

Recognising Credit Union Industry Progression

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ABSTRACT

A time series analysis of the development of the credit union industry in the United States (US), the Republic of Ireland (ROI) and the United Kingdom (UK) identifies key changes to the regulatory framework, legislation and the emergence and increase in the sophistication of credit union trade associations as being central to the successful development of the movement within a country. Other key factors apart from the supporting framework, such as size, employee numbers, tightness of common bond etc., are seen as being important. It is suggested that the US credit union movements support framework has reached the most advanced stage of development possible, resulting in a number of credit unions being able to convert to banks. The ROI movement is reasonably sophisticated, operating at the upper end of a transitional phase. It is clear from the analysis of the history and development of the credit union industries in each country that advances in the support framework have come from the bottom up, or the grass roots. The UK movement is not developing in the same manner. The movement seems to be progressing using a top down approach. The government and the trade associations are trying to advance the movement with little impetus from the credit union members themselves.

INTRODUCTION

Credit unions are co-operative financial institutions. They have a unique cooperative status, being that only members can avail of the credit unions facilities⁴. In addition to this restriction, the membership potential is also limited to those persons who belong to a common bond, though membership is open to all persons falling within the definition of their common bond. Common bond types in the UK can be either multiple, associational, occupational or regional. Members have equal voting rights and can participate in the decision making of the credit union, regardless of the amount of monies invested or borrowed from the union.

Credit unions prescribe to cooperative objects that originate from the Rochdale principles. Self-help, education and overall social improvement, particularly in financial matters, are the underlying principles of the credit union objects. The worldwide expansion of the movement, particularly within third world countries, is indicative of the social role that credit unions play in the economic development of countries⁵. The majority of these country specific movements are recently formed. The backbone of the movement can be traced to Europe, North America and Australia.

Ferguson and McKillop (1997) analysed the development of the movement worldwide and suggested that a developmental typology is evidenced. They imply that the credit union industry within a country progresses along a developmental scale, from nascent, through transition phase, to maturity. In 2002, Sibbald, Ferguson

⁴ This has been relaxed to allow past members to still avail of the credit unions facilities, though restricted in the activities that can be provided to them.

⁵ Over 112 million people in 110 countries are members of a credit union amassing over \$10.6 billion dollars in assets (World Council of Credit Unions, 2001).

and McKillop updated this typology to include a post-mature phase, recognising the transformation that is taking place in Canada, where some credit unions have converted into commercial banks. Ward and McKillop (2002) analysed the history of the development of the UK, the ROI and the US movements, concluding not only that each of these countries were at a different stage in the credit union movement development, but also suggesting that variant development patterns exist within the UK movement.

This paper highlights key framework factors that are necessary and also signify credit union industry progression. The movements within the US, the ROI and the UK are considered in the analysis. It is implied that the US has been used as a deterministic model, the influence of which can be seen within the ROI credit union movement.

However, it seems until now, that a vicious circle has evolved within the UK, whereby individual credit unions have not achieved the growth required to stimulate the regulatory and internal support, that is necessary for the whole credit union industry's development. Government intervention has resulted in an attempt at assisting the movement to progress. The most recent Government action has been the transfer of regulation of the credit union movement to the Financial Services Authority (FSA)⁶⁷. Regulation by the FSA may be the spark that is required to ignite the movement throughout Britain. Alternatively its suggested professional business-like approach may lessen the cooperative self-help nature of credit unions making them less approachable to the financially excluded.

⁶ The FSA are in charge of the regulation of commercial financial institutions in Britain

⁷ Northern Ireland credit unions have always been regulated using different legislation. The gulf between NI and Britain will now widen as they will not be answerable to the FSA, but the Registrar for Credit Unions, in Belfast.

The paper begins by discussing the four-step typology that was initially suggested by Ferguson and McKillop (1997). A time series analysis of the US, ROI and UK credit unions movement follows. This analysis concludes by identifying key frameworks that need to be in existence before the industry can progress. A discussion on the reasons why the UK movement has not used these two successful movements as a deterministic model ensues.

INDUSTRY DEVELOPMENT

The typology suggested by Ferguson and McKillop (1997) provides a sufficient framework to assess the movement within each country. This is necessary to determine if the developmental steps taken in one country can be used as a benchmark for the development of the movement in another country. In addition it is necessary to consider whether the changes in the US today may, or may not be relevant to the UK. It may also be possible to recommend what should happen next within a country's credit union movement support and regulatory framework to ensure progression along the continuum.

The typology can be used to explain the dynamics of growth and change in the development of the credit union movement. The four phases suggested are nascent (birth stage), transition phase (growing and developing stage: experiences the most change), mature phase (well developed: on a par with other financial institution industry) and post mature (transformation into commercial financial institutions). A number of attributes were used to identify which stage a credit union movement is at within each country. In this paper the industry stage of development is categorised by looking at the financial, management and support systems in existence.

THE DEVELOPMENTAL TYPOLOGY

The post-mature phase is the final stage in the life cycle development of a credit union. At this stage the credit union and the industry supporting the credit union is of sufficient standard to allow the credit union to convert into a commercial bank.

Normal profit theories regarding profit making entities apply to these newly formed banks. Regulation and support is now obtained from commercial financial institution sources. The credit union effectively transfers from the internal credit union framework and support network to the commercial financial institutions regulatory and support structures. To be able to do this effectively, the credit union movements framework must be of a similar standard to the commercial environment.

In a mature credit union industry the financial and management attributes are intertwined and should include, credit unions having a large asset size, being managed by professional people (not volunteers). These individuals should have the financial management expertise to operate the credit unions as competitive financial institutions with all the sophisticated electronic technology that is associated with an innovative financial institution. The products and services being offered should be diversified and priced in accordance with market rate structures. An adequate deposit insurance system should be in place. The key objective being followed by a credit union should ensure that emphasis is placed on economic viability and the long-term sustainability of the credit union. The support systems and organisational structure that the movement operates within should be sophisticated. The legislative environment should be deregulated with a loose common bond, yet having available a well-

developed central services system. An excellent organisational system of internal support should exist with a progressive trade body.

In the transition credit union industry phase the financial and management attributes suggested by Ferguson and McKillop (1997) are not as sophisticated. Although a large asset size base is expected this is not as large as that of the mature phase. Credit unions operating within this phase are generally run by a combination of a small number of paid employees, with some volunteers for the daily routines. Unlike the nascent phase credit unions there is less emphasis on volunteerism and sponsorship. The credit unions do not operate in a competitive environment and offer limited services and products, though there is a greater shift towards product diversification, with an emphasis being placed on growth and efficiency. The support system in place is not as sophisticated as that associated with a mature industry. This phase encounters the most change as the movement generally recognises the need to relax restrictive legislation (including the definition of common bond), to enhance growth and to improve the effectiveness and professionalism of trade organisations. This also entails developing sufficient central services to support this growth, hence much change is encountered within trade associations

In the nascent credit union industry phase the financial and management attributes indicated are those akin to survival and the objectives of credit unions closely follow ideological cooperative principles. Professionalism is not an issue. Ferguson and McKillop (1997) suggest that credit unions in this phase have a small asset size, offer a single loan and savings product and are run by member volunteers with no paid staff (self-help being a core ideal). The main objective of credit unions in this phase is to

serve the poorer sections of the community. In general nascent industries are highly regulated with a tight, inflexible common bond. The support systems are weak and the movement needs sponsorship from the wider credit union movement to take root.

MAPPING THE TYPOLOGY TO SPECIFIC COUNTRIES

For the purpose of this study a time series analysis of the US, ROI and UK movement is considered to determine if key factors can be identified as being crucial and consequential of the movements development. Trade association development, regulatory structure and regulation in particular, are examined, to pinpoint set events that can be conceived to be determinant of progression.

Development of the US movement

The US is seen by many as being the forerunner (although not the origin of the movement) in the development of the credit union movement. Progression throughout the stages of development can be traced from the movements history. Initially in 1909 when the movement started, there was no unified federal legislation, credit unions being governed by state charter, if at all. Their actions were tightly regulated and activities were mostly restricted to promoting the needy to save then using these savings to make loans. Common bond was tightly defined and adhered to and was seen as being a core strength in the emergence/success of the movement. Credit unions were member run and dependent on volunteers to operate the daily activities. Their purpose was to

‘combat the evils of usury not only in the form of money lenders, but also in a rising tide of credit trading such as hire purchase⁸.’

⁸ Ferguson and McKillop 1997

These were being provided at extortionate rates.

Initially the movement was dependent on a small number of influential individuals to provide the impetus of the movement's birth and subsequent development⁹. In addition external sponsorship was required to set up an organisational structure (CUNEB) in 1921. This provided help in many forms to the individual credit unions, got credit union laws passed in as many states as possible and eventually formed a national organisation¹⁰. This organisation was run by Edward Filene and Roy Bergengren¹¹. This initial 'nascent' phase lasted approximately thirty years until the early 1930's when distinct changes marked the movement's conversion into the 'transition phase'. The transformation between phases cannot be pinpointed and occurs over a number of years though in this instance two major events can be cited as being an indication of the progression.

The first major event was the formation of CUNA (formed/promoted by CUNEB which subsequently folded (1935)) in 1934. This was a new national trade association made up of representatives from leagues which had already emerged in 13 states. Its role was to take over CUNEB's objectives. The leagues had been promoted by CUNEB and provided an organisational shell within which the movement worked. Individual credit unions have representation at the league, that in turn have a delegate in CUNA. The formation of the current successful organisational structure was now in place. More significantly CUNA was now funded internally by the affiliated leagues by providing dues for membership. Another related sign of development was

⁹ Edward Filene and Pierre Jay

¹⁰ Now called CUNA

¹¹ Flannery, 1974

the formation of CUNA Mutual, a branch of CUNA that was initiated to provide insurance services to the whole movement.

The other major event noted was the regulatory advances. In 1934 the 'Federal Credit Union Act 1934' was passed. Now credit unions did not have to wait until state law had been passed (at this stage state law had been passed in states covering 80% of the population and could become chartered centrally as a federal credit union¹².

During the transition phase which lasted another 40 – 50 years, shifts in attitude to the common bond became evident. Most established credit unions now regarded the strict common bond as a milestone, restricting growth and development. This is contrary to the view in the nascent phase when a tight common bond is seen as being vital to the successful development of a credit union.

Throughout the period 1934 to 1969 growth in credit union numbers (membership and asset base) was immense. The number of credit unions reached its peak in 1969 before the industry started entering the mature phase and started to consolidate the already present movement causing decreases in credit union numbers, particularly the smaller weaker credit unions. The regulatory framework had been changing over the previous 36 years (1934 – 1970) with the governance of credit unions changing many times to different departments within the government hierarchy. In 1970 the importance of the credit union industry in the US was recognised by the government who formed NCUA, a separate federal department whose sole purpose was to regulate and promote the industry.

¹² Croteau, 1956

The period 1971 to 1990 represents the transformation stage when the industry developed from the transition to the mature phase. Firstly in 1971, the Federal Government set up NCUSIF to offer deposit share insurance which all credit unions whether federal or state chartered could avail off. In 1977 deregulation, either by changes through legislation or by NCUA have relaxed many of the restrictive limits that were forced on credit unions. This caused shifts in demand by the credit unions for greater product diversification. This in turn resulted in a need to use/employ professionally trained management, not volunteers. Volunteers in general do not have the expertise to make the correct decisions. The result is a transfer from reliance on volunteers to a reliance on the expertise of professionals. An increasing emphasis was placed on the credit union as a competitive professional financial institution not a 'poor peoples bank'. Growth was also advanced by the relaxation by NCUA of the definition of the common bond. To cater for the increase in sophistication of the industry a Central Liquidity Facility was formed in 1978. This was established to bring security to the movement and was a 'lender of last resort'. A stronger solvency framework which reduced risks was now in place.

Currently, and for about the last ten years the US credit union industry could be categorised as having firmly entered the mature stage. Credit unions have adjusted their activities in line with other financial institutions and are competing with these institutions¹³. Credit unions now operate in a totally deregulated environment. The result of this is that credit unions are operating in a highly competitive environment therefore adopt market rates for their own products and services. In fact credit unions

¹³ Kaushik and Lopez, 1994

benefit from tax exemptions if federal chartered and tax breaks/reductions depending on the state: if state chartered. This has caused controversy and pressure from the other financial institutions (mainly banks) has mounted to remove this advantage.

The common bond has also been loosened.

Another sign of maturity is information technology advancements. Large credit unions operate on an equal par with banks and other financial institutions when it comes to electronic technology and innovative practices. In Canada the credit union industry has been the leader for many innovative ideas, products and services which the other institutions follow.

The trade organisation CUNA is also very sophisticated being able to support a mature industry. It is well organised with about 90% of total credit unions in the US, connected to it by 1984¹⁴. The organisational structure, though the same as that put in place in 1934, has refined and developed over the years. Further development of central services took place with the formation of the CUNA Service Group, Inc and the Corporate Credit Union Network (mid- 1970's). In fact CUNA was instrumental in the development of the WOCCU, and has also expanded its role not only to the promotion of the movement within the US but to research and sponsorship to help the movement worldwide.

Due to the increase in product/service/investment diversification the management of credit unions have had to evolve into professional financial managers with specific expertise in the financial sector industry. In addition in the larger unions the whole

¹⁴ Pearce, 1984

workforce, takes a more professional stance with little or no emphasis on volunteerism. The board of directors is still volunteer member based, but in reality do not make any financial decisions, leaving this up to the professionals. In fact so advanced have some of the credit unions become in the US that by 1995, eleven have converted to banks, with another five intending to do so in the near future¹⁵. This is a telling feature that the movement has fully progressed to post-mature phase, where credit unions are dropping off into the commercial profit making world.

Using the typology created by Ferguson and McKillop (1997) the development of the US credit union industry can be traced from the nascent to the now mature phase. The crossing over between phases is a grey area that has not been strictly defined and that seems to last a number of years. In fact it could be suggested that individual credit unions progress along the typology at different rates, depending on their size, membership and management. The industry/infrastructure may have to develop in response to innovation/progression by a small number of forward thinking credit unions. In addition, even though the industry as a whole could be categorised as being mature, not all the individual credit unions will fit this classification.

A whole range of credit unions will exist within the industry including those at the nascent phase and those in the transition phase. Small credit unions, or emerging credit unions will have a completely different ethos than their larger counterparts even within a mature industry framework. Emphasis will again be on having a tight common bond, helping the poor, volunteerism, sponsorship and support from the trade organisation or other credit unions. However, over time these credit unions

¹⁵ Merrick, B: 2001

have the opportunity and support to transform from their current status into mature credit unions, as the infrastructure is there to help them to do so. When the union becomes commercially strong enough there is the possibility that it will convert to a bank leaving a niche for the formation of another credit union.

As credit unions advance along the developmental scale there could be an argument to suggest that the ensuing professionalism and loosening of the common bond eventually erodes the role of the credit union as being a 'poor peoples bank'. Loan decisions being based on commercial credit ratings not on knowledge of the individual. Hence as one credit union advances into the mature phase, a niche may evolve for the development of another credit union etc. Alternatively if the wellbeing of the locality rises in line with the success of the credit union this will not be required.

Development of the Irish Credit Union Movement.

Within the British Isles, the ROI is undoubtedly the leader when it comes to the development of the credit union movement. In fact, in terms of success in providing facilities to the entire population, the Irish movement is probably the most successful in the world with approximately 45% of the population being members of a credit union. This even outperforms the US where approximately 30% of the population are members.¹⁶

The Irish credit union movement emerged over 50 years later than the movement in the US. Ferguson and McKillop (1997) considered the attributes of the Irish

¹⁶ H M Treasury , November 1999

movement and classified them as pertaining to an industry in transition. This study applies their typology in a different manner by focusing on the events that mark progression of the industry. By comparing the changes that marked movement along the typology within the US movement, events can be identified which enable the Irish credit union industry to be classified within the typology. As with the US movement pinpointing the exact year of movement between phases is impossible, different aspects of the movement develop at different rates and over different time periods. However, major events can provide an indication of advancement within the movement.

Like the US, the ROI movement was dependent on a small number of influential pioneers¹⁷ to provide the impetus for the movement's birth and development through the nascent phase. The evolution of the movement is examined by investigating four factors, which were used to classify the US movement; including changes to the regulatory framework, legislation, the credit union organisational structure, and growth in credit union numbers and membership. The success of the US movement is considered to be influential in the progress of other less developed credit union industries. Ferguson and McKillop (1997) strongly argue that the mature US and Canadian industries hold out a demonstration effect, particularly for transition industries. This argument when applied to the Irish context could be taken further. There is evidence that a demonstration effect has impacted on the initial development of the Irish credit union industry ie the nascent phase. This may be one of the factors that contributes to the short nascent phase that the Irish credit union industry has enjoyed. It is suggested that the nascent period lasted only ten years in Ireland,

¹⁷ Nora Herlihy, Seamus MacEoin and Sean Forde

whereas it lasted circa 30 - 35 in the US. It is evident that the founding pioneers of the Irish credit union movement, formed links with CUNA the main American Trade Association and used the US example to form the internal trade association network.

In 1958 the credit union industry emerged, though groundwork in preparation of the movement had been ongoing by the pioneers for almost ten years. The emergence of the first credit unions is taken as an indication of the start of the nascent phase. At this point there was no trade association, specific legislation, or legal framework. If a credit union formed it could either become a partnership, an unincorporated association or a body corporate under the Companies Act or the Industrial and Provident Societies Acts¹⁸.

Although there was no specific legal regulation, a Government Committee on Cooperative Societies which existed between 1957 and 1963 investigated credit union matters and advised the relevant Minister. In the period to late 1960's the regulatory structure emerged. The first formal recognition by the government of credit unions was legislated within the Credit Union Act (1966). This Act gave regulatory control to the Registrar of Friendly Societies, who (though independent) came under the remit of the Department of Industry and Commerce. The legislation also catered for the formation of a specific credit union advice committee. Therefore prior to 1966, no specific government department, committee or legislation catered solely for credit unions. After 1966, the basic regulatory framework which is in existence today was established. The formation of this framework marked development of the credit union industry between the nascent phase and the transition phase.

¹⁸ Griffiths and Howells (1990)

The initial legislation defined the common bond quite tightly identifying five potential types of common bond. The industry was tightly regulated with set limits being placed on amounts that could be deposited and loaned. In addition the activities of credit unions were very restricted (savings and loans only). Credit unions in this emerging phase were small with limited members/growth and assets. However, the economic boom of the 1960's (Chubb, Basil, 1982), the formation of the Credit Union League of Ireland on 7th February, 1960 and the publication of the credit union magazine 'Credimheas', caused the movement to pick up momentum and start its transformation into the transition phase. By the end of 1969 there were 336 credit unions with 180,000 members. Total assets invested within credit unions amounted to £9 million.¹⁹ From 1964 to 1969, 236 credit unions emerged.

The formation of the Credit Union League of Ireland marked the start in the development of internal organisational structure (based on US guidelines) which is in existence today. Its initial structure could be deemed to be typical of a trade association within the nascent phase. Unlike the US there was no initial funding for the trade association, it began with no employees and used the pioneer, Nora Herlihy's private dwelling as its headquarters. The first AGM took place in 1961 and in 1962 the first Chapter was formed. The League employed its first member of staff in 1963 and in 1966 another two were added. The first league offices were opened in 1966. In these early years insurance was not compulsory, however, if required it

¹⁹ ILCU website: <http://www.creditunion.ie/andyou.html> accessed 08/02/00

could be obtained from independent commercial insurance brokers. Clones credit union was the first to obtain loan and savings protection in 1960²⁰.

The period from the early 1950's to the late 1960's marked the birth and transformation of the industry from classification within the nascent phase to the transition phase. At the end of the 1960's the regulatory structure was in place. This organisational structure has not changed substantially since. The department governing credit unions has changed its name several times and the credit union advice committee and registrar have worked together with the ILCU to advise the Minister on required regulatory changes. These took place both in 1978 (when the Industrial and Provident Societies (Amendment) Act was enacted which strengthened the Registrar's powers) and in 1997 (when the Credit Union Act 1997 was enacted). This final piece of legislation consolidated all prior regulatory guidance and provided one source to cater for all regulatory issues relating to credit unions.

This consolidation is evidence of the development of the regulatory framework governing credit unions from the nascent phase where none existed to the transition phase where the legislative framework has been refined. Prior to the Credit Union Act 1997, rules governing credit unions being formulated by the industry and the Registrar. The 1997 Act changed this relationship becoming more the standard setter not advisor, outlining specific matters that should be included within the rules. The industry had to act to incorporate these compulsory rules. The 1997 legislation is still being introduced. The latest provisions becoming law are sections 46 to 52, which have been effected under a Ministerial Order and commence from 1st August 2001.

²⁰ Quinn, 1999

These provisions extend the products that credit unions can offer to include Personal Retirement Savings Accounts (PRSA's) so long as licensed by the Pensions Board. In addition, Fidelity Insurance for officers and volunteers became a legal requirement.²¹

It could now be argued that the framework in existence extends beyond the transition phase and is currently transforming into one which would exist within a mature industry. The most recent developments (formation of the Independent Financial Services Authority) being mooted by the government would if progressed certainly be indicative of an emerging maturing credit union regulatory framework, where credit unions would be governed by the same regulatory framework as other mature commercial financial institutions (ie banks).

Deregulation has started though is not as advanced as it is in the US. The ROI movement is still operating within a tightly regulated environment. The common bond definition though changed slightly by the new legislation was not specifically relaxed.

The main deregulatory matters included in the 1997 Credit Union act were increasing the limits on the amounts that could be saved or borrowed; increasing the repayment time limits; allowing more products, services and facilities²²; more security for members savings by officially recognising deposit and fidelity insurance; allowing credit unions to own property (not for investment purposes); and allowing up to 10% of outstanding loans to be held by non-qualifying members. Although the restrictions still seem to be quite limiting, when looked at in relative terms the deregulation has in

²¹ DETE: <http://www.entemp.ie/press01/310701a.html> accessed 03/08/01

fact resulted in extensive changes. Saving limits being increased by just over eight times the original amount. Loans of £30,000 (or 1.5% whichever is higher) for a period of up to twice the duration of the previous legislation. It still has a long way to go before credit unions are on an equal footing with the banks and building societies and can compete with them overall. At present they can only compete on the small loan and savings products.

In addition to increased absolute limits and other relaxing measures introduced by the Credit Union Act (1997), the potential for investing activities were also widened by the enactment of the Trustee (Authorised Investment) Order (1998).

It is debatable whether or not the legislative constraints will be deregulated to the same extent as they are in the US. In a newspaper interview with the Irish Independent in December 1996, Pat Rabbitte, Minister for Commerce, Science and Technology said that it was:

‘not his intention, nor perhaps the desire of many credit unions, that the movement should compete with banks and building societies for commercial business “as this would deflect credit union funds away from meeting their social and mutual purpose and members’ primary needs for small to medium scale, short to medium term, personal loan finance.” and that “The Bill underpins my own strong belief in the mutual form of organisation. Mutuals have one object alone – to serve their members.”

This indicates the government’s current philosophy on the role of the credit union industry within the financial services market. This may change. At present the legislation could be categorised as being characteristic of an industry within the transition phase. It still has some way to go before it could support a mature credit union industry like the US.

²² This includes allowing credit unions to: provide SSIA’s and PRSA’s, offer foreign exchange, install

By 1998 there were 536 credit unions affiliated to the ILCU in the ROI²³. Now the credit union industry has 2.2 million members affiliated to the ILCU with savings of £3.7 billion in total²⁴. There are over 12,000 volunteers and over 2,000 employees²⁵. The strong growth in credit union numbers in Ireland cannot be sustained.

Geographically credit unions have virtually saturated the country. Further growth is possible though the relaxation of the common bond would be a requirement. It is not clear whether or not the movement (as a whole) will wish to consider this option at this point.

From the late 1960's onwards, the League became more sophisticated and expanded its role not only within Ireland but also worldwide. The initial organisational structure progressed rapidly through the nascent phase, when it relied on support and guidance from CUNA to the transition phase when it became professional. In all this transformation took between ten to 15 years. It forged strong links with CUNA, becoming the European Agent for CUNA's Mutual Insurance Society in 1968. In 1980 the ILCU International Development Foundation was formed to assist developing the movement in underdeveloped countries²⁶. In addition the ILCU became actively involved in WOCCU with Gus Murray becoming the president of that organisation in 1993 until his death in 1994²⁷ and Gerry Foley becoming secretary of the WOCCU's executive in 1996²⁸.

automated teller machines and give out cheque books to their members on approval of the registrar

²³ WOCCU website, <http://www.woccu.org/members/profile.html?ID=IRE> accessed 08/02/00

²⁴ Alexander, Stephen: 2000.

²⁵ ILCU website: <http://www.creditunion.ie/ilcu.html> accessed 02/08/01

²⁶ ILCU website: <http://www.creditunion.ie/ilcu.html>: accessed 02/08/01

²⁷ ILCU website: <http://www.creditunion.ie/iclu.html> accessed 02/08/01

Internally, the League also progressed. In 1972 it changed its name from the Credit Union League of Ireland to the Irish League of Credit Unions and issued model rules for all its member credit unions, these rules are continually reviewed and updated to take account of legislative changes. The latest revision took place in 1998. In addition to the rules the League also issued Operating Principles in 1984. These rules incorporated any legislative requirements that the individual credit unions had to adhere to. Not only did the specific guidance on the formation and running of a credit union improve, the support and facilities also developed and improved. . By the year 2000, 25 chapters were established²⁹. The Central Financial Service was founded in 1973 to provide financial support to individual credit unions in the form of cheap loans. In 1980 the ECCU Assurance Company Limited was formed to cater for all credit union insurance requirements. The requirement to hold savings protection insurance as well as loan protection schemes became a requirement. The Assurance also provides pension schemes and many other financial services. Insurance available now includes home, car, death in benefit, repayment protection, travel and health insurance. In 1995 another subsidiary was formed to purchase property for the League and in 1996 ILCUtech was formed to provide advanced electronic services to members including ATM's, ETF services and issue cards (CREDIT?). At present some e-services are available (2.1 million members can access their accounts from home) though the facilities are still being advanced. The advancement of technology though controversial has advanced the framework within which the movement can operate. Other technological advancements being undertaken include direct deposits of recurring government payments, new types of account, secure internet access,

²⁸ Quinn, 1999

²⁹ ILCU website <http://www.creditunion.ie/ilcu.html> 02/08/01

smart cards, remote banking and credit cards³⁰. The technological advances have been temporarily shelved because of budget overruns. This may stifle the movements further development within the transition phase.

These organisational changes were required to administer the growing sophistication of the League. Now credit unions offer savings that are protected by staff being covered by Fidelity Bond insurance, by the Savings Protection Scheme (up to £10,000) and through the members Life Savings Insurance. Savings are also on offer to children, savings stamps schemes are in operation and credit unions also offer the new Special Savings Incentive Accounts (SSIA's). Loans are insured up to £15,000 and repayments can be tailored³¹. Other services such as foreign exchange, money transfer, etc are also available³². The change in the sophistication of the role of the League is indicative of advancement along the transition phase with some of the latest advances even being characteristic of what would be found in a trade association operating within a mature phase

The Irish movement started entering the transition in the late 1960's and has developed within this phase over the past 30+ years, with some elements being able to support a mature industry³³. The main restricting factor noted is the constraints imposed by legislation and the definition of the common bond. Legislation is being relaxed, limits have been raised and greater product diversification is being introduced on a piecemeal basis. A large proportion of the individual credit unions have large asset bases and are very influential on the advancement of the development of the

³⁰ Sean Redmond (ILCU director) cited by Merrick, B. 1999

³¹ Extendable up to £30,000 under certain circumstances

³² ILCU website <http://www.creditunion.ie/product.html> accessed 02/08/01

³³ Regulatory Framework, Internal trade association support, Internal support framework

movement. Within these large credit unions, in particular, there is an emphasis on growth and efficiency. Volunteerism is still crucial, though the number of employees within the movement is steadily increasing. The trade association is effective and professional and is active in the development of central services, technology and in promoting changes to legislation.

DEVELOPMENT OF THE UK CREDIT UNION MOVEMENT

In the UK the nascent phase lasted for about fifteen to twenty years. In fact, at present the movement is still operating within the lowest regions of the transition phase, though current changes should progress the development of the industry further. The movement is not near as developed that in the ROI and Northern Ireland (NI). In fact, less than 1% of the population belong to a credit union³⁴. The credit union movement was slow to start, emerging in London in 1964. This was six years after the movements emerged in the ROI and four years after its arrival in Northern Ireland.

As with the US and the ROI credit union industries, the British industry is classified depending on changes to the regulatory framework, legislation, the internal credit union organisational structure and growth in credit union numbers and membership. By comparing the changes that marked the evolution of these other industries, relevant events within Britain can be classified and used to determine industry advancement.

³⁴ HM Treasury, 1999

Like the analysis of the other countries credit union industries pinpointing the exact year of transformation between phases (nascent, transition and mature) is impossible. Different factors affecting the sophistication of the movement develop at different rates and over different time periods. As mentioned above major events e.g. legislative changes, provide some indication of change and evolution. The British movement is now considered by investigating the four factors: changes in the regulatory framework; legislation; internal credit union organisational structure and individual credit unions growth and sophistication.

REGULATORY FRAMEWORK

As in other countries in the emerging years there was no clear regulatory framework. Credit unions could either register under the Industrial and Provident Societies Act, the Companies Act as a limited company or the remain unincorporated³⁵. Dedicated credit union legislation did not appear until the Credit Union Act 1979 was enacted.

In the majority of instances the emerging credit unions registered under the Industrial and Provident Societies Acts and consequently came under the regulatory supervision of the 'Registry of Friendly Societies'. With the introduction of the Credit Union Act 1979, registration under the Registrar of Friendly Societies became legally binding on all credit unions, otherwise they could not use the name or operate as such. Controls were immediately introduced to regulate registration. Only if the Registrar was satisfied as to the rules to be followed, the British identity, cooperative objects and common bond, could a credit union be formed. No other entity could call themselves a credit union unless registered.

³⁵ Snaith, cited in Griffiths & Howells, 1990

The legal regulation empowered by the Act started with a requirement on all credit unions to file a return with audited accounts (if assets are over £5,000). These returns are analysed by the Registrar to identify credit unions that may need further investigation or help. If required the registrar may demand information, appoint an inspector and call a meeting with the Board of Directors to discuss the problems identified. In extreme cases he has the power to suspend operations of the credit union, cancel or suspend registration and petition the court for winding up of the credit union. In order to make the Registrar accountable, the legislation requires him to make a report of his proceedings under the Act. This regulatory framework has been in operation since the movement began, it became compulsory for all credit unions after the Credit Union Act 1979 (before this only those credit unions registered with the Industrial and Provident Societies Act needed to comply). The introduction of the requirement to register with the Registrar of Friendly Societies was a notable progression along the developmental scale. This ensures that a regulatory framework with limited guidance is available to all credit unions and marks the movement of that part of the industry into the transition stage.

At present the legal regulatory framework is being changed. The Financial Securities Authority (FSA) is taking charge of the regulation of all financial institutions. This change has already under way with the FSA working in tangent with the Registry employees since the 1st January 1999. The FSA took over completely from 1st July 2002 when the legislation comes into effect. The impact of this is that credit unions are subject to the same regulatory requirements as other financial institutions. These changes though in the embryonic stage should progress the regulatory structure to a

more sophisticated state. This will possibly even enable the regulatory framework to be categorised as being prevalent to a mature industry, though it is early days yet.

LEGISLATION

The growth of the movement in Britain seems to have been fuelled/influenced by the successes achieved in NI and the ROI. These countries were the forerunners in introducing legislation in the British Isles. The specific British legislation that was introduced in 1979, the Credit Union Act, was modeled on the Northern Ireland legislation in existence at the time (the Industrial and Provident Societies (Northern Ireland) Act 1966). In this initial nascent phase the emphasis was on the original cooperative 'self-help' ideals which were founded in Britain over one hundred years earlier (Rochdale principles).

The Credit Union Act 1979 was very restrictive, defining common bond tightly, restricting loan/saving amounts, duration and rates, allowing only single saving and loan products and very restrictive investment criteria for surplus funds. The introduction of this legislation though did provide guidance and helped to signal the transformation from the nascent phase to the transition phase. Though the new system may have taken a couple of years to become fully operational.

The first indication of development along the transition phase came with the loosening of the tight regulation in 1990 when the The Credit Unions (Increase in Limits of Shareholding, of Deposits by persons too young to be members and of Loans) Order 1989 came into effect. This Order increased the allowable shareholding to £5,000 and allowed loans of up to £5,000 above the maximum shareholding.

Junior members could invest more and repayment terms of loans were increased.

This relaxation of the initial limits makes credit union more attractive to the working class as well as those who are financially excluded as now loans could be obtained to purchase cars, do small home improvements, etc. Although of benefit to credit unions this legislation did not go far enough.

Since 1997, deregulation has started to occur with the introduction of the Deregulation (Credit Unions) Order 1996. Again restrictive limits were loosened. Larger loans and longer repayment periods were allowed on the approval of the registrar. Maximum shareholdings were capped depending on the size of the credit union. Some product and investment diversification occurred and a new common bond category 'live or work' was introduced to allow the prospective membership of credit unions to be increased, hence allowing growth. An overall limit of £5,000 still existed, though could be extended with the approval of the Registrar. In addition non-qualifying members were empowered with equal rights to services as other members (except voting). These deregulatory measures were again a step in the right direction, however do not go far enough. The introduction of the Order is a developmental event, which marks movement within the transition phase.

The next relaxation of the regulations took effect on the 1st April 2001 a statutory instrument the Credit Unions (Increase in Limits on Deposits by persons too young to be members and of Periods for the Repayment of Loans) Order 2001 came into force. This Order increased the maximum deposit allowable by minors to £5,000. Loan repayment periods were extended to the limits outlined in the Deregulation Order for all credit unions, not just those with permission from the Registrar. However, those

who had this permission could now extend the repayment period to five years (unsecured) and twelve years (secured). Hence making the loan product more attractive to any member wishing to purchase a car or improve their house, without inflicting heavy monthly repayments. This was a minor relaxation and again just marked a small progression along the developmental model.

New legislation, the Financial Services and Markets Act 2000, should have the greatest impact on the deregulation of credit unions. Legislative changes empowered by the legislation include: the abolition of the maximum number of members (originally 5,000); scrapping the maximum legal limit for loans (now the FSA establishes the regulatory limits); removing the requirement to sell repossessed collateral as soon as is convenient; and eliminating the requirement to hold a general reserve statutory buffer of 10%.

The changes to be implemented should progress the legislation even further along the transition scale. However, in the ROI the legislation provides more guidance to credit unions, hence is seen as being at a more advanced stage of development. Direction on specific governance issues, such as committee type, structure and content, are included within the legislation. NI and British legislation do not make specific reference to such detail but insist that each credit union adheres to a set of internal rules. These rules have to be acceptable to the FSA. It is the FSA who decide whether the committee structures proposed are appropriate. It seems in Britain that the FSA has a more involved role in the supervision of credit unions. The FSA has more power and becomes actively involved in governance issues. This is due to the weaknesses that exist within the credit union movement. There is very little self-

governance, the trade associations being disjointed are not at the same level of sophistication as the trade association in the ROI.

The legislation governing credit unions at the moment firmly places them within the transition phase, though is operating at a lower level of development than the movement within the ROI. This may change in the future with the current implementation of the new legislation, which took effect on 1st July 2002.

TRADE ASSOCIATIONS

The first trade association the National Federation of Credit Unions (NFCU) was formed in 1964. It started and remained a small organisation with few affiliated credit union members. It had different strategic objectives to the later formed more progressive trade association: the Association of British Credit Unions Limited (ABCUL)³⁶. The NFCU believed that growth when appropriate should take the form of a new credit union not a loosening of the common bond of the existing union. [This emphasis on remaining small caused a split in the affiliated credit unions. The result was the formation of ABCUL, in Manchester in 1978?](#)

The NFCU, provided limited support. Help, advice and training was available to those wishing to establish as a credit union and guidance was available to those in existence. The only central service available was providing statutory insurance cover. This support provided by the NFCU was only adequate for a credit union industry operating within the nascent phase.

³⁶ the primary focus of NFCU was on community development, self-help and small units

ABCUL in contrast to the NFCU emulates the concepts promoted by the WOCCU. It more closely follows the US and ROI example, promoting changes in the manner in which credit unions operate to allow them to grow and offer better services to members. It established an internal organisational support framework that is similar to the framework in place in the US and the ROI. Instead of geographical Leagues, local Chapters were formed geographically. The importance of the Chapter as a vehicle in the democratic credit union development process is outlined in the London and South of England Chapter of ABCUL website:

‘Democracy runs right through the credit union movement. At the AGM of the credit union the members elect peers to serve on the Board of Directors and Committees of the credit union. A credit union then has the right, to send a mandated delegate to represent its views to ‘Chapter’, attend, speak at, propose motions to, and vote at the AGM of the Association (ABCUL)’

ABCUL provides many other services to NFCU including: lobbying; promotion; development; advice; support; research; and training services to credit unions.

A number of central services are also available to all member credit unions. A central finance facility operates as a credit union for all member credit unions. This facility allows credit unions to invest their surplus funds and to borrow funds in times when there is short-term liquidity. ABCUL also provides many central insurance benefits to its members. The available insurance schemes include, loan and life protection, fidelity bond, general and family funeral insurance.

Compared to the central services provided in both the ROI and in the US the facilities provided by ABCUL are insignificant to support a credit union movement as advanced as in those countries. The internal structures and communication channels

are certainly adequate and may even be characteristic of a framework that could support a mature industry, however, the services, support provided and financial strength firmly place ABCUL as being able to support credit unions operating within a transition industry phase.

Changes are being discussed which will progress the facilities offered by the trade association further. A central service organisation (CSO) is not in existence though may be implemented in the future. This organisation would provide the facilities that would enable credit unions, regardless of size, to provide a wider range of services for their members. In addition, a savings protection scheme (protecting members money in the event of a credit union collapsing) is not in operation within Britain, though it is being provided by FSA. They are allowing credit unions to become part of the banks and building societies Depositors' Protection Scheme.

One of the stumbling blocks to the development of the credit union movement may have been the different emphasis that was placed by the two main bodies on credit union growth. However, this should not longer be an issue as the NFCU trade association is no longer in existence, however, two other smaller trade associations with similar views have emerged, the SLCU and the AICU.

GROWTH

By the time the Credit Union Act 1979 came into operation only 59 credit unions were affiliated to ABCUL. Growth remained slow over the next ten years.

According to Berthoud and Hinton (1989), 141 credit unions with only 35,000 members and small average asset sizes were in existence. This had grown to 245 by

1993³⁷. From 1993 to 2000 remarkable growth in credit union numbers occurred (relative to present numbers), with credit union numbers affiliated to ABCUL doubling to 468. Membership also increased to over 220,000 in number, with total assets over £130m³⁸. Nationally over 300,000 people are members of British credit unions, 80% affiliated to ABCUL. Growth although impressive in the last decade is still insufficient given the potential for the movement and the success of the movement in other countries. At present less than 1% of the British population is a member of a credit union³⁹. This is indicative of a very small movement operating within the nascent phase.

CONCLUSION

The credit union industry in Britain progressed from the nascent phase to the transition phase in the late 1980's – early 1990's. At this time it became evident that the emphasis of the bulk of credit unions changed from solely serving the weak/poor sections of the community to that of economic viability, growth and efficiency⁴⁰. This does not mean that credit unions are turning their back on cooperative self-help principles, but that economic goals are also important. Pursuing economic goals complements and strengthens the ability of the credit union to achieve social goals also. In fact, Jones (1999) suggests that many of the credit unions developed to pursue social goals alone, not only failed to grow and expand but had negative social consequences as a result of this. Jones provides a hypothetical example where a credit union has 100 members out of a potential membership of 20,000, most of who face exclusion from low-cost financial services. Keeping the credit union small does

³⁷ McKillop, Ferguson and Nesbitt, 1995

³⁸ ABCUL website: accessed 29/05/01

³⁹ HM Treasury Taskforce Report, 1999

⁴⁰ Jones, 1999.

not further the social goals of the whole community. Jones found that an overwhelming 76% of all credit unions in his survey agreed that the credit union industry to achieve greater financial viability and sustainability need to stimulate change which provides a framework within which credit unions can:

‘Operate more like a professional financial service;
Redefine common bonds to create larger markets;
Employ more staff to carry out day-to-day activities;
Redefine the role of volunteers;
Offer a wider range of services and products; and
Amalgamate with other credit unions.’

The high response of 76% encapsulates the change in mood of credit union members.

In Britain credit unions have two unusual, but powerful, sources of support, the municipal authorities and the banks. Credit unions are seen as key partners in the social and economic regeneration of communities’ not serious competitors as considered in America and the ROI (Jones 1999). The movement’s lack of growth has been the subject of much research by both the Scottish Government, English Government and ABCUL.

At present very few of the individual credit unions have reached economically viable levels and most could be categorised as being characteristic of credit unions operating within the nascent phase. The support structures (both legal and internal), have progressed and would be able to sustain a movement within the transition phase. More changes are happening which will develop the industry further, but without demand for credit unions the impetus for development may abate. Lack of dedicated

pioneers; a fragmented trade association network; restrictive legislation, an adequate welfare system and public perception of credit unions may be some of the factors which stifle the industry's growth in Britain. Without interest from the more affluent members of the community who in general supply the funds to loan to the financially excluded, credit unions may not succeed.

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