

Impact case study (REF3b)

Institution: Queen's University Belfast
Unit of Assessment: 19
Title of case study: Catalysing credit unions to meet future challenges
<p>1. Summary of the impact (indicative maximum 100 words)</p> <p>A portfolio of research on the structure, conduct and performance of credit unions has led to the following impacts:</p> <ul style="list-style-type: none"> • in the Republic of Ireland, the introduction of new legislation and the establishment of a restructuring board to ensure the sector's long term sustainability; and the development of a stabilisation policy to include a deposit insurance mechanism to protect savings, a mechanism to support credit unions in temporary difficulty and a failure resolution mechanism; and • assessment of the effect of the 2010 Dodd–Frank Wall Street Reform and Consumer Protection Act on merger and acquisition activity in US credit unions.
<p>2. Underpinning research (indicative maximum 500 words)</p> <p>Research work on credit unions, which are member-owned, not-for-profit financial institutions democratically controlled by their members, has been undertaken by Professor Donal McKillop at Queen's University since 1996. Twenty-six refereed journal articles, seven policy papers, three books and five funded research monographs have been produced. A number of research grants have been awarded (see section 3) and five students have completed PhDs on aspects of credit union behaviour. Key outputs include:</p> <p>(i) Credit Union Typology In conjunction with an organisational theorist (C. Ferguson), McKillop constructed a new classification system to understand the development of credit unions worldwide (there are 51,013 credit unions in 100 countries with a membership of 196.5 million and assets of £1,042.3 billion). This system captures the factors instrumental in credit unions progressing through various stages of development and provides a framework through which the characteristics of mature credit union operations, such as those in North America, may be harnessed by transitional movements such as those in Ireland (where 67 per cent of the population are members of a credit union) and the UK (where only 2 per cent of the population are members). (Output 1)</p> <p>(ii) Efficiency and Productivity In conjunction with a financial economist (J.C. Glass) and more recently a finance academic (B. Quinn), McKillop undertook a series of efficiency studies on credit unions in the UK, US and Ireland. These showed that the efficiency insights are broadly similar across credit union activity at differing developmental stages. Occupational credit unions are more efficient than those which are community-based; larger credit unions are also more efficient, as are those which are better capitalised and those with higher levels of liquidity. (Outputs 3 and 6)</p> <p>(iii) Growth, Diversification and Acquisition With two economists and banking experts (J. Goddard and J. Wilson), McKillop undertook panel-based studies on growth, product diversification and acquisition behaviour in US credit unions. The findings showed that larger credit unions are found to grow more quickly. Small US credit unions should operate as simple savings and loan institutions, while larger credit unions should incrementally exploit new product opportunities around their core retail competencies. Credit unions with low capitalisation and those with relatively small loans portfolios are more attractive acquisition targets. The absence of an internet banking capability renders a credit union more vulnerable to acquisition. (Output 5)</p>

Impact case study (REF3b)**(iv) Deposit Insurance**

In conjunction with a PhD student and now economist in the gas industry (K. Hannafin) and former colleague (C. Hickson), McKillop undertook theory-based investigations of the design of an optimal stabilisation framework for credit unions. These showed that deposit insurance is necessary to prevent contagion, and is also an efficient substitute for diversification normally unachievable because of rigid common bond requirements. **(Output 4)**

(v) Governance

In conjunction with a PhD student and now advisor to the Canadian Government (P. Goth) McKillop undertook a survey-based analysis of governance in Irish and Canadian credit unions and, (with P. Goth and J. Wilson), an analysis of governance in US and Canadian credit unions. Differences in the governance and operational structures of credit unions depend on their size, country of origin and the system within which they function. The studies found that the governance process has not accommodated or responded to changes in management theory or developments elsewhere in corporate governance. For a significant number of credit unions it is little more than a regulatory technicality, and not a fundamental instrument for improving board quality. **(Outputs 2 and 7)**

3. References to the research (indicative maximum of six references)**Publications (Book):**

Output 1: Ferguson, C. and McKillop, D.G., (1997), *The Strategic Development of Credit Unions* J. Wiley, May 1997, 243 pages.

Output 2: McKillop, D.G., Goth, P. and Hyndman, N., (2006), *The Structure, Performance and Governance of Irish Credit Unions*, Gill and McMillan, Institute of Chartered Accountants in Ireland, 418 pages.

Publications (Refereed Articles and Monograph):

Output 3: McKillop, D.G., Glass J.C. and Ferguson C. (2002), Investigating the Cost Performance of UK Credit Unions Using Radial and Non-Radial Efficiency Measures, *Journal of Banking and Finance* Vol. 26, No. 8, 1563-1591.

Output 4: Hannafin, K. and McKillop, D.G., (2007), Deposit Insurance and Credit Unions: An International Perspective, *Journal of Financial Regulation and Compliance*, Vol. 15, No. 1, 42-62.

Output 5: Goddard, J., McKillop, D.G. and Wilson, J.O.S., (2009), Which Credit Unions Are Acquired? *Journal of Financial Services Research*, 36, 231–252

Output 6: Glass, J.C., McKillop, D.G., Rasaratnam, S., (2010), **Irish Credit Unions: Investigating Performance Determinants and the Opportunity Cost of Regulatory Compliance**, *Journal of Banking and Finance* Vol. 34, 1, 67-76.

Output 7: Goth, P., McKillop, D.G. and Wilson, J., (2012), *Corporate Governance in Canadian and US Credit Unions*, Filene Research Institute, Madison Wisconsin, US.

Research Grants:

Joseph Rowntree Foundation (£36,000), UK Credit Unions as a Vehicle to Serve Disadvantaged Communities, {completed 2006}.

Royal Irish Academy (€34,820), An Empirical Evaluation of Irish Credit Union Performance: Controlling for Operational and Socio-Economic Conditions, {completed 2008}.

4. Details of the impact (indicative maximum 750 words)

McKillop's research led to his appointment to positions of influence by the Governments in the Republic of Ireland and in Northern Ireland, as follows:

- September 2009, appointed by Minister for Finance (Ireland) Brian Lenihan to The

Impact case study (REF3b)

Credit Union Advisory Committee to advise the Minister, the Central Bank and such others as the Minister thinks fit in relation to the improvement of the management of credit unions and the protection of the interests of members and creditors;

- May 2011, appointed by Minister for Finance (Ireland) Michael Noonan as Chair of the Commission on Credit Unions;
- March 2012, appointed by the Office of the First Minister and Deputy First Minister (Northern Ireland) to an Advisory Group to consider the scope for intervention by the Northern Ireland Executive to alleviate financial hardship arising from implementation of Welfare Reform legislation.

Major impacts of his research have included:

Republic of Ireland

In 2010, Minister Lenihan requested that the Credit Union Advisory Committee (CUAC) develop a stabilisation framework for credit unions. The framework was developed drawing almost exclusively on McKillop's work (**output 4**). It includes a deposit insurance mechanism to protect members' savings, a stabilisation mechanism to stabilise credit unions in temporary difficulty, appropriate regulatory oversight and intervention to ensure adequate capitalisation and a failure resolution mechanism.

In 2011 and 2012, The Commission on Credit Unions (Chair McKillop) made extensive use of McKillop's research in its Report, including:

- (i) the credit union typology classifying Irish credit unions as transitional with the implication that policy change in Ireland should be informed by the mature movements in North America (**output 1**);
- (ii) efficiency studies of Irish credit unions which suggests that there is under-performance and that significant restructuring of the sector is required, again benchmarked against research on other credit union movements. (**outputs 3 and 6**);
- (iii) prior and current work on governance for Ireland, the US and Canada which suggests that the credit union governance model is diluted as a movement matures, with weaknesses emerging in the governance of many Irish credit unions, particularly around director selection and training, (**outputs 2 and 7**); and
- (iv) research on performance and restructuring of credit unions in Ireland and the US (**outputs 2 and 5**).

Minister of Finance Michael Noonan TD wrote, after the publication of the Commission's First Report: *"I have examined the Report and I agreed the recommendations. I have asked my officials to proceed now with whatever steps are required to have each recommendation implemented, including the preparation of heads of bill for submission to Government."* (28 October 2011)

Following publication of the Final Report, the Minister wrote: *"I would like to reiterate my satisfaction, and that of my Government colleagues, that the Commission provided a quality Report containing in depth analysis and far reaching recommendations...."* (13 July 2012)
He also stated that the Report *"will inform Government policy on credit unions for the foreseeable future"*.

Directly stemming from the Commission's work was the Credit Union and Co-operation with Overseas Regulators Bill 2012 passed by the Irish Parliament in December 2012, and the establishment of a Credit Union Restructuring Board in September 2012.

The 2012 Bill has five parts and provides for (i) Prudential Requirements, (ii) Governance, (iii) Stabilisation, (iv) Restructuring and (v) Amendments to the Credit Union Act 1997.

The Restructuring Board will oversee the restructuring of the Irish credit union movement on a voluntary, incentivised and time-bound basis. Credit unions approved for restructuring through

amalgamations or transfers will be provided with funding to ensure they have adequate capital and to enable them to upgrade their technology and other systems.

North America

McKillop's research on credit unions (**output 5**) has influenced Government bodies in the US. His work on the drivers of credit union consolidation is cited in a 2012 US Government Accountability Office report which considers the impact of the Dodd-Frank Act and focuses in particular on issues relating to consolidation.

McKillop was commissioned by the Filene Research Institute, US (a credit union think tank) and Credit Union Central Canada (the national trade association for the Canadian credit union system) to undertake research on governance in US and Canadian credit unions. There are 800 credit unions in Canada with over CAN\$250bn in assets. The published report (**output 7**) was disseminated to credit unions worldwide.

5. Sources to corroborate the impact (indicative maximum of 10 references)

Irish credit unions: report citations and web links:

A link to the Irish Government (Department of Finance) website which provides a summary of the CUAC report on a stabilisation mechanism.

<http://www.finance.gov.ie/documents/publications/cuac/CrediUnionFinStab.pdf>

Endorsement by Irish Minister of Finance of the final report of the Irish Commission on Credit Unions 18/10/12 <http://www.finance.gov.ie/viewdoc.asp?DocID=7212>

Media coverage after the publication of the First Report included:

[RTE News, 14 October 2011 http://www.rte.ie/news/2011/1014/creditunion.html](http://www.rte.ie/news/2011/1014/creditunion.html)

Media coverage after the publication of the Final Report included: [RTE News, 18 April 2012 http://www.rte.ie/news/2012/0418/report-urges-restructuring-of-credit-unions.html](http://www.rte.ie/news/2012/0418/report-urges-restructuring-of-credit-unions.html)

Minister of Finance (21/12/ 2012) welcomes the enactment of legislation which he describes as implementing the Commission on Credit Unions Report and providing for major reforms in the credit union sector <http://www.finance.gov.ie/viewdoc.asp?DocID=7478>

US and Canadian credit unions: report citations and web links

FDIC Conference website: <http://www.fdic.gov/bank/analytical/cfr/agenda.html>

US Government Accountability Office (2012) Community Banks and Credit Unions: Impact of the Dodd-Frank Act Depends Largely on Future Rule Makings. GAO-12-831. Available at <http://www.gao.gov/products/GAO-12-881>

Symposium on Governance in Credit Unions at the University of Toronto, organised by the Filene Institute, US and Credit Union Central Canada (February 2012) http://filene.org/blog/post/International_Symposium

External contacts who have supplied corroborating letters in support of the claimed impact:

1. Minister of Finance, Ireland, Department of Finance, Irish Government
2. Chief Executive Officer, Credit Union Development Association
3. Chair of the Credit Union Advisory Committee, Ireland
4. Senior Advisor to the Executive Director, World Bank