs to be radically changed in order to be fit for purpose in 21st Century Ireland. What is needed is a shared vision for the future that extends across the sector, coupled with the will to embrace the fundamental changes required for that vision to be realised.

## 2 A great social movement in decline?

First appearing in the 1950s as an 'import' from North America (where they are now significant providers of financial services[6]) credit unions established themselves by the 1990's as a vital component of Irish civil society. By 2004, there were 424 credit unions in the Republic with assets of €11.5 billion and over 2.5 million members. They remain today Ireland's most trusted brand.[7]

For most of its first 50 years, the credit union business model was ideally suited to

[5] The Founding Members of CFCFE are listed at the end of this report.

[6] Since the 1950s, North American credit unions have evolved into full-service financial providers, offering the same consumer products as banks, but typically at better rates, with lower fees, and better service. About 5,800 US credit unions, with $1.3 trillion in assets, serve 108 million Americans. World Council of Credit Unions (WOCCU) (2017), 2016 Statistical Report. See Section 6 below.

[7] The 2017 Amárach Research annual survey of 42,000 customer experiences across 170 brands revealed that credit unions are regarded as "the perfect example" of organisations that "genuinely care" about their members and are rated highest for integrity, empathy and for the commitment of their staff. CX Company with Amárach Research (2017), Ireland Customer Experience Report.

the financial services needs of Irish households. Credit unions appealed to the mass of society, who, in those years, mostly needed only inexpensive loans, group life and credit insurance, and safe, well-paying savings accounts. Credit unions met those everyday needs in a superlative manner, far better than the banks, and consumers obtained their home mortgages at mutual building societies, which were likewise owned by their customers.[8]

That success occurred, however, in a social and economic environment that started to change rapidly from the late 1990's onward.

As early as 1996, credit union lending began declining as a share of total assets, and by 2004 credit unions could be fairly referred to as 'savings unions' with more of their assets in investments than in member loans.[9]

Over just three years, from 2001 to 2004, loan to asset ratios dropped from 61.1% to 48.5%, causing gross income to decline as costs continued to increase over the same period. (Figure 1.) [10]

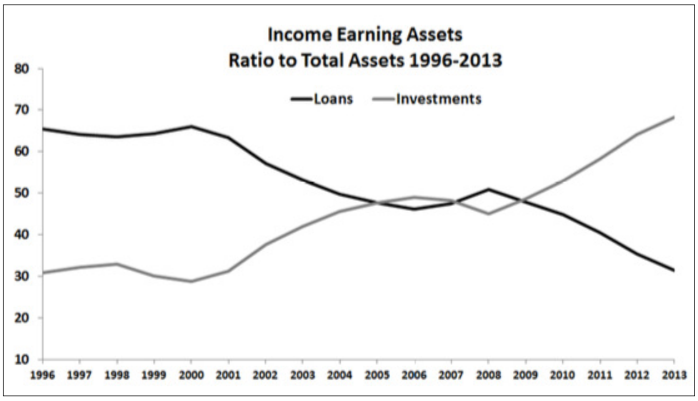



*Figure 1. Earning assets ratios to total assets 1996-2013.*[9]

Government response to the banking crisis of 2008 resulted in much more robust regulation and supervision by the Central Bank, which was assigned supervisory responsibility for the sector in 2010. The increase in compliance burdens helped fuel efforts by the Credit Union Restructuring Board (ReBo) to engineer significant credit union consolidation and stabilisation. Primarily as a result of mergers, the number of credit unions actively trading in the Republic has dropped to 286.[11]

While mergers reduced the number of weaker credit unions, it resulted in a greater divide between large and small credit unions. CBI reports that the largest 50 credit unions by asset size now represent 52% of total sector assets and 51% of total loans. With better credit control, declining delinquencies and the release of bad debt provisions no longer needed in an improving economy, credit union capital ratios

[8] For general background on the origins of Irish credit unions, see Power C., O'Connor R., McCarthy O., Ward M. (2011) The Origins, Ethos and Evolution of Co-operative Credit in Ireland: Celebrating the Centenary of the Birth of Nora Herlihy, Centre for Co-operative Studies and Duhallow Women's Forum; McCarthy O., Farrell S., Hewson D. (2016), The financial co-operative system in Ireland, Credit Co-operative Institutions in European Countries, Switzerland.

[9] ICURN Peer Review Report (2015), Central Bank Performance of its Regulatory Functions in Relation to Credit Unions, Central Bank of Ireland.

[10] Central Bank of Ireland (2014), Credit Union PRISM Risk Assessments Supervisory Commentary.

[11] Central Bank of Ireland (2017), Financial Conditions of Credit Unions 2011-2016.

now average 16%, after six years of continuous improvement.[12]

Disturbingly, however, greater size has not translated, at least yet, into better financial trading performance. A recent Queens University study determined that credit union efficiency has actually declined with increasing size.[13] In other words, growth has failed to yield commensurate scale economies. Even more alarmingly, loans have dropped to only 26% of assets, reinforcing a downward trend in credit unions' return on assets (ROA) since 2012. (Figure 2.)[14]

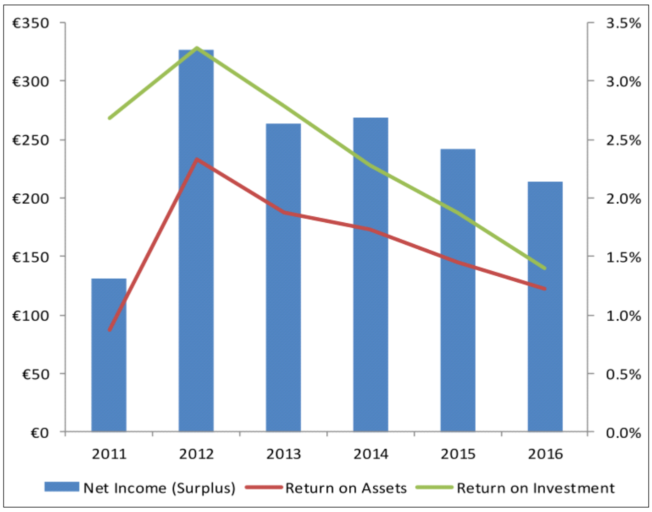



*Figure. 2. Net income, returns on assets and investments 2011-2016.*[14]

Some credit unions blame lending restrictions put in place by CBI after 2010, but the downward trend in loan to share ratios started ten years earlier. (See Figure 1.) With returns on new investments nearing 0%, CBI projects that, if lending does not improve, 50% of credit unions will be running annual losses by year-end 2018.[15]

Even though credit union capital is strong for now, on-going losses would not only destroy their ability to pay dividends on shares, but also, in time, lead to their failure if losses were not reversed.

There are, of course, credit unions that perform better than others, but the general downturn in credit union lending and ROA gives support to the hypothesis that the way credit unions operate and the products they provide are no longer as attractive to the current generation as to generations past.

Certainly, nearly continuous de-leveraging by households since the 2008 crisis, along with lower interest rates, has contributed to the decline in credit union financial performance. Nevertheless, Irish households are still highly leveraged. The over-all ratio of household borrowing to savings in depository institutions is 97%; at credit unions, members' borrowings equate to only 31% of their savings.[16]

Between 2003 and 2016, the credit union share of the market for consumer loans,

---

[12] Central Bank of Ireland (2017), Financial Conditions of Credit Unions 2011-2016.

[13] McKillop D.G., Quinn, B (2017), Irish credit unions: Differential regulation based on business model complexity .The British Accounting Review 49 (2017).

[14] Central Bank of Ireland (2017), Financial Conditions of Credit Unions 2011-2016.

[15] Central Bank of Ireland (2017), Financial Conditions of Credit Unions 2011-2016.

[16] As of 30 September 2016: Central Bank of Ireland (June 2017), Table A.18 Credit Advanced to and Deposits from Irish Private Households; Central Bank of Ireland (2017), Financial Conditions of Credit Unions 2011-2016.

their core product, dropped from 48% to 35%.[17] People may still love their credit union; they just don't borrow from it as much anymore.

Consumers today are accustomed to a growing range of financial services. They demand instant access to their money with debit cards and ATMs. They will forego the lowest interest rates to borrow instantly using a credit card or via the Internet or a mobile app. The building societies are gone, and people are left with a duopoly of commercial banks, finance companies, and high-cost lenders. The tracker mortgage scandal is only the latest example of banks' legacy of treating people unfairly. People need a real credit union alternative that fully responds to their financial needs.

## 3 What is a 'business model' and why is it important?

Although the term 'business model' is now often used in reference to credit unions, its meaning in the credit union context may not be self-evident. So it's important to pause for a definition, so as to avoid a potential source of confusion. In the academic literature, "business model" is typically defined with words such as:

> *"The rationale of how an organisation creates, delivers and captures value."*[18]

Thus, a business model addresses the fundamental questions that every organisation needs to ask itself before it can even begin to develop its strategic business plan, let alone decide what tactics it will employ to achieve it.

We define each credit union's 'business model' as that particular credit union's answers to the following questions:

1. **Who are we for?** Who should be our members? What are we trying to achieve for them? How do we measure our success in doing so?
2. **What do we do?** What is our basic business? What products, services or other functions do we provide? How do we create and distribute them?
3. **How do we deliver value?** What is our financial structure? How do we balance price, quality of service, and the return we pay to our members?
4. **How are we better than our competitors (and who are they)?** Why would members and potential members come to us rather than someone else? What are our long-term, sustainable competitive advantages?
5. **What is our message?** When people talk about us, what are the words they use to describe us? (The answer is the essence of our 'brand'.)

Hence, a business model delineates the way in which a credit union creates value for

---

[17] Credit union data from Irish League of Credit Unions (ILCU) annual reports (2003, 2004, 2005), ICURN (2015) Peer Review Report, Central Bank Performance of its Regulatory Functions in Relation to Credit Unions, Central Bank of Ireland.; industry data from Central Bank of Ireland (2017) (a), Table A.5.1 Loans to Irish Households Purpose and Maturity.

[18] Osterwalder, A., Pigneur Y. (2010), Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers, John Wiley & Sons.

its members through the provision of financial products and services, how it delivers that value through its entire range of activities, including its technical and operational systems, its delivery channels, its partnerships and relationships, and in how value is shared with its members, its employees and the broader community.

**While business models can change and evolve, it must be emphasised that the basic mutual ownership structure of credit unions, their fundamental purpose, and their philosophical ethos are unchangeable because they define what they are.**

This paper takes it as given that credit unions should survive and succeed, and that, by definition, this cannot happen if they abandon their philosophy and become something else. What needs to be changed is the practical business model which each credit union follows to actually achieve its philosophical purpose within its ethical and co-operative structure.

## 4 What is the Irish credit union business model?

The original credit union business model was relatively simple, and it was copied almost exactly from the model then followed by credit unions in North America.[19]

Each credit union was created to serve people within the 'common bond' of a clearly defined local community, parish or workforce. Its basic business was to mobilise the savings of its members to make short-term instalment loans back to those same members at a single rate of interest. Loans were typically limited to a multiple of a member's savings, and members were encouraged to borrow against their savings rather than withdraw them.

Profits were distributed as an annual dividend on member shares, and after the 1980 incorporation of Eccu Assurance by the ILCU, members received free life and credit insurance as an additional benefit of membership.

The unique competitive advantage of the credit union was its friendliness, its embeddednesss in the community it served, its governance by community volunteers, and its being seen as a practical example of people helping people. Value was returned to members through higher rates on their savings, lower rates on loans, no fees for other services, and the contributions credit unions made to the social health and cohesion of the communities they served.

By the late 1990's, some credit unions had started offering free bill paying services, a few offered ATM cards, foreign exchange, and similar incidental products, and free advice on money matters was on offer at nearly every credit union. However, by the late 90’s the banks and other for-profit providers had already moved into telephone

[19] The Credit Union Act (1966) was the foundational legal basis for credit unions in Ireland, defining their membership, ownership structure, powers, governance, and operations. Most of it was copied almost verbatim from the US Federal Credit Union Act (12 USC 1751), as enacted in 1934. For additional background on the US origins of the Irish credit union movement, see McKillop D.G., Wilson, B. (2010), Credit Unions: A Theoretical and Empirical Overview, School of Management, The Queen’s University of Belfast.

and on-line banking, as well as credit cards and other forms of more convenient consumer lending. Meanwhile, credit unions retained the same basic business model they followed from the beginning, and their share of the consumer lending market was already starting to decline.[20]

To a remarkable extent, this continues to be the basic business model for nearly all credit unions in Ireland today. **Although mergers have created a number of much bigger credit unions, by and large the credit union business model is unchanged from 20 years ago.**

In contrast to the consumer side of commercial banks, credit unions are still primarily savings and loans institutions offering only unsecured short to medium term credit. Many still limit loans to a multiple of savings in the traditional manner, and very few price loan products for risk. Revolving credit is nonexistent, as are credit cards and other forms of instant borrowing. All Irish credit unions serve financially vulnerable and/or low-income people, but a systematic approach to the sub-prime, financially-excluded market is not part of their business model.

Credit unions are not significant providers of home mortgages, and they have been only marginally involved in social housing. Only to a limited extent do some serve as distributors or agents for the sale of insurance, investments or other financial products, and less than 5% of credit union gross income is produced by fee income.[21]

Although most credit unions have websites, few are interactive or enable loan applications or funds transfers to be accomplished online. A handful of credit unions offer mobile phone apps, but their functionality is limited by the small range of products on offer. Most member interactions are over the counter, by telephone, mail or email.

The most significant change in the business model for some has been the substantial expansion of their 'common bonds' that resulted from mergers. Because of consolidation, the 'Who' that large credit unions serve is now much bigger. However, the experience of credit unions in other countries (see Section 6) demonstrates that even large credit unions must develop collaborative back-office solutions to achieve the scale economies needed to competitively offer a wide range of products.

Nevertheless, as the CEO of one such large credit union told the research team, "Credit unions have just kept on doing the same thing from one year to the next. It was if they were successful by default rather than by design."

Thus, although many in the movement see expansion (either within their existing common bonds or through mergers) as the solution, there is little evidence that larger credit unions are doing better simply by virtue of becoming larger, as shown in Section 2.[22]

---

[20] Section 2, above.

[21] Central Bank of Ireland (2017), Financial Conditions of Credit Unions 2011-2016.

[22] The 2016 CUAC report noted the issue of whether limitations on the common bond should be

In terms of the typology of credit union development stages as identified internationally, a 2006 academic study concluded that the Irish credit union model is still very "basic" with few attributes of a "transition" sector, and it is far less developed than the mature movements found in the USA, Canada and Australia.[23]

A 2015 review of the sector by a group of international credit union regulators describes the Irish business model as "very basic" after over 60 years of development.[24]

All the same, there are variations beginning to appear in the Irish model. From interviews and examination of the literature, the research team identified three overlapping variations on the basic credit union business model in Ireland:

- **Basic savings and loans** – Most credit unions under about €100 million in assets are in this group, as are some that are larger. They serve basically the same common bonds they served since inception. These credit unions display the characteristics of the traditional credit union and have not changed significantly over the years. They may have introduced information technology, but they still offer a limited portfolio of services, and close personal contact with their members remains most important.
- **Low-cost savings and loans** – A small number of industrial credit unions achieve higher than average loan to share ratios and offer the most competitive rates because they only provide basic savings and loans on an ultra-low-cost basis, primarily by internet, phone and email. One credit union in this group outperforms all others in the country, with an exceptional 75% loan to asset ratio.
- **Enhanced savings and loans** – These are larger credit unions, whose growth typically came through multiple mergers. They offer a widening range of savings and loan products, sometimes with risk-based pricing, augmented by miscellaneous fee supported services. They have pursued a highly visible presence in their communities for a high-touch personal service, which is enhanced through new digital delivery systems.

The central thesis of this paper is that for credit unions in Ireland to succeed into the future they will need to investigate and determine their business models in much

---

changed, and the researchers encountered the belief among some credit unions that the solution to the sector's decline is to open up common bonds to produce larger membership bases. The issue of common bond is an important one and will be dealt with in a future CFCFE research paper. However, with nearly all Irish residents now eligible to belong to a credit union, the evidence does not support the conclusion that access to members is a constraint. Rather, it indicates that credit unions do not offer enough of the financial products and services that today's consumers actually want, through the digital 'instant access' delivery channels consumers now expect.

[23] McKillop D.G., Goth P., Hyndman N. (2006), Credit Unions in Ireland, Institute of Chartered Accountants in Ireland.

[24] ICURN (2015) Peer Review Report, Central Bank Performance of its Regulatory Functions in Relation to Credit Unions, Central Bank of Ireland.

greater detail. They will remain primarily savings and loans institutions, but they must develop new and transformed business models that draw on their ethos and co-operative strengths whilst effectively meeting the changing financial needs and demands of contemporary Irish consumers.

## 5 Competitive challenges and opportunities for credit unions

Financial services have changed dramatically since credit unions were established in the 1950's, and with innovative fintech and mobile solutions emerging all the time, they are set to change even more into the future. The challenge to the credit union business model is immense, given its limited range of products and services, delivered through channels that cannot match the speed and responsiveness of the competition.

Recently a large community credit union in Co. Dublin commissioned a professional telephone survey of its members to find out why they borrow from other providers and not from the credit union. The answers were highly unsettling: Banks were seen by members as more convenient, with less hassle and paperwork, online approvals were faster and interest rates lower.

The last point was contested by the credit union, but what is significant is that many members perceived it to be true. What surprised the credit union most, however, was that 83% of borrowers had not contacted the credit union before taking out a bank loan.

The CEO of this credit union did not take the easy way out of putting the issue down to the credit union needing better member communications or advertising. Instead, he pointed to the fact that people, particularly younger people, find the speed and level of service offered by the modern banking sector to be irresistible – and they spread the word quickly through social media.

More and more consumers have mobile technology, are always online, and they want payment and credit services that are accessible, fast and responsive. By 2016, 86% of Irish residents had a smart phone and 60% a tablet.[25] Several credit union interviewees spoke of their technology as being "clunky" and noted that modern consumers do not do clunky.

The major competitors to credit unions are the banks. Despite credit unions being socially embedded in the communities they serve and the high level of esteem in which they are held, they are not capturing the market share that they should.

As one interviewee put it, "Banks are like Ryanair. People don't like them, but that's where they go because they see them as cheaper and easier."

Figure 3 shows the rise and fall of consumer lending from 2003 to 2016. What should seize the attention of credit unions is that, while the overall market for consumer

---

[25] Deloitte (2016), Global Mobile Consumer Survey: Ireland 2016 - There's no place like phone.

loans has recovered to 2003 levels, lending by credit unions has not. By 2016, total consumer loans outstanding were €1.01 billion more than they were at year-end 2013, a net growth of 0.7% compounded over that period. However, credit union loans outstanding had dropped from where they were in 2003 by almost exactly the same amount.[26]

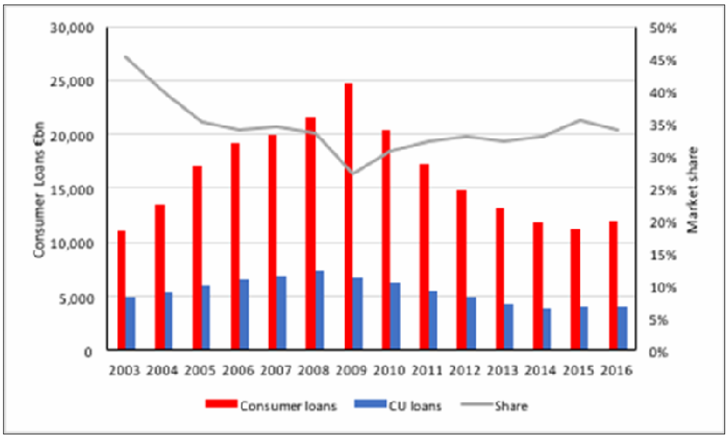



*Figure 3. Loans, credit union loans and market share 2003-2016.[26]*

The disappointing state of the sector's market share is actually worse than Figure 3 would indicate. Car loans make up a major share of credit union portfolios, but the Central Bank numbers for non-credit union car finance do not include hire purchase (HP) and personal contract purchase (PCP) arrangements, which directly compete with credit union car loans. As car sales have recovered since 2009, the amount of consumer credit outstanding through these alternatives has grown as well.[27] Accordingly, the actual credit union market share of all consumer finance is significantly lower than Figure 3 indicates, and it is continuing its decline.

Recent bank initiatives threaten to make matters worse. Banks are now promoting higher value, medium-term loans of 5 to 10 years, the very space where credit unions see major opportunities for growth and expansion, and the one segment in which CBI statistics show there to be a significant increase in consumer loan demand.[28] Competition is also increasing for loans of less than five years, the niche which credit unions historically dominated.[29]

While the amount of bank advertising now targeting customers for smaller loans is tangible evidence of this trend, the more fundamental problem is that banks have the technology and resources to make low value loans much more efficiently, and potentially at lower interest rates, than credit unions can.

As the most basic example, banks issue small loans (<€2,000) speedily and inexpensively through credit cards and overdraft lines. Increasingly they are using data analytics for credit scoring and automated loan decisioning. For example, Allied Irish Banks (AIB) had a 31% increase in personal loans (€416m) in the first half of 2017 whilst reporting that 82% of personal loans and 74% of credit cards were

---

[26] See footnote 17 in Section 2 above.

[27] The Society of the Irish Motor Industry, Motor Industry Review Q3 2017.

[28] Central Bank of Ireland (2017) (b), Financial Conditions of Credit Unions: 2011 – 2016. Issue 1.

[29] Sibley E. (22 April 2017), Speech by the Acting Registrar of Credit Unions, Irish League of Credit Unions 2017 Annual General Meeting..

applied for online.[30]

The buzzword for these new technologies is 'fintech', which is emerging rapidly as the new way the world uses money. Adopting fintech will present a major challenge for credit unions since fintech reengineers the way financial organisations collect and use data, and its effective use requires flexibility and agility in delivering products and services.[31] Adopting fintech will demand a major cultural change in the way credit unions develop products and services and how they relate to their members.

Today, however, credit unions still employ labour-intensive, administratively-demanding credit assessment procedures. Small requests for new credit are handled by 'topping-up' an existing loan, which requires generating the paperwork needed to replace it with a new one. In one large community credit union involved in this study, 43% of loans are less than €1,000, and each one is subject to individual credit assessment procedures.

Credit unions simply cannot deliver small loans with the same speed, volume or cost effectiveness as banks. Indeed, credit union CEOs interviewed by the authors also cited the threat of increased competition for small loans from high-cost lenders, noting that people are willing to pay more for the speedy, low-hassle borrowing those firms have on offer.

In considering how credit unions should respond, the data actually does offer considerable room for optimism. The reality is that the economy is recovering, and household borrowing is back on the rise. There are real opportunities for credit unions that are willing to embrace change, expand their lending products, and adopt the processes, technology, management skills and governance needed to be responsive, agile and competitive in doing so – all the while staying loyal to their fundamental ethos as not-for-profit co-operatives.[32]

Credit unions have an incredibly strong brand in Ireland. What they need to do now is follow the example of credit unions in other developed countries, which, over the last 50 years have grown by successfully doing much more for their members than basic savings accounts and inexpensive small loans.

The concept is actually very simple. Given that the basic function of the credit union is to give people an alternative to banks, the questions are: Just what do banks do that credit unions do not do? And how can credit unions provide those same products and services safely and profitably, in a way that is better than banking?

While Irish credit unions have stayed with the same basic business model for the past 50 years, over that same period credit unions in North America and Australia

---

[30] Allied Irish Bank (2017), Half-Yearly Financial Report for the Six Months Ended 30 June 2017.

[31] Swart R, Middleton C.L. (2017), Fintech: Developments and Strategic Implications for Credit Unions, Filene Research Institute.

[32] Credit unions are not <u>for</u> profit. Unlike banks, making profits is not why they exist. All the same, credit unions are businesses and not charities, and they must generate profits to pay dividends to their members and to build the capital they need for safety and growth.

have radically and successfully transformed their business models to become full service financial providers, both for consumers and small businesses.

As discussed in the next section, credit unions in those countries now offer the full range of personal 'banking' services, from secured car loans to home mortgages, from current accounts to debit and credit cards, and they earn fee income by providing group buying power to their members for insurance, investments and other financial products. Most importantly, they have done so without changing their basic structure and ethos as member-owned co-operatives, governed on a one-member/one-vote basis for the benefit of their members and communities.

**It will be objected that moving to such a new model is just not possible in Ireland. The Central Bank won't allow it. The Credit Union Act is too restrictive to permit it.**

**The fact is that this 'new model' was likewise not permitted by the laws and regulators in the USA, Canada and Australia fifty years ago. However, credit unions in those countries adopted the clear vision and the determination to become a complete alternative to banks for ordinary people. With that vision firmly in mind, they did what was necessary to achieve it.**

As discussed in the next section, credit unions in North America and Australia accomplished this transition through effective collaboration, supported by focused, disciplined, professional, and well-financed advocacy from their national, state and provincial trade bodies. Their example proves that this vision, if credit unions here choose to embrace it, can be accomplished in Ireland as well.

## 6 Lessons from the international credit union sector

According to the World Council of Credit Unions, there are 68,000 credit union and co-operative finance organisations in 109 countries around the world, demonstrating the universal appeal of the credit union idea and its adaptability to a variety of cultures and economies.[33]

Most pertinent to this discussion, however, has been the experience in the USA, Canada, and Australia. Together with Ireland, those three countries share the same history, language, common law and governmental traditions, along with very similar cultures, financial systems and economies.[34] Most importantly, these countries invented the exact same credit union business model that was adopted in Ireland.

Hence, it behoves credit unions in Ireland to see how their peers in these three

[33] World Council of Credit Unions (WOCCU) (2017), 2016 Statistical Report, Madison, WI USA.

[34] In Canada, there are actually two credit union sectors. In French-speaking Quebec, the Caisse Desjardins is a highly-centralised, top-down system in which the local credit unions (caisses) are essentially run as branches of the central body, which also serves as their regulator. It is much like the large co-operative banking systems in Continental Europe. Attempts over the years to promote the concept in the USA and Australia were rejected by credit unions, which, like those in Ireland, treasure their local autonomy and independence. Accordingly, the discussion in this section relates to credit unions outside Quebec that have business models largely the same as in the USA and Australia.

countries have met and overcome challenges that were remarkably similar to those facing credit unions here. If the goal is to 'build a better mousetrap', it makes sense to look for models and ideas from those who have already done so.

The USA, Canada and Australia have high penetration rates for credit union membership (53%, 47% and 18% of economically active populations, respectively). The dimensions of these movements are shown in Figure 4.[35]

| | **Members** Millions | **Savings** US$ billion | **Loans** US$ billion | **Capital** US$ billion | **Assets** US$ billion |
|---|---|---|---|---|---|
| **Australia** | 4.2 | 68.0 | 63.9 | 8.2 | 79.8 |
| **Canada** | 10.1 | 130.3 | 126.3 | 8.2 | 150.7 |
| **USA** | 108.3 | 1,107.1 | 883.8 | 138.5 | 1,309.1 |

*Figure 4. Key metrics of mature credit union sectors overseas.*[35]

In this section we will focus on three areas where the lessons from these countries are particularly pertinent to the formation of a new vision and business model by Irish credit unions. Those are lending, other financial services, and the use of effective collaboration amongst credit unions.

**Lending.** First and most importantly, credit unions in these countries are much more effective at meeting all of their members' borrowing needs. The key ratios are shown in Figure 5.

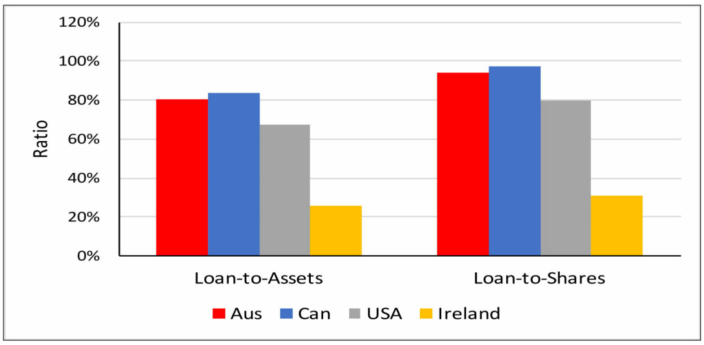



*Figure 5. Credit union loan to asset ratios by country.*[34]

In North America and Australia, credit unions have done so by introducing a full range of lending products, as they moved away from reliance on the short-term loans still prevalent here. In the USA for example, unsecured, closed-end loans account for less than 10% of total credit union lending.[36] The rest is done through a full range of credit products that outperform banks in terms of price and service delivery.

To an important extent, the much higher proportions of assets out in loans is the result of credit unions in all three countries being heavily involved with lending on property for their members. In the USA, credit unions have been offering long-term residential mortgages since 1977 and business loans since 1998 (albeit in the latter case to a maximum of 12.25% of assets). These products were enabled by legislative changes that resulted from well resourced and effective credit union advocacy di-

[35] The sources for numbers on this page and in Figures 4 and 5 are Australian Prudential Regulatory Authority (2017), Quarterly Authorised Deposit Taking Institution Performance Statistics; World Council of Credit Unions (WOCCU) (2017), 2016 Statistical Report.

[36] Credit Union National Association (CUNA) (2017), National Credit Union Profile, 30 June 2017.

rected to US lawmakers and regulators. In Australia, 93% of lending (74% of assets) is in the form of mortgages.[37] In Canada, 58% of all credit union loans are home mortgages, representing 16.2% of all residential mortgages in the country.[38]

The breadth of lending products typically on offer **as significant activities of most** credit unions in the four countries is illustrated below in Figure 6.

| Lending Products | Australia | Canada | USA | Ireland |
|---|---|---|---|---|
| Home mortgages | ✔ | ✔ | ✔ | |
| Second charge home equity | ✔ | ✔ | ✔ | |
| Secured car loans (and leasing, HP, PCP) | ✔ | ✔ | ✔ | |
| Credit cards | ✔ | ✔ | ✔ | |
| Current account overdraft loans | ✔ | ✔ | ✔ | |
| Other revolving lines of credit | ✔ | ✔ | ✔ | |
| Asset-secured small business loans | ✔ | ✔ | ✔ | |
| Unsecured, closed-end signature loans | ✔ | ✔ | ✔ | |
| Savings-secured, closed-end signature loans[39] | | | | ✔ |

*Figure 6. Summary of lending product range across jurisdictions.*

Examples of the degree to which this greater range of lending products is successfully offered by these movements include:

- In the USA, credit cards are offered by 82% of the 2,900 credit unions in the asset range of $25 to $500 million. Even among the 2,370 US credit unions with assets of less than $20 million, 26% offer credit cards.[40]
- New and used car loans in the USA comprise 35% of the movement's loan portfolio, and about half of them are originated through dealer forecourts. Credit unions now have a 28% share of the entire US car finance market (including leasing and PCPs), a collectively larger share than any other type of provider, including banks, car manufacturers, and finance companies.[41]
- Interest rates charged on a risk-weighted basis. Thus, loans secured by collateral such as real property or vehicles carry a lower rate than unsecured credit card loans. But while rates will vary based on the risk inherent in the product, credit unions consistently charge less than banks on every loan type they offer.

---

[37] Australian Prudential Regulatory Authority (2017), Quarterly Authorised Deposit Taking Institution Performance Statistics.

[38] Canadian Credit Union Association (2017), Community and Economic Impact Report 2017.

[39] It is rare any more for credit unions in these three countries to take shares as collateral for loans. If members need their money back, they simply withdraw it, since savings are not 'attached' to loans.

[40] Credit Union National Association (CUNA) (2017), National Credit Union Profile, 30 June 2017.

[41] Credit Union National Association (CUNA) (2017), National Credit Union Profile, 30 June 2017; Credit Union Times (13 June 2017) , Credit Unions Gaining Market Share.

- To facilitate higher risk lending, US credit unions successfully lobbied in the 1980's for the ability to charge market interest rates above the traditional "1 per cent per month on the unpaid balance" still applicable in Ireland. The same was accomplished in Canada and Australia.

**Meeting a Wider Range of Member Needs.** These three other credit union movements have also diversified the rest of their product range far beyond annual dividend shares and simple bill paying accounts, to include:

- Transaction and payments services, including debit cards, credit union-owned ATM networks, interest paying consumer and small business current accounts and other payment services.
- Dividends paid out of retained earnings from prior periods on any basis and any frequency each credit union chooses. Over 40 years ago, credit unions in these three countries dropped the practice of paying dividends only annually, in arrears, with the dividend rate uncertain until the AGM.
- Hence, they offer a full range of deposit and savings products, including money market accounts that pay dividends indexed daily to market rates, and term accounts, such as share certificates, with dividend rates declared in advance based on whether funds are held for 1 year, 2 years, and so on.
- Tax-deferred retirement savings accounts, which US credit unions (through their representative bodies) were instrumental in getting authorised by the US Congress.
- Longer-term financial planning, life and general insurance products, stock and bond brokerage, and mutual funds. Australian credit unions earn 22% of their revenues from non-interest income (fees and other income), and in the USA that number is 33%.[42]

Credit unions in North America and Australia have become complete alternatives to banks for all but high net worth individuals. Consumers there are more satisfied with credit unions than banks because of their people-focused policies, their lower fees, and their better rates on savings and lending.

It may be objected that the foregoing results in North America and Australia are simply the result of credit unions there being much larger than in Ireland. This is most certainly not the reason.

In reality, as the result of highly effective representative bodies and successful collaboration amongst credit unions, even very small credit unions in North America and Australia offer a full range of consumer financial services.

For example, in the USA, where the number of credit unions has been steadily

[42] Australia data is from Australian Prudential Regulatory Authority (2017), Quarterly Authorised Deposit Taking Institution Performance Statistics; USA data is from Credit Union National Association (CUNA) (2017), National Credit Union Profile, 30 June 2017.

decreasing through mergers (with the largest credit unions becoming even larger), the median-sized US credit union still has assets of only $30.5 million (about €26 million). **Half of US credit unions (about 2,900) are the same size as the smallest in Ireland.**[43]

Many of even these smallest US credit unions offer a full range of banking services, as do nearly all of those in the same asset range of $20 to $500 million where all the medium and larger Irish credit unions are found: [43]

| LENDING PRODUCTS | < $20 Million | $20-$50 | $50-$100 | $100-$250 | $250-$500 |
|---|---|---|---|---|---|
| Credit Cards | 26.1% | 74.7% | 85.3% | 86.4% | 92.7% |
| Other Unsecured Loans | 96.4% | 99.8% | 99.9% | 100.0% | 100.0% |
| New Car Secured | 89.0% | 99.8% | 99.9% | 99.9% | 100.0% |
| Used Car Secured | 92.4% | 99.7% | 99.9% | 99.9% | 100.0% |
| First Mortgage | 29.2% | 82.7% | 95.6% | 99.3% | 100.0% |
| Second Charge Mortgage | 34.3% | 86.6% | 95.1% | 98.5% | 99.7% |
| Member Business Loans | 6.8% | 31.5% | 53.2% | 74.7% | 84.6% |
| **SAVINGS PRODUCTS** | **< $20 Million** | **$20-$50** | **$50-$100** | **$100-$250** | **$250-$500** |
| Current Accounts | 51.8% | 96.6% | 99.2% | 99.4% | 100.0% |
| Term Share Certificates | 56.9% | 92.6% | 97.1% | 98.8% | 99.4% |
| Tax-Deferred Retirement | 32.6% | 83.1% | 93.4% | 97.7% | 98.5% |
| Money Market Shares | 13.3% | 54.5% | 74.9% | 87.2% | 91.3% |

*Figure 7. Percentages of US credit unions offering lending and savings products, by total asset size in US$ millions.*[43]

Smaller credit unions can offer such a broad range of services because of effective collaboration amongst credit unions in these three countries.

**Commercial Collaboration.** It took many years for these overseas credit unions to incrementally build such expansive product portfolios. Their ability to do so critically depended on their success in collaborating effectively to create back office and other commercial support organisations with the necessary professional management teams, function-specific expertise, funding and resources.

Such organisations took three basic forms:

- **Central Finance Organisations.** These were set up under local law as credit union-owned banks or as 'credit unions for credit unions,' in either case to supply wholesale financial services on much better rates and terms than credit unions could get from the for-profit banking sector. In Australia, credit unions created CUSCAL as an authorised deposit-taking institution to provide them with investment, liquidity, payments system, and other wholesale financial services. Similarly, the national, state and provincial trade bodies in the US and Canada obtained the legislative and regulatory clearances to create central credit unions to perform these same functions.

[43] Credit Union National Association (CUNA) (2017), National Credit Union Profile, 30 June 2017.

In the 1980's, the US national trade body set up a mortgage banking company, which enabled credit unions to make first mortgages on a pooled basis. CUNA Mortgage Corporation provided the expertise and back-office scale needed for even very small credit unions to offer mortgages on a basis that diversified risk and accessed liquidity through the secondary mortgage markets in that country.

- **Mutual Insurance Companies.** Firms such as CUNA Mutual in the States and CUMIS of Canada were incorporated as credit union-owned insurance providers for group products (such as credit union-paid loan protection and life savings insurance) and for individual products sold to members (such as car and home cover). In Ireland, these companies served as the model for Eccu Assurance, which was created by the ILCU (with the help of CUNA Mutual) and which stands today as the most successful example of credit union commercial collaboration in this country.
- **Credit Union Service Organisations (CUSOs)** are limited companies owned by a group of credit unions to facilitate either their joint provision of shared services or the acquisition of services from commercial third parties on a group purchasing basis. Scores of multi-credit union-owned CUSOs operate in North America, and they are a primary vehicle by which credit unions obtain key back-office services.

  Some CUSOs have become very large. For example, CO-OP Financial Services in the USA provides credit unions with centralised IT and transaction switching support for a shared branch and ATM network that gives their members access to over 30,000 no-fee ATMs and 5,600 CU branch locations throughout the country, making it second only to Bank of America as the largest branch network in the USA.[44]

  Other CUSOs have set up networks with car dealers through which their owner credit unions can originate car loans via the forecourt. One that serves only credit unions in the US State of Georgia manages a car loan portfolio of about US$1.3 billion.[45]

Collaboration in North America and Australia has never been pain-free, and there have been numerous examples of failure, in some cases producing millions in losses.[46] That was to be expected. The failure rates for new commercial firms are high in every sector, and credit unions have no reason to expect that their success rate in starting up brand new support businesses will be any better.

Failures served as valuable lessons for avoiding the same mistakes the next time. For

[44] CO-OP Financial Services website, https://www.co-opfs.org/About-Us (accessed October 2017).

[45] One of the author's conversation with the CEO of The Credit Union Loan Source, LLC.

[46] A long-time US expert on credit union IT systems interviewed by one of the authors reckoned that nearly 20 of the US state credit union leagues tried to set up data processing companies for their credit unions in the late 1960's and early 70's. All but 8 were complete failures. The rest succeeded.

example, a strategy that failed consistently was attempting to use collaboration to prop up weakly governed credit unions that were unwilling to take the hard steps needed to reform themselves. Hence, a lesson learnt early on was that collaborative support companies had to be run on a rigorous, commercially sound basis.[47]

It also became clear that credit union managers were too busy running their own credit unions to also actually operate a CUSO or other joint enterprise. It was essential to hire full-time professionals with the requisite experience, skills and knowledge for the specific business involved, to give them clear goals and high-level oversight from a board of CU managers meeting infrequently, and then let them get on with their jobs.

Just as credit unions do poorly with micromanaging boards, so too will CUSOs if they are micromanaged by boards comprised of credit union CEOs and volunteers.[47]

The key point is that failures did not deter the leadership of the US, Canadian and Australian movements from their commitment to creating a full-service credit union alternative to the banks. Instead, they took on board lessons learnt from their failures and redoubled their efforts to continue collaborating in pursuit of that vision.

**Collaborative Advocacy.** Just as important as commercial collaboration was the success of US, Canadian and Australian credit unions at maintaining highly effective, professionally-managed trade bodies. Credit unions in those countries made sure that their representative bodies had the resources and skills to convincingly make the case to public opinion leaders, lawmakers and regulators that credit unions should be allowed to offer a broad range of financial services.

Credit union league boards in those countries set clear legislative and regulatory objectives and insisted on high standards of conduct and accountability from their hired representatives. They then empowered those representatives to get their jobs done and got out of the way.

This meant that credit unions were represented by skilled, specialist professionals who had the patience, focus and discipline, and were given the necessary discretion and flexibility, to interact constructively with (sometimes) misinformed and uncooperative regulators. The success in these countries of obtaining regulatory authority for credit unions to achieve their vision demonstrates the value of the North American/Australian form of credit union collaborative advocacy. [48]

---

[47] Author interviews with individuals in the USA and Australia who were personally involved in such efforts.

[48] For a detailed history of how USA credit unions expanded their product offerings through effective commercial collaboration and advocacy, whilst retaining their not-for-profit ethos, see Thompson P., (2013), Development of the Modern U.S. Credit Union Movement - 1970-2010, Madison, WI USA

## 7 A modernised and effective alternative to banks

Despite their on-going decline and the future challenges they face, credit unions in Ireland are still a powerful force in the financial services marketplace. They retain some three million members, mobilise significant volumes of savings, are well capitalised, and they enjoy a high level of regard in the nation as a whole. However, times are changing; the stresses and strains on credit union business models are becoming ever more evident.

Increasingly, leaders in the Irish movement are convinced that they need to act now if their credit unions are to remain viable and relevant into the future. That view is shared by Irish lawmakers, by CUAC, and by the Central Bank.[49] Every one of the CEOs and board members of large credit unions interviewed by the research team expressed this same view.[50]

These CEOs and directors were remarkably consistent in identifying the basic elements of a full-service business model, similar to those in North America and Australia, as being essential to the future survival and success of their credit unions. The only areas of disagreement related to the degree of focus that should be put on transaction services such as debit cards and the speed with which it would be possible for the movement to become a major provider of home mortgages.

The problem so far, however, is that not enough action is being taken. This raises the question of whether the Irish credit union movement has the will and determination to change in whatever way is necessary so that its people-focused ethos will survive and thrive for many years to come.

From the literature they reviewed, the interviews they conducted, and the other evidence they collected, the authors reached the following conclusions with respect to the three existing business model variations identified above in Section 4:

- **Basic savings and loans.** These credit unions are rapidly disappearing through mergers or closings. The reduction by 97 (over one third) of the total number of credit unions since 1 January 2015 has been exclusively accounted for by the demise of credit unions in this group. Gone now are many credit unions that served basically the same common bonds since inception, by employing the same, virtually unchanged, traditional business model.

  The authors conclude that credit unions in this group have no real future and will mostly disappear in the short to medium term. There may be rural

---

[49] See Section 1, above.

[50] Early on in their work, two of the authors (Swoboda and Money) led an interactive workshop on future credit union business models for about fifty credit union volunteers, CEOs and staff at the University College Cork credit union summer school on 12th May 2017. A written poll of those attending indicated that just two believed that their credit unions would be offering only basic loans and shares five years hence. The other respondents saw their credit unions offering a much wider range of products by then: 40% chose payment accounts, debit cards, longer term loans and home mortgages, 34% expect to be offering full consumer banking, and 18% were in between these two.

communities lacking any other local banking services where some of them can survive longer. However, even that will critically depend on the overall movement successfully creating the back-office and other collaborative mechanisms that can provide cost-effective scale economies to small credit unions, as described in the preceding section.

- **Low-cost savings and loans** – Whilst suitable only to a relatively small number of industrial credit unions with strong employer support, payroll deduction, a growing membership base, and tight common bonds, this model, the authors conclude, may have a more optimistic future. However, that will require them to preserve their low-cost-provider competitive edge by implementing risk-based pricing, digital and mobile banking, automated loan decisioning, and other 'fintech' solutions their members will increasingly demand.

  Their doing so will likewise depend on the overall movement successfully creating the back-office and other collaborative mechanisms that can furnish them cost-effective technology, digital delivery systems and other essential shared services. They won't be able to do to what they need to do on their own.

  As with basic model credit unions, this will require a transformational change in their business model, requiring their willingness to relinquish a degree of independence by embracing collaboration and adopting speedier and more agile management and governance processes.

- **Enhanced savings and loans** – These credit unions are immediately under threat for the reasons already described, but they show the greatest potential for implementing a new business model that can give them success over the long term. These mostly large credit unions are now actively becoming more visible in the marketplace by endeavouring to deliver a broader range of mainstream financial services, in direct competition with the banks and other providers. Many have built professional management teams with specialist skills and are already embracing the outlines of a new business model that can work for the future.

  For now, because of the trust they are held in, they are attracting new members and new savings. But they lack the products, the technology, the support infrastructure and the capacity to compete successfully in a larger lending market. Despite a few counter examples, they are not even maintaining market share in their core business of consumer lending.[51]

  The good news is that many of these credit unions have the organisational

[51] According to the Filene Research Institute in the USA, the top characteristic of star performing credit unions is being a "highly-effective lender." Those with low loan to asset ratios are "laggards" and hardly fit for purpose in a competitive market place. Hoel R., (2007), Thriving Midsize and Small Credit Unions, Filene Research Institute, Madison, WI USA.

> strength and the credibility of a respected brand to make successful change possible. What they need now is the vision, the appetite and passion for change, linked to a clear and realistic plan of transformation.

Hence, it was encouraging for the research team to confirm that over the last three to four years there has been a heightened resolve by leading credit unions to collaborate with each other, doing much good work toward being able to offer a wider range of products and services. Those include efforts to create a credit union payment/debit card account by the ILCU's CUSOP and the Payac group of credit unions, the work of the Solution Centre on support for mortgage lending and the use of social media, and collaborative efforts to explore secured car lending, longer term consumer lending, and the implications of PSD2, the EU's new payment services directive. CFCFE is itself an example of credit union collaboration.[52]

Many enhanced credit unions are already embarking on processes of change. They are introducing new technology, improving organisational systems, and they are endeavouring to develop new medium to longer term loan products. Several have entered the home mortgage and enterprise lending markets.

All these changes are positive and to be welcomed. The danger is, however, that they are only adjustments rather than the radical re-imagining of the business model needed to achieve long-term success in a rapidly changing financial market. Instead, enhanced model credit unions need to create a renewed and transformed vision of their place in society based on their historic co-operative values, principles and culture.

The credit union founders were inspired to offer people a practical, community-owned, co-operative alternative for the financial services of their day. They did so by adopting both the ethos and the business model of successful credit unions in North America. Remaining faithful to the founders' legacy does not mean preserving that traditional model unchanged. The business model is only the means to an end; it is not the end itself.

To achieve the founder's goals in 21st Century Ireland means transforming that model to suit the circumstances of the Ireland of today whilst staying true to the founders' ethos of local, personal connectedness by credit unions with their members and the communities they serve, which is the foundation of their brand.[53]

An essential first step in developing and adopting a new vision and business model is to stop making excuses for inaction. The Central Bank has repeatedly invited credit unions to come forward with new business models, provided they are well thought

---

[52] For other examples of current collaborative efforts by Irish credit unions, see McCarthy O., Farrell S., Hewson D. (2016), The financial co-operative system in Ireland, Credit Co-operative Institutions in European Countries, Switzerland.

[53] Power C., O'Connor R., McCarthy O., Ward M. (2014), Merging into the mainstream? An empirically based discussion of the potential erosion of competitive advantage in a restructured Irish credit union movement, Journal of Co-operative Organisation and Management, p2.

through, researched and documented, with robust plans for their implementation. It is time to take CBI up on its offer.

To achieve their vision, credit unions in the States, Canada and Australia had to deal repeatedly with reluctant (sometimes obstructionist) lawmakers and regulators. They did so by collaboratively developing, funding and supporting effective advocacy that was well-organised, highly professional, disciplined, intensive, and focused.[54] The same needs to be done here.

## 8 A vision based on collaboration

Given the scale and resources of the banks, it will not be possible for even the very largest individual credit unions to implement new business models on their own that can effectively offer a broad, competitive range of financial services.

Throughout the international co-operative financial sector, credit unions and other mutual and co-operative banking companies have consistently learned that any business model that is a match for the banks has to be built on the basis of co-operation. From the nationally centralised federated systems of France, Germany, The Netherlands, Austria and French-speaking Canada, to the more decentralized, voluntarily-integrated models of Australia, USA, Spain, Italy, and English-speaking Canada, business success has depended on a cohesive and comprehensive system of shared services.

There is significant literature demonstrating the importance of collaborative systems for the successful development of co-operatives. Desrochers and Fischer established, for example, that integrated, collaborative models reduce the volatility of efficiency and performance and control costs more effectively. They found that, despite the expense of running hub-like organisations, these systems still operate at lower overall costs than those that are less integrated.[55]

Internationally, the benefits of credit union collaboration are tangible. Collaboration generates economies of scale, enables technical expertise to be shared across credit unions, supports a wider range of products and services for small as well as larger credit unions, and offers greater stability and security within the sector.

Collaboration and the development of integrated systems, however, calls for a cultural shift in the way boards and managers think about credit union organisation and operations.[56] It involves a primary focus on commonality rather than uniqueness, and, given the mutual interdependence of participating credit unions, it depends on a radical increase in operational excellence in the credit union culture. It

---

[54] Thompson P., (2013), Development of the Modern U.S. Credit Union Movement - 1970-2010, Madison, WI USA.

[55] Desrocher, M., and Fischer, K.P. (2005), The power of networks: integration and financial cooperative performance. Annals of public and cooperative economics 76:3.

[56] Filene Research Institute (2008), Connecting the Dots on Credit Union Collaboration: A Colloquium at the Wharton School of the University of Pennsylvania. Filene Research Institute, Madison, WI USA.

requires a major sea change in the way credit unions operate and do business.

The importance of collaboration has already been recognised in Ireland. The ILCUTECH Standard Information System (ISIS) project in the late 90's aimed to create a centralised banking system for all credit unions affiliated to the ILCU. More recently in 2016, an ILCU report argued for the creation of an Irish Credit Union Trust (ICUT), essentially a shared services organisation for ILCU members.

But what to do and how to do it are two quite distinct realities. A collaborative approach to business model development is not easy to implement. The ISIS project failed due to a lack of clear leadership and multiple competing voices impacting upon delivery.[57] ICUT got no further than the drawing board since its proponents could not convince credit unions to fund a plan to implement their vision.

Across the water in Britain, the £38 million Credit Union Expansion Project (CUEP), funded by the UK Government and led by the Association of British Credit Unions (ABCUL), is now much delayed with an uncertain future. Many of the involved credit unions have lost confidence in the project's management, governance, transparency, and technical competence.[58] Government funding has been suspended until major operational and implementation problems are fixed.

Despite these failures, the future must be collaborative if credit unions are to succeed. As was the case in North America and Australia, the failures of collaboration cannot become excuses for inaction. They must result in a redoubled commitment to learn from mistakes and keep trying.

Hence, there needs to be a new dynamism and leadership in the Irish credit union sector as a whole to bring about co-operative solutions to business model development. The North American and Australian experiences show that this is feasible and practical.

From their examples we can see that three collaborative models can be used successfully:

- **The shared resources model** – in which credit unions come together to build and operate a jointly-owned resource to support such areas as risk management, internal audit, marketing, and new product development. The Solution Centre is a successful current example in Ireland.
- **The negotiating model** – in which a group of credit unions collaborate to negotiate a technological or operational solution with a third-party vendor. This is the model being implemented by Payac.
- **The entrepreneurial model** starts with a single credit union initiating a

[57] Mangan, A. & Stahl, B (2000), Who is Responsible for ISIS?, University College Dublin, Department of Management Information Systems.

[58] Jones P.A., Money N., Swoboda R. (2016), The DWP CUEP Review: An independent research study into the credit union experience of the Credit Union Expansion Project, Liverpool John Moores University and Department of Work & Pensions, London.

relationship with a third party commercial vendor to develop a solution to an operational or service delivery problem. To drive down costs and bring benefits all around, the credit union entrepreneur brings in other credit unions to what becomes a collaborative joint venture. This model has been repeatedly used successfully in the USA and in other mature movements.

An important lesson is that collaboration does not need to start with the top-down interventions of trade bodies. Bottom-up initiatives engaging some of the largest credit unions may be the most promising way forward.

## 9 Realising the vision of a renewed business model

This paper sets out a vision for a renewed credit union business model that is fit for purpose in contemporary Ireland. It has reviewed current business models and concludes that they are not likely to be fit for purpose over the long term.

The vision is for the creation of a 21st century business model that enables credit unions to offer their members a full range of financial products and services, just as they do successfully in other parts of the developed world. Given their capital and financial resources, the amazing strength of their brand, and their presence throughout the State, Irish credit unions have no excuse for not doing the same.

This paper has addressed the 'what-to-do'; the 'how-to-do' it will involve a significant process of transformation and change, many of the details of which will be the subject of future CFCFE papers.

However, a process of transformation must start with a clear vision and an appetite and urgency for change.

It is likely that some, perhaps many, in the Irish movement will reject the conclusions of this paper. There will be those who see no need for real change and are satisfied that with a bit more work, better advertising, and a hands-off approach by the Central Bank, the traditional business model can survive. The authors believe that view is unrealistic and that few of the credit unions that hold it will be around for long.

Long-term success will instead depend on leaders who see the need for urgent change and who have the drive, dynamism and capacity to implement a culture of transformation in their own credit unions and collaboratively throughout the sector.

Irish credit unions need a new cadre of social entrepreneurs with a mindset that sees the possibilities of change rather than one that is always finding excuses for why change is impossible. It needs brave people with the business insight, skills and acumen to be effective agents of change.

Many of these entrepreneurs will be credit union CEOs, but it is essential that many more come from board rooms as well. Ultimately, volunteer boards have the accountability and responsibility to give strategic leadership to their credit unions and to the sector as a whole. Without boards of directors driving and approving change, credit union development will be stifled.[59]

Entrepreneurial leadership must result in action and innovation, and it will take time, even though time is short. As well as reimagining and communicating the vision, it will involve a fundamental reassessment of operations, service delivery and financial plans.

Hence, quick wins are important. These immediate initiatives, like some of those already started, will not only move credit unions in the right direction, they will help embed a culture of change in their organisations.[60]

Entrepreneurial leadership must also result in a new and open dialogue with the Central Bank of Ireland. It is the role of the regulator to supervise the sector and to ensure its safety and soundness in the interest of the members. But to do this successfully the Central Bank has to promote the well-being of the sector as a whole, and it is therefore in its interests to do all in its power to ensure the viability of credit unions. It is critical that a new, more positive working relationship be established between the Central Bank and credit unions.

A full treatise on the dynamics and challenges of organisational change is for another day. But change must start with a clear vision and the will to achieve it.

The authors hope that this paper makes a useful start on the process of formulating a vision of a renewed credit union business model that enables credit unions to become full-service alternatives to the banks – a complete alternative that continues to embody the fundamental credit union ethos of local, mutual ownership and volunteer control, honesty, fairness and responsiveness in meeting the financial needs of the people.

[59] Jones P.A, Money N., Swoboda R. (2017), Credit Union Strategic Governance, Cornerstone Mutual Services, Manchester

[60] It is proposed that the next CFCFE research paper be on revolving credit, implementation of which could be a quick win for many credit unions committed to transformation and change.

## Bibliography


Australian Prudential Regulatory Authority (2017), Quarterly Authorised Deposit Taking Institution Performance Statistics.

Central Bank of Ireland (2014), Credit Union PRISM Risk Assessments Supervisory Commentary, Dublin.

Central Bank of Ireland (2017), Private Household Credit and Deposits, June 2017, Dublin.

Central Bank of Ireland (2017), Financial Conditions of Credit Unions: 2011 – 2016, Issue 1, Dublin.

Central Bank of Ireland (2017), Household Credit Market Report 1st Half 2017, Dublin.

Report of the Commission on Credit Unions (2012), Department of Finance, Dublin.

Canadian Credit Union Association (2017), Community and Economic Impact Report 2017.

Credit Union Advisory Committee (CUAC) (2016) Review of Implementation of the Recommendations in the Commission on Credit Unions Report, Dublin.

CUDA (2006), A Call to Action: Re-inventing Credit Unions for the 21st Century, Credit Union Development Association, Dublin.

CUDA (2012), Report of the Commission on Credit Unions. Summary of Commission's Findings and Recommendations, Dublin.

Credit Union National Association (CUNA) (2017), Monthly Credit Union Estimates August 2017, Madison, WI USA.

CX Company in partnership with Amárach Research (2017), Ireland Customer Experience Report.

Deloitte (2016), Global Mobile Consumer Survey: Ireland 2016 - There's no place like phone.

Desrocher, M., and Fischer, K.P. (2005), The power of networks: integration and financial cooperative performance. Annals of public and cooperative economics 76:3 2005.

Filene Research Institute (2008), Connecting the Dots on Credit Union Collaboration: A Colloquium at the Wharton School of the University of Pennsylvania. Filene Research Institute, Madison, WI USA.

Filene Research Institute (2017), Reimagining Credit Unions: The Federal Option, Lessons from Europe, and Digital Lending. Madison, WI USA.

Hoel R. (2007), Thriving Midsize and Small Credit Unions, Filene Research Institute, Madison, WI USA.

International Credit Union Regulator Network (ICURN) (2015) Peer Review Report, Central Bank Performance of its Regulatory Functions in Relation to Credit Unions, Central Bank of Ireland, Dublin.

Irish League of Credit Unions (ILCU) (2003, 2004, 2005), Annual Reports – Movement Statistics, Dublin.

ILCU (2016), Re-awakening the "Sleeping Giant" for the Benefit of Members and Irish Society, Dublin

Jones P.A., Money N., Swoboda R. (2016). The DWP CUEP Review: An independent research study into the credit union experience of the Credit Union Expansion Project [undertaken for the DWP], Liverpool John Moores University and Department of Work & Pensions, London.

Jones P.A, Money N., Swoboda R. (2017), Credit Union Strategic Governance, Cornerstone Mutual Services, Manchester.

Johnson, K. (2017), The future for Credit Unions, Sunday Business Post, 15th January 2017, Dublin.

Mangan, A. & Stahl, B. (2000), Who is Responsible for ISIS? The Irish credit unions' problem of introducing a standardised information system, University College Dublin, Department of Management Information Systems.

McCarthy O., Farrell S., Hewson D. (2016), The financial co-operative system in Ireland, Credit Co-operative Institutions in European Countries, Switzerland.

McKillop D.G., Goth P., Hyndman N. (2006), Credit Unions in Ireland, Institute of Chartered Accountants in Ireland, Dublin.

McKillop D.G., Wilson, B. (2010), Credit Unions: A Theoretical and Empirical Overview, School of Management, The Queen's University of Belfast.

McKillop D.G., Quinn, B (2017), Irish credit unions: Differential regulation based on business model complexity .The British Accounting Review 49 (2017).

Oireachtas Joint Committee on Finance (2017), Report on the Review of the Credit Union Sector.

Osterwalder, A., Pigneur Y. (2010), Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers, John Wiley & Sons, New York.

Power C., O'Connor R., McCarthy O., Ward M. (2014), Merging into the mainstream? An empirically based discussion of the potential erosion of competitive advantage in a restructured Irish credit union movement, Journal of Co-operative Organisation and Management.

Power C., O'Connor R., McCarthy O., Ward M. (2011)The Origins, Ethos and Evolution of Co-operative Credit in Ireland: Celebrating the Centenary of the Birth of Nora Herlihy. Cork: Centre for Co-operative Studies and Duhallow Women's Forum.

Swart R., Middleton C.L. (2017), Fintech: Developments and Strategic Implications for Credit Unions, Filene Research Institute, Madison, WI USA.

Thompson P. (2013), Development of the Modern U.S. Credit Union Movement - 1970-2010, Madison, WI USA.

World Council of Credit Unions (WOCCU) (2017), 2016 Statistical Report, Madison, WI USA.

## About CFCFE

The Centre for Community Finance Europe Ltd. is a not-for-profit research organisation incorporated in 2016 in Dublin, Ireland. Its mission is to serve as a leading source of high quality research, credible ideas and tested solutions directed to credit unions, co-operative banks and similar not-for-profit providers of community-based financial services in Europe. The Centre is rooted in values of co-operation, social and financial inclusion, transparency, integrity, and excellence.

CFCFE is financially supported by the subscriptions of its Members, by donors desiring to support its work, and by project grants from foundations, governmental bodies, and others who commission specific research that is consistent with the Centre's mission and values.

Although the Centre seeks suggestions and critiques on its work from its Members and other funders, CFCFE is an entirely independent organisation, and it is solely responsible for the work it performs and publishes. The contents of its research papers and any opinions they may contain are in each case solely those of their authors, and they should not be attributed to Members, funders or any other third parties.

### CFCFE Board of Directors

Dr. Paul A. Jones, Director of Research
(Reader in the Social Economy, Liverpool John Moores University)
Nick Money, Director of Development
(Advisor to Co-operative and Not-for-Profit Enterprises)
Ralph Swoboda, Chair
(Managing Director, CUFA Ltd.)

### CFCFE Research Advisory Board

Prof. Elaine Kempson
(Professor Emeritus, University of Bristol)
Ed Mayo
(Chief Executive, Co-operatives UK)
Dr. Olive McCarthy
(Senior Lecturer, University College Cork)
Prof. Anne-Marie Ward
(Professor of Accounting, Ulster University)

### Credit Union Founding Members

Capital (Ireland)
Central Liverpool (England)
Comhar Linn INTO (Ireland)
Commsave (England)
Core (Ireland)
Dubco (Ireland)
Dundalk (Ireland)
Enterprise (England)
First Choice (Ireland)
Gorey (Ireland)
Health Services Staffs (Ireland)
London Mutual (England)
Member First (Ireland)
Naas (Ireland)
NHS (Scotland)
Number One Police (England)
PlaneSaver (England)
Progressive (Ireland)
St. Anthony's & Claddagh (Ireland)
St. Jarlath's (Ireland)
St. Patrick's (Ireland)
Tipperary (Ireland)
Tullamore (Ireland)

### Corporate Founding Members

Cantor Fitzgerald Ireland
CUFA Ltd. (UK/Ireland)
CUNA Mutual (UK/Ireland)
Kennedys Solicitors (Ireland)
The Solution Centre (Ireland)

CFCFE
Centre for Community Finance Europe

**CENTRE FOR COMMUNITY FINANCE EUROPE LTD.**
Unit 12, 55 Percy Place, Dublin 4, Ireland
Contact: info@cfcfe.eu
Website: www.centreforcommunityfinanceeurope.eu

**CENTRE FOR COMMUNITY FINANCE EUROPE LTD.**
Unit 12, 55 Percy Place, Dublin 4, Ireland

Email: info@cfcfe.eu

**www.centreforcommunityfinanceeurope.eu**