

**Institution: University of St Andrews**

**Unit of Assessment: 19 – Business and Management Studies**
**Title of case study: Developing and governing sustainable credit unions in the modern financial services industry of Ireland**

**1. Summary of the impact:** Professor Wilson's research has increased understanding of how credit unions have developed in different countries, with the intention of informing policy around these institutions. Such work is especially important in the aftermath of the financial crisis in 2008, as many countries seek to strengthen their retail financial sectors. The research has had wide-ranging impact internationally on the ways in which policy makers, regulators and practitioners view the sector. Specifically, as part of the Irish Commission on Credit Unions, Wilson's work was taken up in reports which made a raft of recommendations that were later adopted to form the basis for new legislation (Credit Union and Co-operation with Overseas Regulators Act 2012). This new legislation in turn has affected the governance, regulation, stabilisation policy and structure of the credit union sector in Ireland.

**2. Underpinning research:** Credit unions are self-help cooperative financial organizations geared to attaining the economic and social goals of members and wider local communities. Each credit union is governed by its members. In 2012 there were over 56,000 credit unions across 101 countries with more than 200 million members and approximately \$1.7 trillion in assets. There is great diversity within the credit union movement within and across countries in terms of size, scope, structure, membership, performance, products and market penetration. Research in this area has posed a series of questions which seek to explore the policy implications of the diversity and dynamics of credit unions within different countries.

The research underpinning this impact took place between January 2001 and December 2011 (while Wilson was employed at the School of Management at the University of St Andrews). During this period Wilson produced an extensive portfolio of research on credit unions comprising: three reports for government; two reports for professional bodies; and 17 refereed journal articles. The research centred on understanding the growth, development, governance, performance and risk of credit unions, and their role in tackling financial exclusion in different parts of the world. In order to do this, large scale econometric studies, surveys and interviews were conducted. Along with co-authors from Bangor University, Queen's University Belfast and Ulster University, Wilson has produced research that has provided valuable insights into the operation of the credit union sector at advanced (Canada and United States), transitional (Ireland) and nascent (Great Britain) stages of development. The nature of the research that underpins the impact described here may be summarised as follows.

**How do credit unions vary in scale and scope?** The research explored the scale and scope of credit unions in different countries. The fact that credit unions are at different stages of development made this review difficult given that issues pertinent for a mature credit union movement may currently have little or no bearing on a credit union movement in its formative stages. As a consequence, the research constructed a developmental typology with maturity as an implicit goal. The analysis showed that there is a great diversity within the credit union movement across countries, which reflects the various economic, historic and cultural contexts within which credit unions operate. In the developing world, a small membership base is concentrated on the financially excluded. These credit unions provide basic savings and loans products, and are run and organised exclusively by volunteers. At the other end of the spectrum are credit unions in North America and Australia which comprise members spanning the entire income distribution. In these countries credit unions provide an important counterbalance to the power of the mainstream financial institutions (McKillop and Wilson, 2011). Assuming that the developmental typology is valid, the analysis presented in this paper shows issues facing mature movements today will face nascent and transitional movements in future.

**Do larger credit unions grow more quickly than their smaller counterparts?** This research developed stochastic growth models which allow understanding of variation in the growth of individual credit unions and the resultant evolution of industry structure. US data confirms that

larger credit unions grow more quickly than their smaller counterparts. This is mostly due to economies of scale advantages (Goddard, McKillop and Wilson, 2002). Liquidity, capitalization and risk are also important drivers of growth.

**How much diversification by credit unions is desirable?** An econometric analysis of the impact of revenue diversification by credit unions on various financial performance measures was conducted. The analysis suggested that small credit unions should eschew diversification and continue to operate as simple savings and loan institutions, while larger credit unions should be encouraged incrementally to exploit new product opportunities around their core retail competencies (Goddard, McKillop and Wilson, 2008).

**Which credit unions are most likely to be acquired?** Driven by de-regulation and technological change, consolidation (via merger and acquisition) is a common feature of the modern financial services industry. A large scale analysis of US credit union data finds that growth-constrained credit unions are less attractive acquisition targets, while credit unions with low capitalization and those with relatively small loans portfolios are more likely to be acquired. The absence of an internet banking capability also appears to render a credit union more vulnerable to acquisition (Goddard, McKillop and Wilson, 2009).

**How can credit unions ensure sustainable growth?** The financial performance of credit unions appears to be adversely affected if they are overly focused upon areas of high financial exclusion (which has tended to be the case in the UK). In order to be successful in the long-term, credit unions should strive to attract a wide cross-section of people from local communities as members, and not just those who are socially or financially excluded (McKillop, Ward and Wilson, 2007).

**How should credit unions be governed?** There are differences in the governance and operational structures of credit unions depending on their size, country of origin and the regulatory system within which they function. A large-scale survey of credit unions in both Canada and the United States reveals that good governance is crucial to ensuring the continued vitality of credit unions. Governance of credit unions can be strengthened by establishing governance committees, improving members' awareness of their rights and obligations, and enhancing director qualifications and professional development (Goth, McKillop and Wilson, 2012).

**3. References to the research:** The body of research summarized above meets or exceeds the 2\* quality threshold, has been published in internationally recognised peer-reviewed journals, has been cited in influential government reports in the US and Ireland, and as a consequence has shaped policy as well as research agendas in this field. Key references include:

1. Goddard, J., McKillop, D.G and Wilson, J.O.S. (2002) 'The Growth of US Credit unions' *Journal of Banking & Finance*, 22, 2327-2356. DOI: [10.1016/S0378-4266\(01\)00203-5](https://doi.org/10.1016/S0378-4266(01)00203-5). (Peer reviewed, 73 citations, Google scholar)
2. Goddard, J., McKillop, D.G. and Wilson, J.O.S. (2008) 'The diversification and financial performance of US Credit Unions' *Journal of Banking & Finance*, 32, 1836-1849. DOI: [10.1016/j.jbankfin.2007.12.015](https://doi.org/10.1016/j.jbankfin.2007.12.015). (peer reviewed, 58 citations Google scholar)
3. Goddard, J., McKillop, D.G and Wilson, J.O.S. (2009) 'Which Credit Unions Are Acquired?' *Journal of Financial Services Research*, 36, 231–252 10. DOI: [10.1007/s10693-009-0055-x](https://doi.org/10.1007/s10693-009-0055-x). (Peer reviewed, 13 citations, Google scholar)
4. Goth, P., McKillop, D.G and Wilson, J.O.S (2012) *Corporate Governance in Canadian and US Credit Unions*. Madison: Filene Institute.(commissioned report, but also peer reviewed)
5. McKillop, D.G., Ward, A-M., Wilson, J.O.S. (2007) 'The development of credit unions and their role in tackling financial exclusion,' *Public Money and Management*, 27, 37-44. DOI: [10.1111/j.1467-9302.2007.00553.x](https://doi.org/10.1111/j.1467-9302.2007.00553.x).(peer reviewed, 23 citations, google scholar)
6. 'McKillop, D.G. and Wilson, J.O.S. (2011) Credit Unions: A Theoretical and Empirical Overview' *Financial Markets, Institutions and Instruments*, 2011, 20, 79-123. DOI: [10.1111/j.1468-0416.2011.00166.x](https://doi.org/10.1111/j.1468-0416.2011.00166.x). (peer reviewed, 10 citations, Google scholar)

**4. Details of the impact:** The non-academic reach of Wilson's research is demonstrated by commissioned reports for the Scottish and Irish Governments and invited talks at the US Federal Deposit Insurance Corporation in Washington and at Westminster Briefing Events in London (amongst others). These outreach activities draw directly on the knowledge gained from the

## Impact case study (REF3b)

underpinning research discussed in Section 2 above.

The clearest and most significant impact of this research has been its influence on the credit union sector in Ireland where credit unions are central to the financial services sector (with 70% of the adult population members of credit unions). In 2011, following an IMF and EU bailout, the Irish government established the Credit Union Commission to investigate and make recommendations about their future role and operation. Due to his previous research on credit unions, Wilson was one of two academics appointed by the Irish government to the Credit Union Commission. His previous research and expertise were integral to the production of a report (2012) that formed the basis for legislative change (Credit Union and Co-operation with Overseas Regulators Act, 2012), which in turn led to structural change in the industry (by enabling consolidation) and enhanced stability (via increased regulation and supervision). The Minister for Finance for the Irish Government asserted that *'the work of the Commission will inform Government policy on credit unions for the foreseeable future'* (S1); and the head of credit union policy at the Central Bank of Ireland noted that *'the Commission considered and discussed many issues in relation to credit unions and these discussions were informed by John Wilson's knowledge of, and research on, credit union movements around the world'* (S2). Wilson fed the results of his research into the Commission's deliberations, and many of his findings and their implications were subsequently reflected in the Commission's interim and final reports:

- *Interim Report of the Commission on Credit Unions*. Dublin: Ministry of Finance, April 2012. <http://www.finance.gov.ie/viewdoc.asp?DocID=7012>
- *Final Report of the Commission on Credit Unions*. Dublin: Ministry of Finance, April 2012. <http://www.finance.gov.ie/viewdoc.asp?DocID=7687>

The final report contained over 60 recommendations, which covered corporate governance, prudential regulation, stabilisation policy and sector re-structuring. In particular, Wilson's research directly influenced the following findings and recommendations:

- The possibility of voluntary consolidation or restructuring of the credit union sector over time, recognising the need to maintain local presence and taking into account the not-for-profit mandate, the volunteer ethos and community focus of credit unions.
- The establishment and funding of a Credit Union Restructuring Board (ReBo) to facilitate and support the restructuring of Credit Unions.
- The options for groups of credit unions to share services on a formal basis and the extent to which this model is appropriate.
- The basic governance and regulatory requirements that are needed and the benchmarks that credit unions should meet if they are to be registered to operate.

The Chief Executive Officer of the Irish League of Credit Unions concluded that *'Professor Wilson's interventions went a long way to ensuring that the recommendations, and by extension the legislative provisions based on those recommendations, benefited from his suggestions regarding the workability of various options based on his experience of other jurisdictions'* (S3).

The Commission's recommendations have been endorsed by the Irish Ministry of Finance and approved by the troika of the International Monetary Fund, European Central Bank and European Commission. They were used directly to inform legislation in the shape of the Credit Union and Co-operation with Overseas Regulators Act 2012, which was passed by the Irish Parliament on 21<sup>st</sup> December 2012 (S1-S3). The Commission's report and its underpinning research have also received widespread media coverage in Ireland (selected links numbered S4-S10 in Section 5). In short, Wilson's research informed much of the Commission's deliberations and recommendations, which were subsequently adopted by the Irish Government and ratified in parliament via the production of new legislation. This new legislation in turn has been instrumental in affecting the corporate governance, prudential regulation, stabilisation policy and structure of the credit union sector in Ireland (much of which is contained in a new Credit Union Handbook published by the Central Bank of Ireland in September 2013, and available online at <http://www.centralbank.ie>). The Credit Union Restructuring Board in Ireland has now been funded to the tune of €250 million, and is currently engaged in facilitating the re-structuring of the entire sector.

**5. Sources to corroborate the impact:** Sources are of two kinds: direct quotes from correspondence with key policy actors; and press coverage (with web-links) of the key policy report

## Impact case study (REF3b)

and its impacts.

**External contacts who have supplied corroborating letters evidencing the impacts:**

1. Minister for Finance, Department of Finance, Irish Government
2. Head of Credit Union Policy, Central Bank of Ireland.
3. Chief Executive Officer, Irish League of Credit Unions

**Press coverage and report citations evidencing impacts:**

4. Announcement by the Irish Minister of Finance on the establishment of a credit union commission <http://www.finance.gov.ie/viewdoc.asp?DocID=6891>. This press release discusses the establishment, remit and membership of the Irish credit union commission.
5. Announcement by Irish Minister of Finance on the publication of the final report of the Irish Commission on Credit Unions 18/10/12 <http://www.finance.gov.ie/viewdoc.asp?DocID=7212>. This provides an overview of the general content of the final report and commends the work of the Irish Credit Union Commission.
6. Noonan published new credit union bill, RTE News, 28 Sept 2012. <http://www.rte.ie/news/business/2012/0928/339517-noonan-publishes-new-credit-union-bill/>. This news story announces the new credit union bill based on the work of the Credit Union Commission.
7. Bill clears way for €250m credit union bailout by Vincent Ryan, Irish Examiner, 22 Dec 2012. <http://www.irishexaminer.com/archives/2012/1222/business/bill-clears-way-for-250m-credit-union-bailout-217741.html>. A news story which attributes the Credit Union Commission's work and final report as enabling extensive regulatory reforms and restructuring to take place in the sector.
8. Minister for Finance welcomes the enactment of credit union legislation, 21 Dec 2012 <http://www.finance.gov.ie/viewdoc.asp?DocID=7478>. This press release announces the enactment of The Credit Union and Co-operation with Overseas Regulators Act 2012
9. Minister of finance launches an implementation plan for the Credit Union and Co-operation with Overseas Regulators Act 2012. <http://finance.gov.ie/viewdoc.asp?DocID=7720>. This press release announces the timeline of implementation of various outstanding recommendations in relation to governance, oversight and prudential regulation made in the Credit Union Commission's Final Report.
10. Minister of Finance outlines how the Recommendations of the Commission have changed the credit union sector <http://www.finance.gov.ie/viewdoc.asp?DocID=7657>. This speech asserts that the Final Report and recommendations of the Credit Union Commission remains the blueprint for the reforms and changes currently affecting the sector. The speech points out that recommendations suggested by the Credit Union Commission with regard to the re-structuring of the sector are already underway via the establishment and operation of the Credit Union Restructuring Board.