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Credit unions: International evidence

Stakeholder Banks Briefing

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Executive Summary

Credit unions have a valuable part to play in building a healthy banking sector. They offer more inclusive banking than commercial banks, and performed much better during the financial crisis. Helping them prosper requires appropriate regulation, allowing them to compete with commercial banks and enabling them to collaborate in networks in order to create economies of scale.

Credit unions are a form of cooperative bank that offer a particularly strong emphasis on social objectives, and a restricted range of services to their members. As of 2011, they managed over $1.5 trillion worth of assets for 196 million members in 100 countries. Although they have common characteristics worldwide, they vary enormously in scale and scope of activities. They can only provide services to their members, who share a 'common bond', such as a shared location, employer, occupation, or religion.

Governments typically place more restrictions on credit unions than on banks. This may be to help safeguard members' savings from risky investment activities, to maintain their focus on lending to low-income households, or a reflection of their non-profit status.

However, there is a balance to be struck between promoting the safety and simplicity of credit unions, and undermining their financial viability and impact by over-regulating them. A number of factors determine the success of credit unions in different countries, including:

- The length of time since they were established, and since suitable regulatory structures were introduced.
- Their ability to offer a broad range of loan products, including mortgages and business loans. This allows costs and risks to be more effectively spread over a diversified loan book.
- Economies of scale achieved by collaborating to share central services, such as liquidity management, back office systems, and marketing.
- Their ability to compete more directly with commercial banks for more profitable customers.

There is evidence to suggest that, in common with cooperative banks,[1] the ownership structure of credit unions encourages long-term and prudent management, and a greater focus on the needs of customers. They deliver greater financial inclusion by maintaining branches in areas under-served by commercial banks, by out-performing on small and medium enterprise (SME) lending, and by successfully lending to low-income households and those with impaired credit records. They are able to perform well in lending to SMEs and low-income households because they devote greater local and personal knowledge to loan assessment and management. Credit unions also performed better than commercial banks during the financial crisis.

Naturally, commercial banks resist the idea of allowing credit unions to grow beyond the niche of 'poor-man's bank' and to directly compete with them. The evidence of the benefits of greater banking diversity in general, however, and of a financially viable credit union sector in particular, suggests that policymakers should be resolute in introducing policies to grow the sector, even if this appears to some degree to be at the expense of incumbent commercial banks.

1. What are credit unions?

Credit unions are a type of financial cooperative that places a strong emphasis on social solidarity and the relationships between its members.

Friedrich Wilhelm Raiffeisen is typically credited with starting the credit union movement in rural Germany in 1864. Rural communities were usually over-looked by mainstream banks because of their low, seasonally dependent incomes. Raiffeisen helped these communities organise themselves so as to help one another achieve mutual goals, and to use their strong social ties and mutual guarantees to monitor each other and to encourage one another to put every effort into meeting payments. In other words, Raiffeisen helped these groups develop the social capital that increased the credit worthiness of each individual person; he recognised that social networks have value.

Credit unions arose in Canada and the USA as early as the 1900s; however, they really took off during the Great Depression, particularly in rural areas, where commercial banks closed many of their branches during the downturn. Credit unions continued to flourish in the post-war years. For example, the number of credit union members in Canada expanded by 13 per cent per year during the 1940s and the 1950s.[2]

According to the World Council of Credit Unions, in 2011 there were over 51,000 credit unions operating in 100 countries, serving over 196 million members, and managing over $1.5 trillion worth of assets.[3]

Box A: Cooperative Banks

Though cooperative banks vary enormously in structure both within countries and between countries, they share what is in essence a broader and more democratic form of ownership. They are owned and controlled by their members (usually their customers) on the basis of one vote per person, rather than by shareholders whose vote is proportional to their financial stake.

Any customer can choose to become a member by investing a small amount of money in the cooperative to buy a share. You cannot sell shares in a cooperative bank to a third party, as you can with shares in commercial banks. Instead, you can only sell them back to the bank itself in order to reclaim the money you originally put in. Furthermore, unlike shareholders in joint stock companies, cooperative members do not have any legal claim on the profits generated by the businesses, or any share in the appreciation in the value of the business. Cumulative profits are instead owned by the cooperative itself, often in the form of a trust.

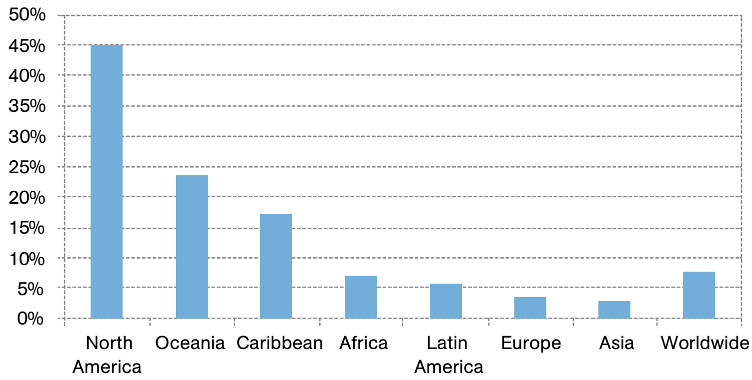
Cooperative banks account for a significant proportion of the banking market in many countries, particularly in Europe.

Credit unions are distinct from banks in certain key respects. They are regulated under different legislation, and do not have a licence that allows them to accept deposits from the general public. Instead they offer a restricted range of financial services which, unlike cooperative banks, can only be provided to the credit union's members. Credit unions maintain that this helps foster a close connection and a feeling of solidarity within the union. Credit unions also argue that non-member customers would be benefitting from the input of members without contributing anything themselves.

Credit unions are classified in many countries as non-profit[4] institutions and receive tax breaks on the core activity of lending to low-income households. This has led governments to introduce formal legislation restricting credit union membership. Each credit union must define a 'common bond', i.e. a shared characteristic of its members. Common bonds are typically defined by the geographical area in which members can live or work, the occupation of members, the organisation that members work for, or the religion that members belong to.

Governments also typically place more restrictions on credit unions than on other types of financial institutions. For example, in the UK, credit unions can only fund their lending activities with customer deposits; they are not able to borrow from the wholesale inter-bank money markets. Unlike banks, who can invest in a range of different assets, credit unions can make loans or hold cash deposits in a bank. These restrictions exist to help safeguard members' savings. Other countries, such as the USA and Canada, have more relaxed rules; however, they are still far more conservative than those imposed on banks.

Figure 1. International comparison of credit union membership in 2011.



Source: World Council of Credit Unions[5]

Credit unions vary enormously. Some are fully fledged financial institutions, whereas others are run by volunteers out of a church hall and are small and specified in their mission and approach, offering services that are tailored to meet the needs and demands of their relatively narrow group of members.

The products and services they offer can range from simple savings accounts and unsecured personal loans, to fully transactional banking, business loans, and even asset management and brokerage services. Similarly, credit union membership can vary from just a handful of members to hundreds of thousands. The largest credit union in the USA, the Navy Federal Credit Union, has US$ 50 billion in assets and over four million members.

2. What is the case for credit unions?

Credit unions have a social mission to serve the vulnerable, but they also bring a number of benefits to customers, society, and the economy. While similar to co-operative banks in many respects, credit unions offer a distinctive form of financial provision that has proved highly successful in some countries.

2.1 They are cooperative

As credit unions are a type of cooperative, they should offer the benefits that arise from this form of ownership.[6] For example, the principle of 'one member, one vote' means that individuals can have a direct and meaningful say in how the important institutions in their life are run even without significant funds invested. In this way, cooperatives are less likely than commercial banks to be controlled by affluent individuals, corporations, or institutional fund managers, instead attracting lots of small investors.[7] In addition to making the ownership structure more equal, the principle of 'one member, one vote' should, at least theoretically, encourage all members to take an equal and meaningful interest in the governance of the institution, instead of effectively delegating corporate governance to the largest shareholders.

The ownership structure of cooperatives encourages a long-term view. Although some investors in banks listed on the stock market seek to hold the shares over extended periods to generate long-term returns, many trade shares based on short-term targets for returns on their investment funds. Indeed, the rise of 'high frequency trading' using computer algorithms means that a significant percentage of owners may hold their stakes in a commercial bank for only a fraction of a second. In contrast, there is often only one opportunity per year when members of co-operatives can request to redeem their shares. This, and the fact that members do not have a claim on profits, means that managers do not face pressure from owners to maximise short-term profits and share-price performance.

As cooperatives are owned by their customers, who do not have a claim on profits, they aim to maximise customer value rather than simply profits, which is considered a means to financial sustainability rather than an end in itself.

In theory, profit-maximising commercial banks within competitive markets should ensure good customer service to the extent that this increases shareholder value. In practice, there are several reasons why the interests of shareholders and customers might be in conflict. These include the pressure for short-term returns, the logic of ignoring less profitable customers and geographical locations, and pressure on managers to increase sales resulting in the mis-selling of financial products.

Many other benefits potentially flow from customer ownership, not just for customers but for the economy as a whole:-

- Customer ownership means that cooperative banks are generally more interested in traditional high-street banking than in investment banking activities, and have very little interest in speculative trading with the bank's own capital.

- Being owned by and accountable to local customers allows cooperatives to cater for less profitable customers who are under-served by commercial banks, including SMEs. This under-serving of the latter is typically believed to arise because banks find it extremely expensive and time consuming to properly assess the viability of lending to small businesses and lower-income households. This has been exacerbated by the demise of relationship banking and the rise of centralised credit decisions. Commercial banks are no longer local institutions that intimately know local people and the local economy, and are instead simply branches of enormous, centrally controlled, national giants, where investment decisions are typically set by head office.

- Cooperatives argue that members having no legal claim on profits promotes a long-term view and a prudent attitude to risk compared with commercial banks. The latter place a strong emphasis maximising short-term profits and share price and, in doing so, encourage excessive risk taking and unsustainable growth.

There is evidence that credit unions exhibit many of these cooperative traits.

Customer service

Taking two basic measures of customer service – interest rates for deposits and loans, and performance in customer satisfaction surveys – credit unions appear to outperform commercial banks. For example, Table 1 gives a breakdown of the difference between credit unions rates and commercial bank rates in a variety of countries. Across all categories, in all of the profiled countries, credit unions appear to offer a better deal than their commercial counterparts. Please note that data could not be found for Canada, the UK, and South Korea. However, survey data in Canada found that 66 per cent of credit union customers felt that they got value for money products and services, compared to 54 per cent of commercial bank customers.[8] Similarly, US credit unions do significantly better than commercial banks when it comes to customer satisfaction,[9] as do their peers in Canada,[10] Australia,[11] New Zealand,[12] and the UK.[13]

Table 1. Difference between credit union rates and commercial bank rates

		Loans	
	Savings	**Credit cards/ Unsecured personal loans**	**Mortgages**
Australia	+0.39%	-4.78%	-0.39
Ireland		-3.8%	n/a
United States	+0.16%	-2.46%	0%
New Zealand	+0.61%	-1.23%	0.15%

Source: Data compiled from various trade association publications.[14-20]

Serving SMEs

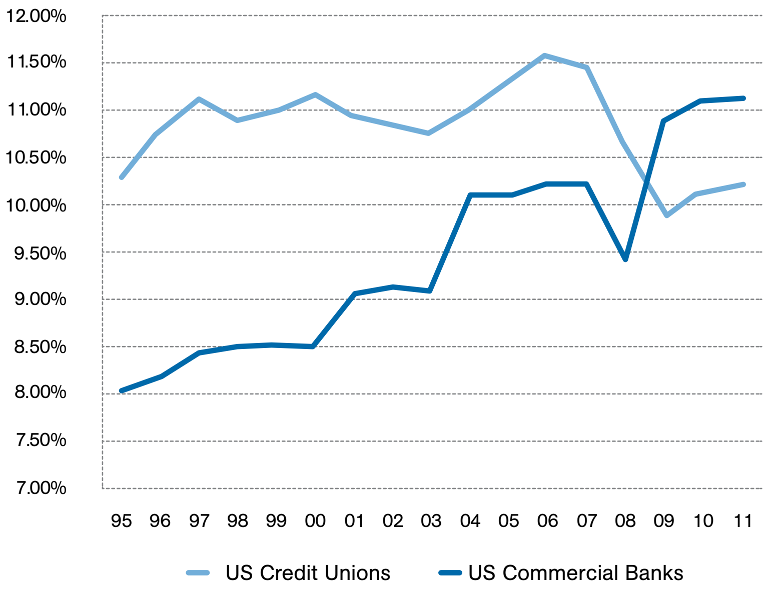
Credit unions are not always permitted to offer business loans. In the UK they have only recently been allowed to offer them. We can examine the case of Canada, however, where credit unions serve the business market and lending data is available. Canadian credit unions punch significantly above their weight in this department, as they hold approximately 17 per cent of the SME lending market, despite constituting only 5 per cent of the total banking assets.[21] Their SME market share has also been steadily increasing, having nearly doubled over the past 20 years.[22] According to the Central 1 Credit Union in Canada, SMEs particularly like the fact that credit unions have a lower turnover in their branch managers than commercial banks, as this allows the formation of long-term relationships, and helps the credit union really understand the SME and its needs.

In the most remote Canadian provinces, the impact of credit unions is even more pronounced, with the sector holding SME market shares as high as 62 per cent.[23]

A long-term perspective and prudent approach

In general, credit unions are well capitalised. For example, between 1995 and 2011, US credit unions had an average equity capital ratio of 10.82 per cent vs. 9.45 per cent for commercial banks.[24] Their average equity capital level also fluctuated less, having a standard deviation less than half that for commercial banks (Figure 2).

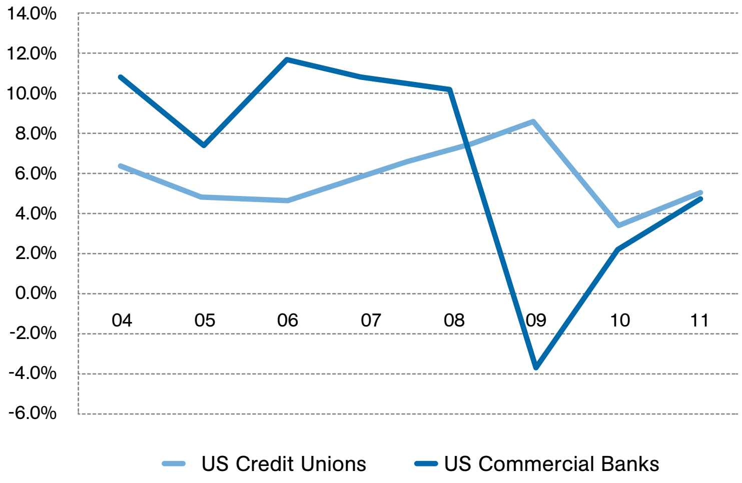
Figure 2. Equity capital ratios for US credit unions and commercial banks.



Source: Credit Union National Association (2011)[25]

In addition, US credit unions experienced a far steadier growth in assets than commercial banks in the run-up to and during the on-going financial crisis (please see Figure 3).

Figure 3. Asset growth rates of US credit unions and commercial banks.



Source: Credit Union National Association (2011)[26]

Similar results can also be found in other countries, as shown in Table 2 (please note that data was not available for Ireland or the UK), with the exception of South Korea, where credit unions and commercial banks appear to be equally capitalised.

Table 2. Comparison of average capital ratios for credit unions and commercial banks.

	Credit Unions	Commercial Banks
Australia (2011)	8%	6%
Canada (2011)	6%	5%
New Zealand (2010)	16%	6%
South Korea (2011)	8%	8%

Sources: World Council of Credit Unions (2011),[27] *World Bank (2011),*[28] *Commission on Credit Unions (2011),*[29] *and Reserve Bank of New Zealand (2012).*[30]

2.2 Performance during the financial crisis

As one can see from Table 3, all credit unions, except those in New Zealand, performed better than the rest of the banking system when it came to expanding credit during the financial crisis.

Table 3. Comparison of change in lending between credit unions and total banking sector.

Increase in lending between 2006 and 2011		
	Credit Unions	**All Banks**
Australia	123%	49%
Canada	33%	-11%
Ireland	-29%	-47%
New Zealand	8%	26%
South Korea	102%	53%
UK	64%	17%
USA	16%	13%

Source: World Council of Credit Unions (2012)[31]

It should be noted that in one country within this group, Ireland, credit unions *decreased* lending between 2006 and 2011. The vast majority of Irish credit union loans were mortgages, and thus the sector was heavily exposed to bad debts when the Irish property bubble burst.[32] Irish credit unions are also struggling from a lack of demand stemming from high levels of unemployment and falling incomes, which has seen their loan books contract accordingly.[33] Therefore, Irish credit unions' troubles can be partly put down to the broader macroeconomic state of the country, and partly down to over-exposure to mortgages during a property bubble. Despite this, the sector withdrew credit far less severely than Irish banks overall and so still outperformed by this measure.

The strong lending data from the UK also comes with a caveat: in large part this dramatic increase in lending occurred because credit unions were the main recipients of the UK government's £137 million Financial Inclusion Growth Fund, which gave money to credit unions to help them build capacity, invest in infrastructure, and to subsidise lending to vulnerable groups.

Having observed that credit unions have generally expanded lending at a greater rate than the rest of their countries' banking systems between 2006 and 2011, the natural follow-up question is 'did they lend wisely?'

Data suggests that credit unions' higher loan volumes were not at the expense of lending quality, with credit unions suffering fewer bad debts than commercial banks. For example, 5.4 per cent of US commercial bank loans were delinquent in 2009 compared to 1.8 per cent for credit unions.[34] Moreover, this does not appear to have been a once-off, as between 1995 and 2011, American credit unions had a lower average loan delinquency rate than American commercial banks, and the latter's delinquency rate varied over four times more than that for credit unions (Table 4).

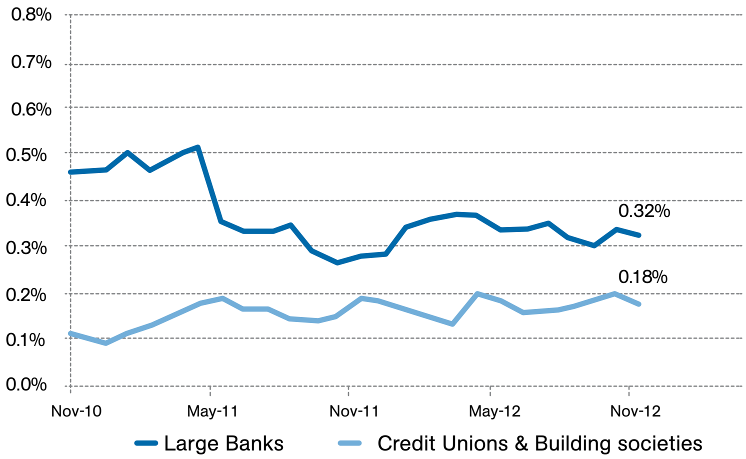
Table 4. Comparison of bad debts for US credit unions and commercial banks.

US loan deliquency rates 1995–2011		
	Credit Unions	**Commercial Banks**
Mean	1.02%	1.86%
Standard Deviation	0.004%	0.015%

Source: Credit Union National Association[35]

This picture emerges in other countries as well. For example, as one can see from Figure 4, Australian credit unions have suffered consistently lower mortgage arrears than the large Australian commercial banks. In fact, even in boom times, credit unions in countries such as the UK (Table 5) have posted proportionately lower losses than commercial banks.

Figure 4. Comparison of Australian Banks' Mortgage Arrears (90+ days)



Source: Abacus (2013)[36]

Table 5. Comparison of bad debts for UK credit unions and commercial banks.

UK loan deliquency rates 2003–2007		
	Credit Unions	**Commercial Banks**
Mean	0.94%	1.44%
Standard Deviation	0.21%	0.65%

Source: Institute of Chartered Accountants in Scotland[37]

Before we move on, it is important to note that while local American credit unions generally performed better than commercial banks during the crisis, their central institutions, which will be explored in more detail later on in this report, required a bail-out from regulators, the central bank and the Treasury.

2.3 A social dimension

One of the chief objectives of a credit union is often to promote financial inclusion, i.e. banking services and loans to those who would typically be rejected or overlooked by mainstream financial institutions. These are the people who are particularly in danger of turning to loan sharks or very high-interest payday lenders. People without basic bank accounts also find it difficult to get formal employment, and often end up paying more on their utility bills. Credit unions frequently step in to provide a solution where the market and state have failed to do so. For example, 38 per cent of the communities served by Canadian credit unions have no other financial institution.[38] Similarly, Australian credit unions have been buying the branches in rural communities that commercial banks have closed down.[39] Credit unions also often actively seek to increase financial literacy amongst their membership.

In terms of investing in the local community, credit unions also appear to outperform commercial banks. For example, in 2010 Canadian credit unions gave, on average, 4 per cent of their pre-tax income to community projects, whereas the biggest five commercial banks gave only 1 per cent of their pre-tax income.[40] Credit unions were also the first Canadian financial institutions to lend to women in their own names.[41] Furthermore, as already described, the credit union model relies on building social capital, and thus helps strengthen ties within communities.

Some credit unions pointed out, however, that the restrictions that governments place on them because of the tax breaks they receive sometimes inhibit their ability to provide a social service. For example, British credit unions are the only type of financial institution in the UK to be subject to an interest rate cap. This, they argue, limits the extent to which they can provide less exploitative alternatives to high-cost credit such as payday loans.

3. What criticism is typically made of the sector?

Credit unions are co-operatives, and therefore also criticised for their inability to raise capital to grow, inefficiency, and lack of management incentives to perform. They suffer two further criticisms: that they are an inferior kind of bank for poor people, and that in some countries they are not professionally run.

Credit unions are a particular type of co-operative. As a result, the same criticisms of the co-operative structure apply to them. We examine these in more detail in our report *Cooperative banks: International evidence*, and summarise the key points below.

3.1 Criticism of cooperatives also applied to credit unions

Cooperative banks cannot raise large amounts of capital quickly by issuing shares on a stock market. Over the past few decades this was considered to be holding back growth in the sector and preventing cooperatives from competing with large commercial banks.

The inability to raise external capital need not be a constraint, however, if the strategy of the bank is to grow its activities in line with its retained capital. Cooperatives do not pursue growth for its own sake, and do not need to grow in order to attain the economies of scale provided by the central cooperative service model. Furthermore, the difficulties cooperatives face in raising capital theoretically should mean they are more careful about how capital is invested. If they make poor investment decisions, any resulting lost capital will be harder for them to replace than for a commercial bank to replace.

A frequent criticism levied at cooperatives is that their ownership structure makes it essentially impossible to transform inefficient institutions. Because cooperative shares cannot be bought and sold to third parties, it is impossible for external players who believe they can improve the bank's performance to mount a bid to take over management of the company.

It is also argued that the cooperative principle of 'one member, one vote' makes it more difficult to hold directors to account. It is extremely difficult to coordinate a large number of members with equal votes to monitor and sanction directors who are either ineffective or who are pursuing their own interests at the expense of the bank's. In contrast, in shareholder banks, a few investors holding significant power individually may have a much greater incentive to monitor management and can easily act to bring about change in management, if this appears desirable.

Customer value (the central objective of cooperative banking) is also much harder to measure than profit (the driving factor of commercial banking). Unlike profit, which can be objectively quantified, measuring customer value requires qualitative as well as quantitative assessment. Because progress towards their key aim is trickier to monitor, bad cooperative managers arguably have more scope for hiding laziness, ineptitude, or exploitation of customers or the business.

One might, however, point to the superior performance of cooperatives since the financial crisis as evidence of their overall good quality of management. It is possible that, because local democratic control generally aligns the manager's interests with those of the bank's owners, the need for certain external pressures (such as the threat of a third party take-over) is not as vital to the efficiency of the cooperative banking sectors.

A final criticism often levied at cooperatives in that they are inefficient. Economic theory states that – in 'textbook' market conditions of perfect competition, perfect information, and rational behaviour – profit-maximisation is the best way to ensure maximum efficiency. Clearly, this is at odds with the cooperative model's focus on customer value.

It has also been argued that the cooperative ownership structure holds back innovation and the optimum use of capital. This is because cooperative shareholders do not have a direct claim to capital, as the cumulative profit of all members, past and present, is held in trust rather than distributed to owners – leading some to consider it 'capital in dead hands'.

Yet textbook conditions of perfect competition never have, and never will, exist in the real world. It has become apparent since the financial crisis that a significant proportion of the capital invested by commercial banks went into unsustainable activities and unproductive sectors of economies fuelling asset price bubbles. The 'dead' capital held by cooperatives was instead, on average, invested in more sustainable, albeit less lucrative, products and services. This, together with the scale of government support that was required to bail out commercial banks, has called into question the assumption that profit-seeking banks will by definition be the most efficient and economically productive.

3.2 Further criticisms of credit unions

Credit unions face criticisms that spring from their particular social mandate. Most credit unions have a mandate to tackle financial exclusion, although this is not necessarily their sole purpose. It is argued that focusing exclusively on the social mission can deter mainstream customers whose business is needed in order to cross-subsidise a credit union's financial exclusion work. Making small loans to people with poor or non-existent credit histories is unprofitable for two reasons (which, of course, is precisely why large commercial banks do not provide them). First, the transaction costs of processing a small loan are proportionately higher, and secondly the more personal involvement with credit assessment and management of default risks for such loans is labour intensive and more expensive. Where credit unions have a broad range of business, for example in Canada, that includes large loans for customers with straightforward credit histories, they are able to spread the high costs of fulfilling their social mission across a portfolio of other more profitable activities. Without this, credit unions are unlikely to achieve financial self-sufficiency and will remain dependent on grant funding. For example, many British credit unions are significantly dependent on grant funding or support from local authorities; 80 per cent of community-based credit unions have received some form of grant funding.[42]

The restrictions placed on credit unions may also serve to reinforce the public idea that credit unions are not 'ordinary' financial institutions, and that they instead specialise and cater only for people in very unusual circumstances. Similarly, whilst credit unions are unable to achieve the economies of scale necessary to operate current accounts, for example, and instead have to offer pre-paid debit cards, as will be discussed in more detail later on, the 'poor man's bank' stereotype is likely to be perpetuated.

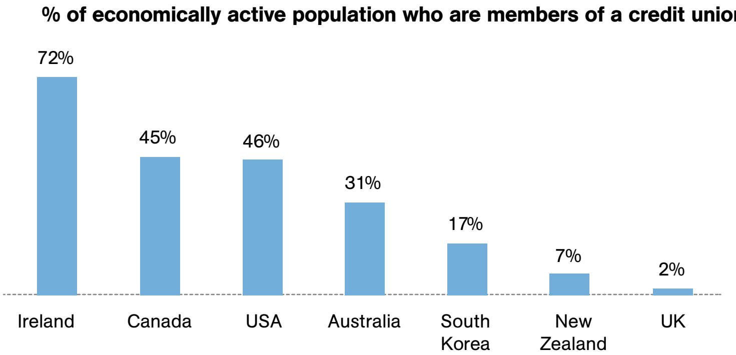
Changing the perception of credit unions among potential customers who currently use commercial banks is an important challenge if they are to attract the greater diversity of membership required to make them financially sustainable. The alternative is to confine their role to the provision of the social service of access to finance, and accept that the costs need to be borne by external funders.

4. Why are credit unions more common in some countries than others?

Although credit unions exist worldwide, the size and scope of the sector varies considerable from country to country. These differences can be explained by a combination of historical and geographical factors, the development of appropriate regulation, and the existence of central service organisations that can enable smaller local credit unions to achieve economies of scale.

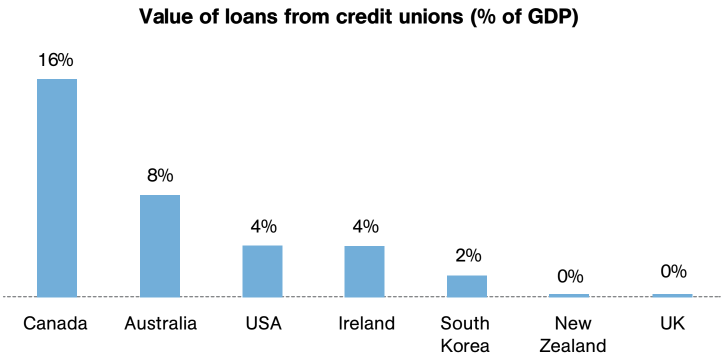
The prevalence of credit unions varies enormous from country to country. For example, Figure 5 gives a breakdown of the percentage of economically active population who are members of a credit union in seven high-income countries, ranging from 2 per cent in the UK to 72 per cent in Ireland. The picture changes if we look at the economic significance of credit unions, as measured by the value of loans from credit unions as a percentage of GDP (Figure 6). The credit union sector in Canada, whose loans are equivalent to 16 per cent of GDP,[43] looks significantly more substantial than its equivalent in Ireland, whose loans only correspond to 4 per cent of GDP.[44] This is despite the fact that 72 per cent of the economically active population in Ireland are members of a credit union vs. 46 per cent in Canada. This illustrates that the services for which people use credit unions can differ significantly from one country to another.

Figure 5.– Credit union membership in selected countries (2011).



Source: World Council of Credit Unions[45]

Figure 6. Size of credit union lending in selected countries (2011).



Source: World Council of Credit Unions[46]

There is also great variety in whether credit unions are focused on urban or rural areas. For example, in the UK, credit unions have been more successful in large cities, whereas in Canada, credit unions have tended to be particularly successful in rural communities dominated by particular industries, such as fishing and forestry in the west of Canada.

There are a variety of factors that help explain why credit unions are so much more significant in some countries than in others.

4.1 History

As described earlier, credit unions started in Germany in 1864 and developed into the cooperative banks that now have a very significant presence in continental European countries. Credit unions moved across the North Atlantic at the turn of the twentieth century, with the first Canadian credit union being started in Quebec in 1901.[47] Immigrants from Quebec to New Hampshire founded the first US credit union in 1909.[48] Credit union legislation was first introduced in Canada and the USA in 1932[49] and 1934,[50] respectively.

In many other countries, however, credit unions were started much later on. For example, whilst financial cooperatives had existed in Australia since 1905 and had tailored legislation since 1923, credit unions were not founded until 1946, when Kevin Yates returned from air force service in Canada during WWII, and had been inspired by the credit unions he saw there.[51] Ireland's first credit union was established in 1958, and while the first legislation specifically for credit unions was introduced in 1966,[52] they were not formally regulated until 2003. Credit unions in New Zealand also first appeared in the 1950s,[53] and in South Korea in the 1960s.[54]

In the UK, there was a strong culture of savings and thrift in Britain up until the 1960s that came about as a result of the trustee savings banks (TSBs).[55] TSBs were intended to encourage savings amongst lower-income groups. They did very little lending and instead invested in UK government bonds in order to generate returns to pay interest to savers. There were few formal financial institutions in the UK that were willing to lend to people on lower incomes. Eventually, immigrants from Ireland and Jamaica, where credit unions were already established, came to the UK and started up their own institutions in the 1960s. Credit unions were set up as Industrial and Provident Societies or Friendly Societies,[56] as specialised legislation for credit unions wasn't introduced in the UK until 1979. This meant that credit unions did not really take off in Britain until the 1980s.

We can conclude that one of the key factors in the size and maturity of the credit union movement in different countries is when credit unions were first properly legislated for. Canadian and US credit unions have an advantage of many decades over their British and Irish counterparts.

4.2 Geography

The Canadian credit union sector argues that credit unions have been so successful in Canada because of the vast scale of the country. As the population is so dispersed, and some areas are extremely remote, for much of Canada's history the country hasn't really operated on a national scale, and there hasn't been a collective national identity. Instead, Canada could instead be viewed as a federation of provinces, and institutions and culture developed much more at the provincial level. In particular, the western provinces, which are such a great distance away from the predominant Canadian cities, such as Toronto, felt alienated, and these East–West tensions promoted a sense that the western provinces couldn't trust the commercial banks, which were typically run out of the East, to act in their interests. Finally, some communities were so remote that in order to get access to financial institutions they had to build their own. Of course, these reasons are less applicable now, but today's infrastructure was shaped by this history.

4.3 Central service organisations

In the same way that cooperative banks formed central institutions to provide liquidity services and economies of scale (Box B), so too have credit unions in the USA, Canada, Australia, New Zealand, and South Korea.

Box B: Cooperative banks' networks and centrals

Almost all European cooperative banks, a notable exception being the Cooperative Bank in the UK, now exist as part of very large formalised networks of autonomous local banks that collaborate and pool some functions in order to achieve the economies of scale necessary to compete with commercial banks. These networks are generally coordinated by a central institution, which enables them to achieve economies of scale in wide variety of activities, including systems and product development, public relations, marketing, risk and liquidity management, training programmes, and lobbying efforts. Some central institutions also help coordinate intra-network deposit guarantee schemes, which help increase stability and confidence within the group, and should mean that cooperatives are less likely to have to turn to nationally run deposit guarantee schemes. Because other cooperatives within the network will provide support if any single institution gets into trouble, the credit-worthiness of each individual institution is improved. Not only does this enable the member institutions to access funding at reduced costs, it also encourages dialogue, collaboration, and mutual monitoring to ensure adherence to cooperative principles like prudent risk-taking.

There is a long history of such pooling and collaboration, as some of these central organisations have been around for over one hundred years. In 1898, for example, two such institutions were formed in the Netherlands.

4.3.1 Centrals and corporates

Centrals have existed in Canada since 1938, and have been fundamental to the success of Canadian credit unions. The country has a three-tier credit union system, with credit unions being supported by their regional central, and then these centrals, in turn, are supported by one national central called the Credit Union Central of Canada. In every province, except Ontario, it is mandatory for credit unions to belong to the central in that province, and thus to participate in that liquidity pool.[57] Each institution has to deposit a certain percentage of its assets with the central, and then some of this pool is invested in very liquid assets, the remainder held aside in case a participating credit union is in immediate need of liquidity. This is particularly useful for smaller institutions, but it gives all credit unions an alternative to having to turn to commercial banks for a line of credit. Centrals also have direct access to the payment systems, i.e. the system that allows money to be transferred from one financial institution to another, and thus local credit unions access the payments systems via the central. This has been the case for approximately 30 years, and the pool of assets that the central holds, in addition to the economies of scale it can achieve, gives it the legitimacy necessary for access. Without this, each individual credit union would have to have an arrangement with a bank, as is the case in the UK.

Corporates have been around in the USA since the 1970s, and are similar to Canadian centrals. Originally there was one per state; now, however, due to mergers, there are fewer than 20. These corporates enable US credit unions to pool liquidity, invest excess capital, and access the payment systems and the wholesale markets.

Australian credit unions first started pooling liquidity in 1964,[58] and have been sharing ATMs and joint-access to the payment systems and inter-bank lending markets since 1991.[59] The New Zealand Credit Union League, now called the New Zealand Association of Credit Unions, was established in 1961, and has gradually introduced shared liquidity services, IT infrastructure, ATMs, risk management, and access to the payment systems. Finally, credit unions in South Korea have enjoyed joint access to the payment systems since 2000,[60] and joint IT infrastructure since 2008.[61]

Whilst developing a centralised infrastructure can bring many benefits, however, it is not without pitfalls. For example, a US credit union can belong to any corporate, so they tend to hunt around for the institution that offers the highest returns, which puts pressure on corporates to generate high returns. These institutions unfortunately started to invest in mortgage-backed securities, and by 2007 they amounted to 37 per cent of the corporates' investments.[62] By the end of 2008, US corporates had lost $33 billion via these products. This led to a run on corporates, with credit union deposits in corporates falling by 35 per cent over the course of 2008.[63] Five corporates failed, but the regulators, the central bank, and the Treasury department subsequently organised a bail-out to prevent a cascading series of failures amongst the networks of supported credit unions. The failed institutions, which held 75 per cent of all US corporates' assets, had to be taken over by the regulator.[64] Had the losses been covered by credit union deposits at the corporates, it is estimated that nearly one-third of all US credit unions would have collapsed.[65]

The difficulties faced by US corporates during the financial crisis serve as a warning as to the dangers of creating a centralised infrastructure that operates on the basis of competition. With one exception, in Canada you cannot pick and choose your central; it is mandatory for credit unions to belong to their local central. This helps explain why Canadian centrals stayed focused on providing liquidity services, whereas American corporates became preoccupied with generating profits. It is also worth noting that in Canada there are fewer restrictions on what credit unions themselves can invest in, and so credit unions are able to generate higher returns themselves.

4.3.2 Credit Union Service Organisations (CUSOs)

In the USA, corporates only provide liquidity services and access to the payment system. Credit unions that want to achieve economies of scale on their operations in other activities can instead buy a stake in a Credit Union Service Organisation (CUSO). These institutions are private companies that are typically entirely owned by the credit unions that use them,[66] and they serve two roles:

- They provide economies of scale by pooling back-office operations, providing expertise, etc.

- They operate as brokers to help sell insurance products and investment products to credit union members.

For example, there are CUSOs that run ATM and branch sharing networks. This system means that credit union members can have access to a national branch network that can rival that of commercial banks.

CUSOs have been around in the USA since the 1960s, but they were not formally regulated until the early 1980s. The information gathered to date on CUSOs is far from comprehensive, but the National Association of Credit Union Service Organisations estimates that there are at least 1,500 currently operating in the USA.

Unfortunately the smaller credit unions that are particularly in need of economies of scale are less likely to use CUSOs. Given that small credit unions are often fully preoccupied with the day-to-day operations of the institution and trying to keep afloat, this is not particularly surprising. Smaller credit unions are also likely to have less experienced staff, and are likely to be less active participants in networks, and so many are probably unaware of what CUSOs have to offer and how to engage with them.

4.3.3 Problems in countries without central service organisations

As a result of the existence of centrals, corporates, and CUSOs, US and Canadian credit unions are able to offer a large suite of financial products, including cheques, credit cards, debit cards, and money transfer services. Such products and services are often not financially viable in countries such as the UK, where credit unions are unable to achieve economies of scale.[67]

For example, credit unions in the UK cannot access the payment systems directly because they cannot afford the necessary technology infrastructure to be permitted access. Research suggests that procuring adequate IT systems generally makes up at least two-thirds of the total costs of starting up a bank, and that this is generally at least tens of millions of pounds.[68] Credit unions individually cannot meet these costs, and British credit unions, instead of creating a centralised infrastructure, have chosen to pay the Cooperative Bank to access the payment systems on their behalf. As a result, in the UK, credit union current accounts and debit cards have been around since 2006.[69] However, a review of this initiative concluded that:

> *The entry charges are prohibitive for most credit unions, and given the current limited functionality of the account, there has been insufficient growth in take-up nationally to drive down regular running costs. Costs associated with operating the account can also rise due to support required by financially excluded members new to transactional banking. The credit unions operating the Credit Union Current Account were supported by the DWP Growth Fund to meet the entry charges but still do not expect the account to break-even for several years to come.*[70]

As long as British credit unions are unable to offer current accounts, they cannot realistically appeal to the general public and become financially self-sufficient by diversifying their membership base. In addition, many members are faced with the out-dated situation whereby they have to visit their credit union in person to be able to withdraw money.

Thus, the lack of a centralised infrastructure and economies of scale is significantly holding back the development of credit unions in the UK. In recent years this has been recognised by UK government policy, as we discuss in section 5.1.

South Korea provides an interesting case study for comparison here, as credit unions in Korea and the UK sprung up at approximately the same time; however, credit unions are now notably more prevalent and successful in Korea than in Britain (17 per cent of the population are members of a credit union in Korea vs. 2 per cent in the UK). The World Council of Credit Unions has attributed the strong growth of the sector in Korea to its excellent internal collaboration.[71] In contrast, UK credit unions do not benefit from the pooled liquidity, mutual guarantee schemes, collective investment, and joint access to the payment systems enjoyed by their Korean counterparts.

It is important to note that Ireland is the exception to this centralised infrastructure rule. Irish credit unions have achieved an extremely high level of penetration within society without developing an extensive centralised infrastructure, or branching into many different products.[72] Whilst Irish credit unions are used by 72 per cent of the economically active population, however, credit unions loans only correspond to 4 per cent of GDP, in comparison to Canada's 16 per cent. Thus, whilst Irish credit unions have engaged with a very large number of people, they are not yet the economic force they are in other countries.

4.4 Regulation

Credit unions in different countries operate under very different sets of rules.

In the UK they primarily offer savings accounts and unsecured personal loans. A select few also offer mortgages, and, since January 2012, credit unions are allowed to offer business loans. However, to date, none have elected to do so, as they are nervous that they lack the expertise. Furthermore, individual loans are restricted to a maximum of £15,000 for some credit unions and £7,500 or lower for many others. In January, the UK government also relaxed the law around the common bond requirement, to make it less restrictive and more in line with other countries. For example, prior to the change in law, if a member of a credit union changed jobs or cities, they would be forced to leave the credit union. The World Council of Credit Unions said that it did not know of any other country where this was the case, as people can usually be a member for life.

In contrast, regulations surrounding Canadian credit unions were relaxed in the 1970s and the 1980s. The difficult economic circumstances prompted many credit unions to relax their membership rules, and to lobby to be able to branch into new product areas, such as mortgages and business lending. Nowadays, 57 per cent of Canadian credit union loans consist of residential mortgages, 10 per cent are personal loans, 27 per cent are commercial loans, and 5 per cent are agricultural loans.[73] US credit unions have been offering mortgages since 1977, and business loans since 1998.[74] The broader spread and larger sizes of loan in the USA and Canada compared with the UK makes a significant difference to their financial viability. As we discussed in Section 3, unsecured personal loans are the riskiest form of lending, and the low average loan size makes the overall administration, overheads, and staff costs a high proportion of the loan. The ability to offer mortgages, which are secured on collateral and can be significantly larger individual loans, means that operating costs can be spread across the credit union's entire loan book.

There are also significant differences between countries with regard to how the industry is regulated. For example, credit unions in the UK were not regulated by the Financial Services Authority (FSA) until 2002. Prior to this they were regulated by the Registry of Friendly Societies and not part of the deposit insurance scheme. The implicit assumption underlying this was that credit unions would essentially only operate in small areas and be staffed by volunteers. In other words, there was very little vision from policymakers or regulators that credit unions could grow to become significant financial institutions.

Differences in regulation help explain why the significance of credit unions differs significantly not just from one country to another, but also within different parts of a single country. For example, the Canadian provinces with the most favourable regulation are unsurprisingly those with the biggest number of credit unions and greatest credit union penetration. For example, some provinces have provided unlimited deposit insurance for credit unions, encouraging more people to deposit their money there.

5. How could governments encourage and foster credit unions?

Credit unions remain vulnerable even where they have been conspicuously successful. Banking policy should protect the status of credit unions without attempting to over-commercialise them, whereas in countries with a weak credit union sector, greater ambition is required to enable it to achieve the dual purpose of social mission and financial viability.

Unfortunately, even in countries such as Canada, where credit unions are well established and prominent contributors to the financial system, policymakers, commentators, regulators, and the general public often are sceptical of sectors that advocate goals other than simply profit maximisation. For example, Canadian regulation currently opens up the possibility for credit unions to issue shares on a stock exchange, and to select board members from shareholders. Such regulation demonstrates a widespread lack of appreciation and desire to protect the cooperative ownership model, despite its significant and valuable contribution to the Canadian economy. Canadian credit unions also apparently struggle to get coverage in the mainstream financial press. Nevertheless, policymakers can draw on experience in Canada and elsewhere to identify policies to encourage the growth and success of the credit union sector.

5.1 Help creating a regional or centralised infrastructure

Credit unions are frequently the recipients of government grants and local authority aid. In the UK this has been directly at individual credit unions. However, the Credit Union Central of Canada's view is that government assistance to create a central infrastructure would be more useful than giving money to individual credit unions. This is consistent with our findings that cooperatives and credit unions that have achieved the greatest degree of economic impact tend to have collaborated with one another to achieve economies of scale.

Similarly, the philanthropist Edward Filene, who was responsible for pushing for the expansion of credit unions in the USA, focused his efforts not on individual credit unions but on forming the first industry group to represent US credit unions, the Credit Union National Extension Bureau, and helping to get the first credit union legislation in the USA passed in 1909.

Some governments are now beginning to consider how they can help credit unions collaborate better. For example, Ireland established a Commission on Credit Unions in 2011 that, amongst other things, concluded that:

> *International experience shows that there is scope for improved collaboration and efficiency through shared services arrangements and the Commission recommends that these should be facilitated in legislation for Irish credit unions.*[75]

Steps are being taken towards attempting to create a centralised infrastructure for credit unions in the UK. The Department for Work and Pensions (DWP) recently awarded £38 million to the Association of British Credit Unions Ltd (ABCUL), the trade group representing British credit unions, to help modernise and grow the credit unions sector, including by developing a central IT platform.[76] Similarly, ABCUL has suggested that credit unions could possibly link up with the post office, which would hugely expand the credit union branch and ATM network. However, even these attempts at creating some centralised infrastructure would leave British credit unions short of the central liquidity services and product development expertise that their US and Canadian counterparts enjoy. Centralisation is not without its drawbacks. Central control risks undermining the many benefits that localised control brings, although CUSOs appear to help credit unions achieve economies of scale without merging or creating powerful central institutions. Governments must also learn from US corporates' financial problems during the financial crisis. Allowing choice over which corporate, regional institution, or CUSO a credit union can belong to, may create incentives for these institutions to compete by taking on greater risk in a bid to boost returns. Governments must thus carefully regulate centrals and CUSOs, for example, by restricting their activities, and capping the amount that credit unions can invest in any central organisations.

5.2 Tailored legislation for smaller institutions

Smaller institutions generally face the same regulations and rules as large institutions. Having the resources and expertise to deal with compliance in a timely way is putting increasing pressure on credit unions to merge to achieve economies of scale. For example, the number of credit unions in Canada has been depleting at a rate of 30–40 per year. Whilst this has typically taken the form of mergers, and thus has not resulted in a reduction of branches or members, it is changing the structure of credit unions, making them larger and less localised.

Governments should thus think about regulatory alternatives for small institutions that would provide the key information they need, but would not undermine the viability of the institution by being excessively onerous. Small institutions do not pose anywhere near the same level of risk to the rest of the financial system as large banks, and thus should not be subject to an equal regulatory burden.

Legislation also needs to be up-to-date. For example, the 1979 Credit Unions Act is still the primary piece of legislation for credit unions in the UK. It was heavily based on Irish legislation which, at the time, was based on credit unions being relatively simple institutions that just take in savings and make loans.

Regulators in the USA are also allowed to interpret legislation, whereas the UK Financial Services Authority has to follow specific instructions from the Treasury. For example, Bristol Credit Union in the UK explained that when it went to the FSA to get permission to be involved with a new community currency initiative, the Bristol Pound, the regulators were apparently less concerned with whether or not members' money would be at risk, and were primarily preoccupied with whether or not as an regulatory agency they were allowed to approve the new service.

5.3 Get the right advisors

Governments frequently start commissions and other such initiatives to explore how credit unions can be bolstered; however, they sometimes perhaps need to give a bit more thought to whom they invite to sit on these commissions. For example, the UK Treasury set up a Credit Union task force in 1999 to explore how the British credit union movement could be expanded and made more effective.[77] The taskforce was almost entirely composed of representatives from UK banks and building societies, however, who have every incentive to see credit unions stay as fringe financial institutions rather than developing into a real competitive threat.

6. What does the future hold for credit unions?

As with all alternative financial institutions, the backlash against commercial banks since the start of the financial crisis has brought about a once-in-a-lifetime opportunity to expand their market share and become real competition to traditional financial institutions. However, whilst credit unions have every reason to be optimistic, they face some significant challenges.

6.1 The relevance of the common bond

The original purpose of the common bond was that it reduced the need for the institution to engage in expensive information gathering processes to assess loans, as members knew each other. The common bond would also provide the social pressure to ensure that members do everything possible to repay their debts. Over time, however, common bonds have been increasingly relaxed, and many credit unions and policymakers are now starting to question their relevance.

For example, credit unions based on membership of specific professions are increasingly relaxing their common bonds to become economically more heterogeneous. In Canada, closed bond credit unions are essentially disappearing; they are merging with other credit unions and becoming part of community-based credit unions. US common bonds tend to be quite loose and based in metropolitan areas. They also typically have multiple common bonds, which US commercial banks attempted to quash through legal action in 1994.[78] The Supreme Court ruled in favour of the banks, thus threatening the viability of credit unions whose members would suddenly become ineligible. However, credit unions very successfully managed to mobilise their 84 million members to lobby Congress to pass a new law that explicitly permitted multiple common bonds. In exchange, to placate the banks, the law put additional limits on credit union activities, for example, by capping the extent to which credit unions could lend to businesses.[79]

In the UK, originally you had to live within a very small area or work for a very specific organisation to qualify for membership. These rules then started to relax in the late 1990s, and employee credit unions started to also take in people who lived in the local area. Restrictions were further loosened in 2012 to allow multiple common bonds, but UK requirements are still relatively tight by international standards.

Some have argued that the common bond may be rather out-dated, stemming from a time when it was believed that people would not be prepared to volunteer for a credit union unless there was some form of very close connection with other members. As the common bond is relaxed, however, it becomes increasingly unclear how credit unions differ from cooperative banks. This has a number of implications. For example, banks would presumably lobby for credit unions' tax breaks to be withdrawn.

6.2 Not losing the local element

As is shown in Table 6, there has also been a trend towards mergers and acquisitions between credit unions in recent years because of the pressure to achieve economies of scale due to rising technology costs, and the increasing costs associated with complying with regulation.

Table 6 – Decline in numbers of credit unions in selected countries

	Number of credit unions in 2006	Number of credit unions in 2011	% change in number of credit unions between 2006 and 2011
Australia	144	106	-26%
Canada	1,068	813	-24%
Ireland	525	494	-6%
New Zealand	39	22	-44%
South Korea	1,027	954	-7%
UK	540	405	-25%
USA	8,536	7,351	-14%

Source: World Council of Credit Unions[80]

Legislative changes may also be occurring to start accommodating these trends even more. Federal regulation for credit unions in Canada is anticipated in 2014/2015 at the earliest, which would allow credit unions to open branches in other provinces. Some are even talking about going national. This is likely to also change the nature and structure of centrals. Regional centrals may start to merge, possibly until they are all are incorporated into a new, enlarged Credit Union Central of Canada.

Federal legislation would bring some benefits, for example to provinces that currently lack credit union legislation (and therefore lack credit unions), and to credit unions located near provincial borders that are prevented from serving nearby communities.

In some countries, deposit insurance schemes have provided added pressure for small credit unions to merge. For example, in the USA, ever since deposit insurance was introduced, regulators have placed an emphasis on trying to identify which small credit unions are weak, and then encouraging these institutions to merge with larger, more stable credit unions. A further downside to this is that regulators have become more interested in preventing failures than in seeing new credit unions enter the market. For example, today it is very rare to see a new credit union chartered in the USA.

Credit unions, however, must be careful not to lose their ties to local communities in the same way that commercial banks did as they merged and expanded. The larger a credit union gets, the more difficult it becomes for local people to monitor its activities, and for the credit union to understand the needs of local people and the local economy. Finally, if centrals become larger and take on more activities, the sector should be mindful of the struggles cooperative banks have had controlling and mitigating the activities of their centrals (Box C).

Box C: Controlling central institutions

The central institutions in cooperative networks are owned and thus, technically, controlled by the local cooperatives that use them. However, as these central institutions have developed, broadened their scope of activities, taken on an increasingly important role within the network, and hired staff with high levels of financial expertise, they have also begun to exert an element of centralised coordination and control over the network. Many, such as Rabobank, even have an explicit and formalised supervisory role over their network of locals.

There are generally two opposing forces battling for control in cooperative groups. One is the bottom-up control of the central institutions by the local cooperatives that own it. The second is a top-down central force stemming from the central institution and imposed on the network.

Which of these opposing forces has the upper hand depends on the specific cooperative network. There is enormous variation in the extent to which cooperative bank networks in Europe behave like one centrally controlled unit or operate like a network of autonomous local cooperatives that simply collaborate with one another and pool resources for certain activities. For example, the local cooperatives in Germany remain highly autonomous, despite having a central institution that they use to achieve economies of scale; whereas, Rabobank in the Netherlands operates under a single, well-defined brand, and the entire group consolidates its balance sheets in one large combined balance sheet.

In general, these large central institutions in cooperative networks did engage in many of the same activities as large commercial banks, including investment banking activities, and thus also got into trouble during the financial crisis. For example, Rabobank was significantly involved with both mortgage-based derivatives and short-term, inter-bank trading, and suffered heavy losses accordingly.

In contrast, local cooperatives emerged relatively unscathed from the financial crisis, having engaged only in traditional high-street banking. This divergence in behaviour and fortunes between local and central cooperatives is not surprising given the ownership structure of these two types of institutions.

Local cooperatives are owned by their customers, typically exist on a relatively small scale, and operate in only a small geographical region, which makes oversight and accountability relatively simple and transparent. In contrast, the central institutions are owned by the local cooperatives; this adds an extra layer between central institution managers and local co-operative customers making monitoring and accountability more challenging. In addition, the central institution is engaged in activities – such as wholesale banking and corporate banking – that the owners of cooperatives (i.e. ordinary people) may be unfamiliar with and therefore unable to govern. In the case of semi-cooperatives, which issue shares on which external investors expect a return, the interests of customers and owners may diverge even further.

Cooperatives argue that enough checks and balances are in place to ensure that central institutions and semi-cooperatives do not neglect their cooperative roots and succumb to the short-termism and high appetite for risk that characterise commercial banks. However, the fact that central institutions did stray into areas outside the traditional realm and scope of cooperative banking suggests that local cooperatives often struggle to keep their central cooperatives on the straight and narrow.

6.3 Deciding what activities are appropriate for credit unions

Many credit unions are already venturing out of traditional credit union territory. For example, North Shore Credit Union in British Colombia has actively sought out wealthy members and focuses on providing wealth management services to them. In addition, Central 1 Credit Union in Canada reported that it has been helping credit unions expand into this area. For example, by putting them in touch with experts in wealth management for training purposes, as well as helping them partner with one another to develop these services.

Similarly, 26 per cent of Irish credit unions' income stems from investments in financial products, such as stocks and bonds, whereas credit unions traditionally got their income from loans,[81] and many US credit unions offer asset management and brokerage services.

This branching off into non-traditional territory may have been prompted by the diminished localism that inevitably accompanies increased mergers within the sector. With highly localised cooperative banks and credit unions, where it is easy for local people to monitor a bank's activities, one should expect the customer ownership structure to keep credit unions focused on traditional retail banking. As we explored earlier on in this report, this is still the case for most credit unions; however, examples of institutions where this is no longer true serve as an important illustration of one of the consequences of the general decline in local banking.

6.4 Communication and advertising

Credit unions in some countries have a monumental communication battle on their hands. First, they are relatively unknown to the general public in many countries. For example, 62 per cent of low-income people living in London that need a loan but are unable to get one from a bank have not even heard of credit unions.[82] Secondly, they need to convince people that they are not a 'poor man's bank', but rather are fully fledged financial institutions that cater for all. However, the enormous differences between credit unions unfortunately make it more difficult for the credit unions sector to communicate what a credit union is and what they have to offer.

Even in countries where credit unions are well established, they still struggle to compete on the communications front with mainstream banks. For example, Central 1 Credit Union in Canada reported that one of the key issues is the cost of getting media time, especially in larger cities, where the cost of media time and advertising is higher.

6.5 Final thoughts: reconciling mission with ambition

The four issues for the future of the sector that we highlight here all embody the same fundamental tension. Should institutions seek to grow, expand their range of services, and become more like commercial high-street banks and risk losing sight of their original social mission? Or should they maintain their focus on small local operations and commercially unviable activities that are ignored by commercial banks, and risk failing to reach the scale of impact and financial sustainability to effectively fulfil their mission?

What is the level of ambition for the sector among governments, members, and managers and is there any consensus between these groups?

This is fundamentally a question of finding the right balance; the balance between size and the strength of social bond between members; between offering a wider range of services to members and increasing complexity and risk; between a tight focus on meeting the needs of the most financially marginalised and a broader focus to appeal to customers from all socio-economic groups.

Where there is too little focus on financial viability, independence, and professionalisation, credit unions might never achieve their full potential to serve financially marginalised communities. Key to this is to ensure they are not perceived only as a quasi-social service for the poor, entirely dependent on grants and charity. The model of shared central services is also vital to keeping credit unions at a local scale where they remain responsive to the needs of members and focused on their mission, whilst also achieving financial viability.

However, too much focus on commercialisation runs the risk of losing sight of the mission to serve the underserved with fair finance. Here, the key ingredient is good governance. All attempts to change the range of products and services, or the scale of operations, must be tested against the credit union's social mission.

If the right balance can be struck, the credit union sector can compete for business with banks without losing its social mission, bringing social and economic benefits for all.

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55 Trustee Savings Banks grew out of the mutual savings banks movement that started in the UK in 1810.

56 Industrial and Provident Societies are a legal structure in the UK that are well suited to cooperatives enterprises and associations with a public or social purposes.

57 And even in Ontario, most credit unions choose to access the local central; although some do go elsewhere. The latter have lobbied intensively to be allowed choice. However, because they represent only a very small subset of Canadian credit union, the sector as a whole is not overly concerned about this deviation.

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63 Ibid.

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66 CUSOs can be partially funded by entrepreneurs, but this is atypical

67 There is currently relatively little collaboration amongst British credit unions beyond trade groups that work to share best practices and lobby on behalf of the sector.

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79 The relationship between credit unions and commercial banks varies significantly from one country to the next. For example, in the US, where credit unions are strong, there is significant tension between banks, particularly smaller commercial banks, and credit unions. However, in the UK, where credit unions are more on the peripheries of the financial sector, banks will frequently make grants to or donate skills and expertise to credit unions as part of their corporate social responsibility to tackle financial exclusion.

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