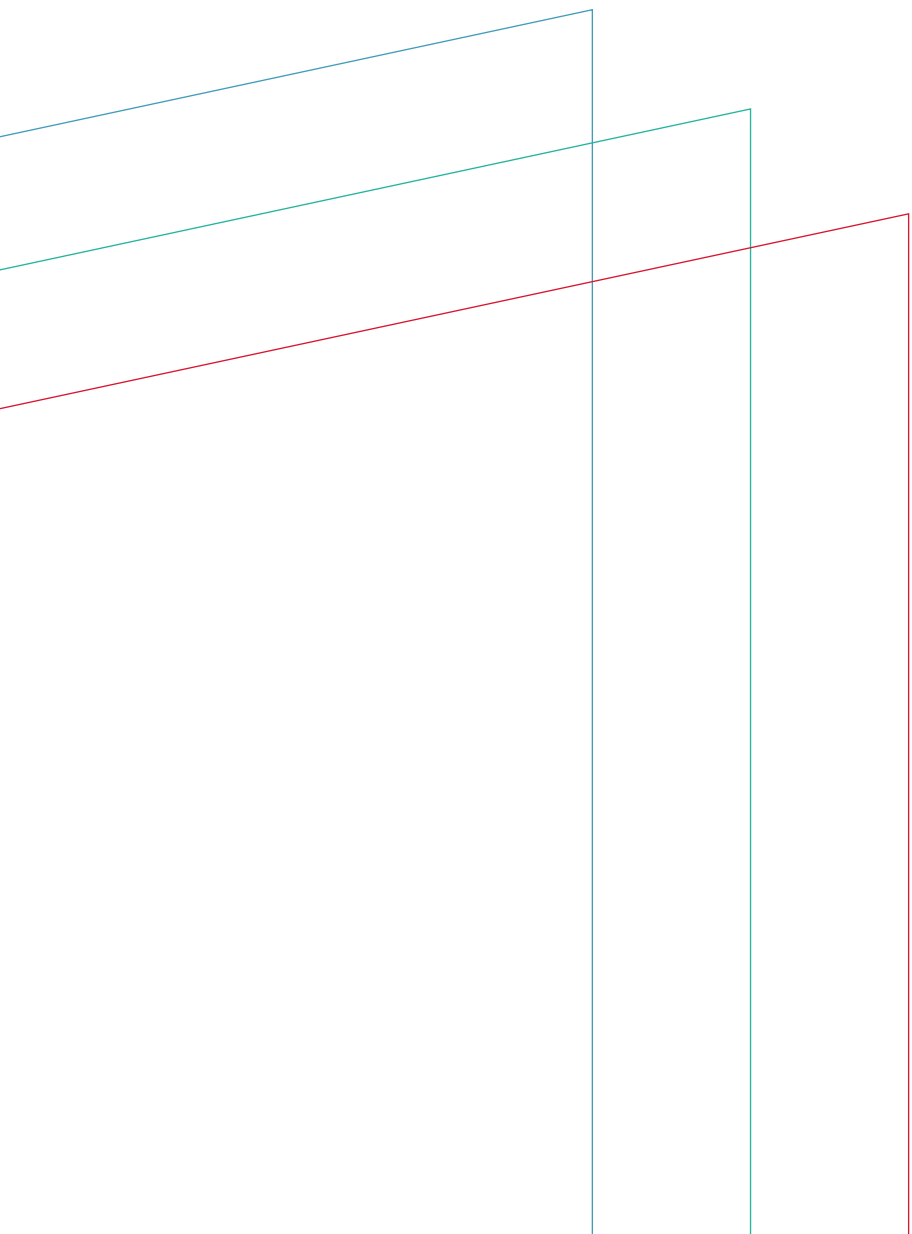


NEW ECONOMICS FOUNDATION

GROWING CREDIT UNIONS IN BRITAIN

OPPORTUNITIES FOR SHARED INFRASTRUCTURE

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EXECUTIVE SUMMARY

While Great Britain's[a] credit union sector has experienced growth over the last decade, it remains small and fragmented relative to comparable movements in Ireland, Canada, and the US. Between 2014 and 2025, the number of British credit unions fell from 359 to 203, while assets more than doubled to £2.8bn. Yet fewer than 4% of British adults are members, compared with over 70% in Ireland and 30% in Canada. Rising costs, thin margins, and limited liquid capital mean most credit unions lack the scale to invest alone in the technology, products, and expertise they need to grow.

Shared infrastructure creates a pathway to achieving necessary economies of scale while maintaining credit unions' independence and community roots. The policy context is supportive of shared infrastructure: in February 2026, the Prudential Regulation Authority (PRA) announced rule changes which define the amount credit unions can invest in credit union service organisations (CUSOs) and provide further regulatory scaffolding for growing shared infrastructure. The Financial Inclusion Strategy, released in November 2025, created a £30m Credit Union Transformation Fund to invest in shared services and collaboration initiatives.

This report builds on this momentum by contributing a strategic view on how the shared infrastructure ecosystem in Britain can develop to support the sector's strength and resilience. It draws on 22 domestic and international stakeholder interviews, as well as desktop research and breakeven analysis. Credit union leaders, trade bodies, regulators, and teams within the government who are responsible for delivering the Transformation Fund and policy focused on co-operative finance and financial inclusion can use the findings set out in this report to shape how shared infrastructure develops over the next few years. This report is part of the United Vision project, a joint research programme delivered in partnership between NEF and Swoboda Research Centre. The research topic came out of initial engagement with the sector, through findings which a lack of collaboration was identified as a significant barrier to growth.

- **The preconditions for collaboration are not yet in place**. The sector needs stronger board and management capability, trust between institutions, a greater appetite for risk, more active engagement with regulators, and modern core technology.

- **Design matters as much as ambition**. Past collaborative efforts, including the Credit Union Expansion Project (CUEP) in Britain and ILCUTech Standard Information System (ISIS) in Ireland, and the more recent experience of centrals in Canada, show us that success relies on narrowly defined scopes, realistic timelines, and strong business cases, as well as appropriate governance structures. The Canadian example offers a warning lesson for how shared models come under strain as the incentives for collaboration between large and small credit unions diverge.

- **Governance, pricing, and exit arrangements must be agreed from the outset.** Duplication must also be avoided, because the British system is too small to sustain competing CUSOs.

- **Small, needs-based services are viable now; a central finance facility is not**. For example, a shared compliance and internal audit CUSO could break even with around 18 member credit unions, each saving roughly £8,000 a year. A central finance facility, by contrast, would need around £2.3bn under management. That is close to the whole sector's assets.

a This report focuses on credit unions in Britain (England, Scotland, and Wales) rather than the UK as a whole as Northern Ireland's credit union sector is distinct in several ways. It operates under a different legislative framework and is more closely affiliated with the Irish League of Credit Unions rather than British trade bodies.

RECOMMENDATIONS

- **Short term (0–2 years)**
  All Together Money should convene an independently chaired, sector-wide CUSO strategy. This would include a market study, minimum governance standards, and a public register of CUSOs. Alongside this, credit unions should build board capability and start with services that need few members to break even. Trade bodies and other collaborative networks should support them with shared legal templates and competition-law guidance.

- **Medium term (2–5 years)**
  Fair4All Finance, working with All Together Money and sector partners, should set clear criteria for the CUSO workstream of the Transformation Fund. Explore low-cost public finance for capital-intensive projects and partnerships with the wider mutual sector. The PRA should review the investment cap based on evidence.

- **Long term (5+ years)**
  Larger credit unions, in partnership with trade bodies and with input from the PRA, should lead work to lay the groundwork for deeper integration, including a possible federated model, and revisit the central finance facility as the sector matures.

1. INTRODUCTION

Credit unions are financial co-operatives owned and democratically controlled by their members, offering community-centred and relationship-based banking. In Britain, credit union members must share a 'common bond', such as living in the same area or working for the same employer. Credit unions offer savings accounts and affordable loans. While some offer current accounts and mortgages, these are not the norm across the movement. Like banks, credit unions are regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). Unlike banks, any surplus generated within a credit union belongs to its members and is returned via dividends or reinvested in services.

This approach to the delivery of financial services and loan assessment and management provides a route for greater financial inclusion. The co-operative nature of credit unions means that rather than maximising profitability, cumulative profit is governed by members, offering the opportunity to invest in more sustainable products and services and putting affordability and social purpose ahead of profit.

This sets credit unions apart from commercial banks, where lending decisions are increasingly centralised, and investment banking and short-term returns take priority. Credit unions, by contrast, maintain branches in under-served areas, lend to low-income households and those with impaired credit records, and can provide small and medium enterprise (SME) lending. As a result, their social mission benefits not only their members but the wider community.

Although credit unions exist across most continents, they vary in scale, structure, and scope. An ongoing trend, however, both in Britain and internationally is a progressive drift towards consolidation, particularly relevant in the context of both growth and sustainability of the sector. In Britain, the largest credit union trade body, All Together Money, shared in an interview that they se consolidation as a means to"enabl[ing] credit unions to gain scale and enhance their ability to invest internally and remain competitive and relevant."

This emphasis on growth reveals an emerging tension in the sector between credit unions that are striving to become more relevant as mainstream financial services providers while retaining co-operative and member-focused identities, and those that prioritise supporting underserved groups and seek to remain highly localised, asset-based community development providers. Critiques of both approaches are widely documented, either as a compromise of the sector's ethos and philosophy, or as the insufficiency of a business model that prioritises small-scale, riskier loans and saving products which, in effect, has minimal capacity to free up investible, income-generating capital.

In this report, we focus on how or whether shared infrastructure may bridge both approaches. We do not exclusively focus on growth but acknowledge the need for a sustainable path for the sector in a fast-changing financial and technological landscape and a viable alternative against a highly extractive and exclusionary traditional financial sector. As such, we put forward collaboration as an opportunity to scale up and offer competitive services while retaining the sector's autonomy and philosophy.

1.1 THE SECTOR IN NUMBERS

Data from the Bank of England shows increasing consolidation within the UK sector, going from over 500 credit unions in 2014 down to 335 in 2025.[1] This reduction in the number of credit unions came with sizable asset growth, with total assets almost doubling, from £2.6bn in 2014 to nearly £5bn in 2025. A large share of the sector in the UK is in Northern Ireland, accounting for almost 45% of the UK sector's assets.

Great Britain's[b] sector shrank from 359 credit unions in 2014 to 203 credit unions in 2025. Assets more than doubled over the same period, growing from £1.2bn in 2014 to £2.8bn in 2025. In comparison to some of its international counterparts, the British sector is characterised by a large number of small credit unions, mostly focused on small loan and community provision and very low market penetration overall. Less than 4% of adults in the UK had a credit union membership in 2024 (25% in Northern Ireland, 6% in Scotland, 4% in Wales, and 3% in England).[2] By contrast, over 70% of adults in Ireland and 30% in Canada are credit union members.[c,3]

In aggregate, British credit unions have become more focused on lending. Gross loans rose from 48% to 68% of assets between 2021 and 2025, or from 44% to 61% net of provisions.[4] This is still below the 70–80% benchmark used by the World Council of Credit Unions (WOCCU),[5] so a substantial share of members' savings remains in bank deposits or other investments. The average loan remains relatively small, at £3,400 in 2025 compared to Northern Ireland (£5,650), and Ireland (€8,900).[6,7]

Headline profitability has been stable, with pre-tax return on assets holding steady at 1.2%. However, total expenditure rose from 81% to 89% of income between 2021 and 2025, driven by bad debt charges, administrative costs, and other expenditures. Yet higher interest rates filled the gap, with investment yields rising from 0.4% to 3.3%, and investment income growing from £4.6m to £32n. Much of this windfall has been passed on to members, with dividends rising from 29% to 87% of pre-tax profit.

Capital grew from £230m to £282m between 2021 and 2025, but the capital-to-asset ratio has stayed constant at around 10%.[8] Under PRA rules, the minimum capital requirement rises in tiers, from 3% of assets for the smallest credit unions to 10% on assets above £50m.[9] This suggests the capital genuinely free to invest in shared infrastructure is limited.

It must be noted that these aggregate figures hide individual credit union divergence. For instance, aggregate numbers include two outlier credit unions, which present a different model from the rest of the movement in Britain. These two outliers experienced exceptionally rapid growth between 2020 and 2024.[10] Dividend policies differ too; for example, London Mutual Credit Union has not paid a dividend to its members since the pandemic, having only recently returned to profit after making major investments in online banking and core IT systems, as well as post-pandemic recovery.[11] In contrast, Glasgow Credit Union has paid a dividend increasing from 0.15% in 2021 up to 3% in 2024 and 2025.[12]

1.2 COLLABORATION AS A ROAD TO GROWTH

Given the small and fragmented credit union landscape in Britain, individual credit unions often lack the scale to invest in products, technology, and expertise to grow their membership and assets. As such, shared infrastructure creates an opportunity for scaling-up the sector, allowing credit unions to achieve the economies of scale needed to invest, innovate, and/or expand product offers, while simultaneously retaining credit unions' independence and community-service identity.

Collaboration and the development of CUSOs has the support of the sector, with All Together Money, the sector's largest trade body, including collaboration as one of the key pillars in its Growth Plan released in April 2026.[13] Collaboration was also highlighted by the Bank of England as a way to overcome the high cost of quality services, including IT or auditing.[14]

Changes to the regulatory and supervisory landscape are further signalling this push from regulators for more collaboration. In February 2026,[15] the PRA announced changes to the rules governing CUSOs to facilitate the implementation of shared infrastructure while setting out guardrails to manage prudential risks.[16] CUSOs are entities jointly owned by credit unions (in non-majority stakes) that provide services to credit unions

b This report focuses on credit unions in Britain (England, Scotland and Wales) rather than the UK as a whole as Northern Ireland's credit union sector is distinct in several ways. It operates under a different legislative framework and is more closely affiliated with the Irish League of Credit Unions rather than British trade bodies.

c Ireland figure: estimated by comparing member counts with the adult population; indicative only. Canada figure: Flanagan & Raphael (2026).

and their members, as well as to other regulated mutuals. Credit unions are also able to partner with non-credit union owners, with certain expectations to minimise risk and respond to the potential misalignment of interests (commercial against membership focus). Some of the implemented changes now in force include raising the maximum a credit union may invest in a CUSO from 5% to 7.5% of its capital and permitting investment in CUSOs to serve other UK-regulated mutuals, such as building societies.

The government also committed to the delivery of a £30m Credit Union Transformation Fund for the sector as part of its Financial Inclusion Strategy.[17] The fund is financed by dormant assets, with Fair4All Finance appointed as the lead delivery partner. The aim of the Credit Union Transformation Fund is to support the growth and resilience of credit unions in England through collaboration and investment in technology. It is being co-designed with the sector, and funding will take the form of grants, subordinated debt, and guarantees.[18] Expressions of interest are expected open in late November 2026.

Beyond collaboration, the government has set out its intention to reform the common bond requirements for credit unions to "help support the sustainable development of the credit union sector" in Britain, including increasing the potential membership cap from 3 to 10 million to expand the size of locality-based credit unions and enable mergers.[19] A Law Commission review of the Co-operative and Community Benefit Societies Act 2014 is also underway, with a report due in 2027.[20]

Despite this support, collaboration within the British credit union sector has been largely limited to small informal partnerships or collaborations within sub-segments of the sector (ie within one of the six trade bodies). This can be attributed to a few factors. Until early 2026, there was no explicit regulatory frame for CUSOs, and the share of capital credit unions were allowed to invest was capped at 5%. Most British credit unions are small, lean organisations, without spare capacity to explore opportunities for innovative partnerships. Furthermore, as member-owned co-operatives, credit unions are generally very risk-averse, and there is deep institutional memory of a previous unsuccessful attempt to collaborate at scale (see Section 3.2.1 for more detail). Finally, credit unions have different priorities, with some that are more focused on growth and others that are motivated to serve their local communities. These factors are explored in more detail in Section 3.1.

While recent changes may provide more opportunity for collaboration, the sector lacks strategic guidance on how an ecosystem of CUSOs should develop to best serve the sector's ambitions. This report provides sector perspectives, both nationally and internationally, on the best conditions for shared infrastructure to be implemented effectively and at scale.

2. METHODOLOGY

This report's analysis draws on a combination of desktop research and 22 stakeholder interviews. As a starting point, we mapped the degree of centralisation in international credit union ecosystems to establish a benchmark for comparison with the current British landscape, including specific models for collaboration such as credit union service organisations (CUSOs), tiered structures (ie centrals), and federations (eg Jamaica, which is led by trade bodies, or Desjardins in the Canadian province of Quebec, which is a single-brand federation).

Desktop research on international credit unions provided the basis for prioritising further exploration in the US, Canada, and Ireland, including interviews with credit union representatives, trade bodies, consultants, and CUSOs. Interviews with credit union representatives from Jamaica, the Philippines, and Poland gave additional comparative context. We also carried out interviews with British credit unions and CUSOs to understand the current landscape of shared services and the perceived opportunities and barriers for successful collaboration.

Finally, we calculated a breakeven analysis of two potential CUSOs or collaborative projects, to indicate what size the sector needs to be to sustain various services. Full detailed methodology of the breakeven is available in the annexe.

3. FINDINGS

3.1 BUILDING BLOCKS FOR SHARED INFRASTRUCTURE

Across our sector interviews, we identified a number of areas for sector stakeholders to work through as shared infrastructure projects are being designed, implemented, and operated. The following pre-conditions for collaboration and priorities in designing and planning shared infrastructure (Figure 1) is not meant to be exhaustive but can serve as a reference, informed by sector expertise, both in Britain and internationally.

3.1.1 Pre-conditions for collaboration

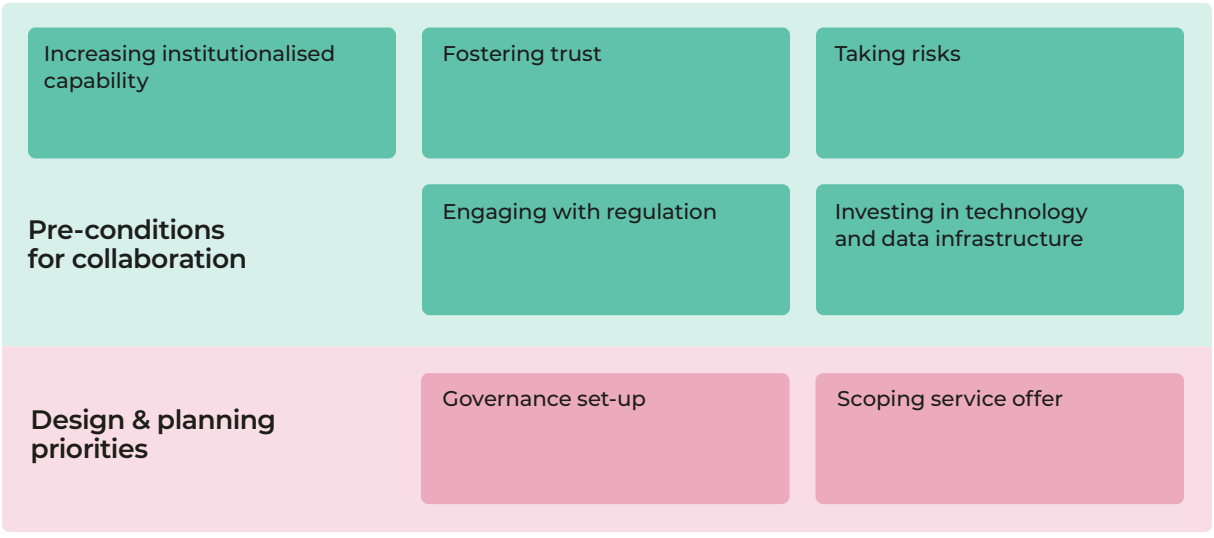
Many interviews highlighted challenges that the sector faces in thinking about shared infrastructure. As such, the following themes emerge as pre-conditions for collaboration that either credit unions need to take on by themselves or that the sector needs to jointly work towards to set collaboration up for success. They are all somewhat interrelated, meaning improvements in one area may automatically raise the bar in other areas. For instance, credit unions may be more likely to take on risk if the management or board had different skillsets or capacities, or if trusted partnerships emerged.

Increasing institutionalised capability

The level of professionalisation in British credit unions appears to be very diverse. The December 2025 Mutuals Landscape Report determined that around 20% of credit unions do not have any paid staff, and only 25% employ more than ten paid staff, which "can lead to varying standards of governance and difficulties in accessing specialist skills."[21] This limits the ability of some credit unions to take on new shared services as they may lack the skills, priority, or capacity required to undertake, manage, and oversee what essentially is a different organisation that requires different expertise (eg finance, IT, customer service, logistics).

Aligned with these findings, interviewees from Britain and abroad highlighted the potential limitations of long-serving chief executives and boards that may prevent credit unions from innovating, taking risks, or embracing entrepreneurial attitudes towards shared services. These long-serving leaders may be missing institutional capacity and knowledge, or projects might be driven by individuals in leadership positions, rather than the institutions themselves. As one credit union chief executive said, "You have credit unions that have had the same CEO for 30 years and it stops that credit union having a corporate lens, and it becomes the lens of that one person, and it becomes their values and it becomes their outlook."

FIGURE 1. PRE-CONDITIONS FOR COLLABORATION AND PRIORITIES IN DESIGN AND PLANNING



Source: NEF analysis

While many interviewees referred to the issue of succession as a general concern for the sector, in the context of shared infrastructure projects and collaboration, a lack of institutionalised vision, knowledge, or trust may set projects up for failure. A representative of All Together Money highlighted "[a] need to invest in the people who are running the sector, [a] need to address the question of succession."

Similarly, boards without appropriate subject matter expertise or experience can prevent credit unions from being held accountable in how decisions are made. Reflecting on British credit union boards, a credit union chief executive said, "They should be asking challenging questions and I'm not sure that's going on."

The regulatory response has been to undertake governance reviews, webinars, and targeted communications, suggesting that trade associations and larger credit unions could also play a greater role in promoting best practices and supporting capacity-building across the sector. This could be paired with regulators taking a more prominent role, with an All Together Money representative calling for regulators "put[ting] more pressure on the standards of governance."

Stakeholders in the Irish credit union system found similar professionalisation problems, which were dominated by volunteer boards and entered a transformation process partly forced by the European Central Bank and the Central Bank of Ireland. An example of a more prescriptive approach is the one taken in Ireland through the enaction of the Governance Standard (as part of the Credit Union and Co-operation with Overseas Regulators Act 2012), which set prescriptive requirements on board eligibility, chair independence, and term limits.[22] In Poland, the solution brought by regulators was to encourage board members to be paid. However, this comes with its own challenges as there is little incentive for turnover and as a Polish sector stakeholder puts it, "[board members] don't have external financial experience from other financial institutions," creating a diversity and succession issue.

The need to balance remuneration, experience (to leverage expertise from both inside and outside the sector), independence (to increase accountability), and term limits (to ensure adaptability) are some of the factors the sector should be looking to integrate into its governance. This would ease some of the constraints faced by the sector to build and operate shared infrastructure.

Fostering trust through a common vision

There is an assumption that credit unions, as co-operative and member-owned entities, are naturally collaborative, but interviewees highlighted that credit unions are also very protective of their autonomy, ownership, and control.

In some regions of the US, this protectiveness is driven in part by a perception that credit unions are competing for a limited pool of members. Moving beyond this view requires seeing collaboration as a way of growing the credit union movement as a whole, instead of defending individual market share. The interviewee shared, "My goal is to get anybody who doesn't belong to a credit union join a credit union, and honestly, I don't care what credit union they join. As long as they become a member of a credit union, I think that's a win for all credit unions."

Interviewees in both the US and Britain linked this to the need for a high level of trust, which often depends on personal relationships. As one US-based credit union representative highlights, trust is "where you've got to start," particularly as any collaboration project requires "to be able to be willing to give up a little bit of control." This is echoed in Britain, where credit unions executives highlight that it is necessary to have "a group of people that can sit down, work together and trust each other," to create the necessary momentum behind a new initiative.

The need for trust as a pre-condition for collaboration extends beyond personal trust; institutional trust is also required. This helps ensure collaborative efforts are embedded within the institutions involved, which helps mitigate the risk that a collaboration collapses when the founding CEO or manager moves on or retires. A US attorney specialising in credit union service organisation (CUSO) formation suggests that institutional trust, paired with a shared vision and dedicated "attention" from leadership, is essential: "Too often we will see a group of credit unions come together with a common problem. They want to solve it together. The solution may even be viable and good, but none of them are able to step back from their

day jobs to be able to run the collaboration and run the company. And if there's no attention... it tends to just wither."Agreeing on a clear project plan and a shared vision, as well as managing expectations and putting effective governance structures in place are key for not only building trust, but also ensuring it is maintained throughout the collaboration.

Taking risks

While there is some diversity in appetite for risk and innovation within the sector, the sector is generally very cautious. This limits its ability to create new opportunities for collaboration. Regulators referred to the sector as"overly risk-averse," warning that this might not always be for the best. Rather, regulators point to a need for the sector to be proactive in seeking legal advice and interpreting legislation. In fact, the Mutuals Landscape report highlights that capital levels are high in the mutuals sector,[23] with interviewees confirming that many credit unions have capital buffers in excess of regulatory requirements. Sector stakeholders justify their propensity to maintain a large capital buffer as one of risk mitigation: dropping too close to the regulatory capital floor risks breaching it, which would be flagged as failing to meet basic requirements. Therefore, maintaining a large capital buffer, in excess of regulatory requirements, is seen by stakeholders as a rational response to the regulatory rules.

Risk aversion in the sector is likely compounded by past experiences, with caution and safety becoming part of the everyday language within the sector (see case study 3.2.1). The Prudential Regulation Authority's (PRA) November 2026 discussion paper (DP2/26) directly addresses this dynamic, proposing tiered capital requirements calibrated to credit union size rather than the current flat 10% floor.[24] A more proportionate floor should, in principle, reduce the gap between regulatory minimum and what boards consider safe, though any hard threshold will retain some asymmetric penalty for falling below it.

One of the barriers to risk identified in interviews is board or management reluctance to be first movers. On starting a new CUSO in Britain, one individual stated that getting permission from the board"was a kind of leap of faith because it hasn't really been done in the UK before." A credit union executive pointed to their own internal philosophy, noting "Some credit unions are very happy doing what they're doing: they're ticking over, they're covering their costs, you know, they're serving who they set out to serve."But as operating costs become more difficult to cover with lower retained earnings, and as members' needs evolve, with higher expectations for digital first services, the sector – and in particular, the sustainability of smaller credit unions – will need to look to shared infrastructure as a means of achieving economies of scale and generating new income streams.

Engaging with regulation

In the first instance, regulation appears as less of a barrier and more as an underused tool. As referred to by a trade body, regulators"can play a convening and amplifying role"and should"put more pressure on standards of governance."

In 2026, the investment cap on CUSOs in the UK was raised from 5% to 7.5%, meaning 7.5% of a credit union's capital can be invested in a CUSO. However, it remains a contentious point within the sector, which pushed for the cap to increase to 20% during the consultation period for the rules change. In the US, investment in CUSOs is capped at 1%. A US credit union representative reflected on the UK's 7.5% cap, saying,"That's pretty darn good […] until credit unions start getting close to that… and you have success stories, then you can go lobby for why it should be raised."Yet, in comments shared at a consultation event organised by Fair4All Finance, credit unions point to the cap as restricting the ability to fund early-stage development, particularly for technology- or product-enabling CUSOs.[25] A proof of concept may be necessary to warrant easing these regulatory barriers.

The latest update to the PRA's supervisory statement, which took effect in August 2026, places continuing engagement with the regulator at the centre of credit unions' use of CUSOs, both at an early stage in the process and after investment. For instance, credit unions are encouraged to give the PRA details of the CUSO's intended governance, staffing, services, and funding, alongside a business plan, a risk assessment, and an exit strategy. Credit unions must also discuss with the PRA any investment above the 7.5% capital cap. However, the statement puts most of the responsibility for managing CUSO risk on credit unions themselves, while giving the PRA a clear view of the arrangements without regulating CUSOs directly.

Investing in foundational technology and data infrastructure
Interviews highlighted that it remains hard but necessary to part with legacy technologies, as they might not be flexible enough and cannot keep up with the current pace of innovation and digital products required by most members, particularly if credit unions want to attract new members. Building shared infrastructure on top of this legacy technology might be difficult. However, experience from the sector shows that improvements made incrementally have a better chance of success, rather than migrating to a completely new system from scratch as the complexity of these changes require business and culture change alongside the technology (see case study 3.2.1).

The technology challenge is particularly difficult in Britain as different core banking systems are in use across the sector. As one Irish interviewee with direct experience of both the British and Irish sectors observed, this fragmentation means,"Every single product and service [...] is going to be much, much more expensive because you have to plug into it now seven times, [into] seven different systems." Ireland's experience did not require a single shared platform, but reducing fragmentation was a precondition for making shared digital infrastructure economically viable. As such, a more consolidated technology infrastructure may need to precede or run alongside the development of certain shared services.

A related lesson from international experience concerns the limits of credit-union-led technology ownership. One Irish interviewee was direct on this point:"You're not an IT company; you're not IT professionals. So why would you want to, or think that you can set up and run an IT company? It's a completely different business..." The implication is not that credit unions should have no role in governing technology, but that the technical management of shared platforms requires professional expertise that most credit unions do not hold internally. A CUSO model with external technical partners and professional management may be better placed than a credit-union-only entity to deliver this.

International experience also cautions against the alternative of mandating a single common platform. For instance, Jamaica's attempt to introduce a shared core banking system for all credit unions"was a disaster and it cost a lot of money," particularly as individual characteristics were too varied for a single system to accommodate. As such, shared technology infrastructure is most viable when it addresses interoperability rather than complete standardisation.

There is clear concern within the sector about what the future of the financial sector will look like, particularly in dealing with developing technologies such as artificial intelligence (AI), stable coins, and other fintech products. While credit unions might meet this challenge at different phases and scales, the level of capital and skills required might mean collaboration is the only possibility to take on this challenge. Addressing these gaps in the sector before creating new infrastructure projects will prevent more complex issues arising in the future and set collaborative projects on a more successful pathway.

3.1.2 Design and planning

We see a multitude of models for collaboration available internationally, including central-led or federation-led infrastructure, as well as corporate credit unions (in the US and emerging in Ireland). In Britain, current models rely on more informal collaborative projects with CUSOs in a nascent phase, for instance CUB Finance (car finance lending) or CU Share (back-office services), partially facilitated by regulatory support and entrepreneurial drive within the sector. Other less formal, bottom-up collaborations with different setups are also in place, such as SoundPound Group, which is a collective of credit unions in Greater Manchester pooling knowledge, expertise, and resources, and PrizeSaver, a monthly prize draw incentivising members to save.

Formal, sector-wide, and top-down collaborations in Britain and Ireland have also been attempted over the last few decades, with limited success (see case studies 3.2.1 and 3.2.2). The general consensus is that relatively small, needs-based, and well-resourced collaborative initiatives might be good starting points for a majority of the sector in its current size, capacity, and capabilities. However, large credit unions, with greater access to capital, skills, and technology might enter into the sequence at later stages.

The international and nascent British experience shows that there are multiple ways to go about collaboration, including governance, capital subscription models, external partnerships, and service provision. The clearest path to setting up shared infrastructure for credit unions is through CUSOs , which the February 2026 PRA rules change supports.[26]

Governance set-ups

Table 1 lays out some examples of governance set-ups that emerged through interviews, with an overall agreed position that the most appropriate governance model will ultimately depend on the specific collaboration project or CUSO, the number of founder credit unions, and scale of capital available, as well as prior relationships between founding members. The PRA has further set out the expectation that there should be at least one independent director on the CUSO board, to demonstrate the separation between credit unions and the CUSO.[27] As set out Section 3.1.1, establishing a governance structure with independent expertise would help mitigate the risk of reproducing the relatively low risk tolerance of the sector at large. Including independent expertise can also add specific and beneficial skills and knowledge to the collaboration. Interviews highlighted the importance of doing governance right and called for caution. A Britain-based CUSO executive stated,"I also believe that we have to have proper governance around CUSOs. I worry that the next three years is going to be like the wild west... A badly done CUSO that fails will set us all back a number of years because the sector will lose credibility."

Legal and governance backstops are also key in case of dissolution, members joining and leaving the collaboration, as well as sector consolidation through mergers. The PRA further requires a"clear view of the proposed exit strategy and termination processes."[28] In a highly fragmented and uneven sector there is a risk that priorities will diverge between small and large credit unions. In reflecting on the US experience, a legal expert offered:"Some will outgrow, and when they do, they tend to leave that collaboration then because they think, what am I really getting from this? I'm the one that's generating more of the business for it. I'm the one that's basically subsidising all these other credit unions. I now am big enough to be able to have my own."

TABLE 1. EXAMPLES OF GOVERNANCE SET-UPS IN BRITAIN, IRELAND, AND THE US

Board composition		
Board members nominated by each of the founding credit unions, with a mix of credit union board members and chief executives. May be more applicable to a small, nascent CUSO.	Board seats proportional to investment shares.	Mixture of independent non-executive directors with specific expertise, and credit union sector representatives, with the objective of relying on different expertise and perspectives. May be more applicable if specific technical expertise is needed (eg fintech).
Voting model		
Weighted service-usage voting with an objective to balance equity and accountability of usage.	One vote per credit union regardless of investment with an objective of acknowledging the credit union ethos and collaboration, independent of ownership share.	Ownership-weighted voting, with an objective to value initial capital support.
Capital subscription and usage		
Initial capital provided by founding members, and service restricted to founding members.	Large capital subscription by founding members and equal ownership shares, with 50% for later joiners.	

Source: NEF analysis based on stakeholder interviews

Lack of institutional trust may further hinder strong governance. Collaborative initiatives that rely on relationships between individuals, rather than formal institutional structures, are vulnerable to leadership turnover. As such, decision rights, capital commitments, and exit terms need to be codified at the board level, not managed through relationship norms.

Scoping the service offer

Interviews highlighted the importance of identifying a clear purpose early in the process, either responding to a need from the credit union or as a means of generating income. A Britain-based credit union executive stressed the importance of being clear on "what is it that [they] want to achieve and can do together where [they] probably couldn't do it individually." Within needs-based services, a proposed collaboration might respond to a cost-cutting objective (eg HR, compliance, audit) or fill a gap for members (eg payments, digital access). Income-generating projects open a new revenue stream for credit unions. This purpose may vary depending on the size, member base, geography, or board or management objectives. As a US-based legal expert said, "Not everybody's going to grow at the same pace, not everybody has the same leadership, not everybody has the same growth goals and truly not all the same strategy and execution."

Beyond a clear purpose, adequate financial planning is key. In talking to a failed collaborative project, a credit union stakeholder highlighted "the lack of a business case and the lack of projections" as a key reason for failure, given it mostly focused on the initial capital investment and set-up, rather than how the project would operate and how much the cost of ownership would be. This will also depend on the specific type of collaboration. For example, a shared service with significant fixed infrastructure costs needs a minimum viable membership base from day one or it may burn through the early capital investment before achieving a sustainable level of scale (see the illustrative breakeven analysis in Section 3.3). Defining credible mechanisms to secure commitment, such as binding usage agreements, minimum volume guarantees, or staged capital calls linked to membership milestones, can help safeguard the collaboration.

Acquiring or building a new service are two different pathways to establishing a CUSO. For instance, Payac in Ireland – which provides credit unions access to payment rails – was born out of commercial and regulatory necessity and was developed from scratch; it has since acquired a competitor. Once competitors entered the market, it proved the business model unsustainable because of the need for scale. Payac then absorbed its competitor's portfolio and consolidated its position in the market. This experience further speaks to the risk of duplicating services in a small market. A British CUSO flagged: "My concern is that we see another credit control CUSO pop up and, you know, that's probably unhealthy competition because the sector on its own is not big enough to sustain three or four CUSOs doing the same thing."

As set out in the latest PRA policy statement,[29] in establishing a CUSO, credit unions may also partner with non-credit unions to own a CUSO.[d] Collaborations with organisations outside the sector, with a different set of skills or expertise in designing or delivering the service, could be an advantage. However, as set out in Chapter 18 of the updated Supervisory Statement by the PRA, clear safeguards are needed to mitigate the risk of the CUSO's mission creeping away from the co-operative identity (eg due diligence on external partners, shareholder agreement, conflict of interests' policy).[30]

The service offer can be internal, limited to the founding credit unions or to the wider credit union sector, or external, open to other mutuals, including building societies, mutual insurers and registered co-operative and authorised community benefit societies.[e] For example, a representative from the Jamaica Co-operative Credit Union League notes that the League explicitly relies on non-member revenue for their shared service offer given their pricing scheme: "Non-members pay higher fees... this is very important to the viability of the group's subsidiaries."

d The PRA has clarified a number of safeguards tied to the customer base and investor scope expansion to mutuals and non-credit unions, including conflict of interest policy, enhanced due diligence, legal and operational separation and primacy of a credit union's statutory objects.

e 2026 changes widened the customer base of a CUSO to include other UK-regulated mutuals (those with a Part 4A permission). See Prudential Regulation Authority (2026a).

3.2 CASE STUDIES

As shown by both international experience and the credit union landscape in Britain, collaborative projects can take multiple forms across different levels of centralisation, scope, and formalisation. In Canada, for example, shared infrastructure is delivered through a range of entities including credit-union-owned subsidiaries, provincial centrals (such as Central 1 in British Columbia and Ontario), and federations (Desjardins in Quebec and Ontario).

As set out in previous sections, CUSOs are separate legal entities that formalise shared credit union infrastructure. While still limited in scale and scope in Britain, CUSOs have provided a successful model for shared infrastructure in both the US and Ireland.

The CUSO sector in the US provides a wide range of services, from reducing operating costs (eg insurance, technology, and digital services) to generating non-interest income (eg mortgage origination, wealth management, and real estate services). According to the National Credit Union Administration, the US-government-backed credit union insurer, the main services offered relate to lending and operations, followed by member services and payments. The sector is large and varied, with more than 1,000 CUSOs registered, ranging from small subsidiaries serving a single credit union to commercial providers serving hundreds. Together, US credit unions invested more than $4bn in CUSOs, offering their services primarily to credit unions but also other customers outside the sector.

In Ireland, the CUSO sector is much smaller than in the US but more developed than in Britain. Payac, a credit-union-owned payments CUSO representing around 180 credit unions, supports the current account and debit card offered by more than 80 of them. A shared mortgage processing CUSO has operated through the Irish League of Credit Unions since 2018, and in 2026 a group of 25 credit unions set up a treasury CUSO (CCU CUSO), intending it to become a corporate credit union and supporting mortgage and business lending.

In the development of shared infrastructure, the sector has tried different ways of collaborating, with mixed success. The following case studies, while not using a CUSO structure, offer lessons for the design and operation of future CUSOs. Key lessons focus on keeping scope and timelines proportionate (CUEP in Britain), planning and governance (ISIS in Ireland), and adapting as a sector grows and diversifies (centrals in Canada).

3.2.1 CUEP in Britain: a lesson on proportionate scope and timelines

Context: The Credit Union Expansion Project (CUEP) was a £38m funding programme launched in 2013 by the Department for Work and Pensions (DWP) to help credit unions modernise and become sustainable. The funding was awarded to All Together Money (then ABCUL, the Association of British Credit Unions, the country's largest credit union trade body).

Goals: The CUEP aimed to reduce costs and increase efficiencies across the credit union sector to ensure its long-term sustainability. The project included Automated Loan Decisioning (ALD), central services (procurement, HR, collections), treasury management, marketing (websites, including Find Your Credit Union), a banking platform, and payments integration (a shared platform called Model Credit Union).

Governance: The CUEP sat inside a two-entity body made up of ABCUL, the trade body, and Cornerstone Mutual Services, a wholly owned commercial trading subsidiary created to insulate ABCUL from commercial risks and liabilities of service provision. Cornerstone was also expected to provide the necessary skills and governance for running the programme's day-to-day commercial services.

The CUEP was governed by two boards: (1) the project board, directly responsible for delivery and accountable to the DWP, and (2) the Cornerstone Mutual Services Board, overseeing the project and Cornerstone's wider interests and the relationship with ABCUL. The boards were made up of independent non-executive members, executive directors from the project and Cornerstone staff, and two appointed ABCUL board representatives.

ABCUL retained substantial power, but in effect it did not exercise it, as taking a direct controlling role could have exposed ABCUL and its member credit unions to Cornerstone's liabilities. However, the CEO of ABCUL was also the CEO of Cornerstone and sat on both the Cornerstone and project boards.

Outcome: ALD and marketing were largely delivered, with approximately 70 credit unions implementing ALD as a result of the CUEP. Lending among those credit unions using ALD grew faster than the wider sector, and it produced a shared set of credit union risk profiles and recommended decisions. For marketing, the CUEP delivered the relaunch of the FindYour Credit Union directory site and a business-to-business toolkit and brand (Common Sense with Money), in addition to funding local marketing campaigns.

Central services and treasury management did not progress significantly, with generally weak delivery outcomes. The main barrier to implementation was the logistics required to coordinate collective buying and pricing across credit unions of very different sizes. As the CUEP invested more resources in the banking platform, other initiatives were crowded out. Only three credit unions went live with the CUEP-funded banking platform between 2016 and 2017. Functional gaps, as well as lack of training and support for staff and acute pressure on implementation, hampered its achievement.

After the delivery of a third migration to the platform collapsed, Cornerstone paused all further migrations. It set out six conditions it would need met to continue with acceptable risk, and asked the DWP to fund its continued operation and further migrations before completion. The DWP showed no willingness and never formally reopened negotiations.

> "The bigger challenge was the gap between a banking platform that's kind of suitable for a medium-sized bank and all the kind[s] of complexity and sophistication of that, versus the software these credit unions are using now, the implied change to their business processes and culture and so on… and a total underestimation of that gap." (consultant involved with the CUEP)

In February 2018, the DWP exercised its right under the June 2017 contract variation to terminate the CUEP, and Cornerstone in turn terminated its agreement with the credit unions. The total DWP spend on the project was £29.3m (77% of allocated budget). The main contract objectives were not met.

However, the CUEP did create some positive changes in the sector, including upskilling on governance best practices and technological take-up, specifically of ALD. It also demonstrated the fact that the sector has the appetite for better technology as a base for long-term sustainability.

Lessons for Britain:

- Ensure collaborative projects have **proportionate scope and timing**; trying to do too much too fast increases the likelihood of failing.
- Ensure there is **transparent governance and decision-making processes**, with balanced credit union representation.
- **Include independent CEOs and create roles for external stakeholders** (ie financial services experts, civil society, think tanks) for more effective delivery.
- **Secure explicit support from regulators** and clearly define their role, while avoiding political timeline pressures.
- **Develop adequate risk-management procedures**, including risk analysis before key decisions and contingency plans to minimise potentially negative impacts.

3.2.2 ISIS in Ireland: a lesson on planning and governance

Goals: The ILCUTech Standard Information System (ISIS) project was launched in the late 90s to create a centralised banking system for all member credit unions of the Irish League of Credit Unions (ILCU). The model was imported from a managed service provider from Canada. According to one interviewee, the project was presented as standardisation rather than centralisation; this created confusion among members who were unclear on what the project entailed.

Governance: The project was driven from the top-down by the ILCU through a limited company, ILCUTech, with credit union representatives on the board. A culture of politeness and not allowing contrary views prompted a failure to recognise red flags as the project advanced. Conflicts arose as the collaborative project required loss of autonomy in decision-making.

> "Anybody who came up with a contrary view was demonised, even when the contrary view was valid or could be proved or facts. So […] they became a bit myopic in terms of their mission and not wanting to recognise obvious red flags." (consultant involved in the project)

Outcome: The ISIS project failed due to several compounding reasons. According to one interviewee, the project lacked clear leadership and had multiple competing voices which made delivery difficult. The project also lacked a clear business case, with an original budget that ballooned due to financial planning failures, including not accounting for VAT on third-party services, not hedging against currency risk, and unexpected negotiated costs for an outsourced management agreement that was never signed. Two major IT suppliers also exited the Irish market entirely due to deferred credit union investment decisions, leaving a gap that could not be filled.

> "[The ISIS project] made the fatal mistake that a lot of these projects make, which is it began without the required level of credit union support or financial support. It began in the belief, basically, that if we build it and we get the job done, then they'll come... And that, in my experience, is a fatal mistake. Because, in general, things run the other way around. The level of support that you have at the outset, there's attrition at each major milestone in a project. You end up with less at [the] 'go-live' date than you did when you had the original concept or idea, not the other way around." (consultant involved in the project)

Lessons for Britain:

- Neither a bottom-up or top-down approach works alone. **Representative bodies need to play a leadership role, paired with direct engagement with credit unions**. Independent chairs and additional independent board members from outside the sector may be necessary to counter the risk of groupthink.

- **Adequate planning and realistic expectations that retain trust should be in place from the start** (milestones and a clear exit strategy). Projects need to start with an adequate financial commitment, rather than a "build it and they will come" mentality which risks eroding support at each milestone. A clear exit strategy and regular check-ins on why the project should continue are needed as the project progresses.

- A concrete legal structure will help deliver the desired outcomes (eg co-operative society, limited company, CUSO). Each designated structure will have governance, fundraising or tax implications. **Anticipating dysfunctional behaviour rather than assuming good faith and compliance will benefit the project in the long run**.

- Awareness around **collaborative pricing triggering competition concerns** (eg Irish mortgage collaboration had to make a complex case to the competition authority that a standard rate was justified as individual credit unions could not enter the market alone).

- **Past failures should not prevent the sector from developing new projects**, innovating, and investing in new ideas.

3.2.3 Centrals in Canada: a lesson on growth and adaptation

Centrals are part of a two-tiered credit union structure in Canada, where individual credit unions are members of centrals at the provincial level. The purpose of centrals is to pool together liquidity and to provide a suite of shared services within each of the provinces (ie Central 1 in British Columbia and Ontario, and Atlantic Central in all four Atlantic provinces). Desjardins is a separate federation of credit unions operating in the Canadian provinces of Quebec and Ontario.

Over time, the role of centrals has narrowed, from supplying a broad suite of shared services to now primarily limiting their offering to treasury services and payments. This shift reflects the changing structure of the credit union sector and the growing divergence in the scale and service needs of individual credit unions. As the sector consolidates,

the traditional model of providing a common set of services to credit unions with broadly similar needs has become increasingly difficult to sustain.

> "In recent years, those services have been essentially shed and reduced. And part of the reason for that is centrals are finding that they're not able to make money off a lot of those services (...). We really see kind of the main function of centrals [being] just managing the liquidity pool and then treasury services." (Canadian trade body representative)

Over the last several decades, the sector in Canada has consolidated and become more differentiated into large and small credit unions, with one to three larger credit unions holding more than 50% of assets in each province, as a trade body representative told us. This widening gap in scale created challenges for a central-services model originally designed to operate more like a co-operative utility. Common unit pricing, regardless of volume, increasingly meant that larger credit unions were cross-subsidising smaller institutions, while in some cases paying substantially more for services than similarly scaled banks. At the same time, the service needs of large and small credit unions increasingly diverged, making it more difficult for centrals to design shared offerings that served both effectively. Together, these pressures weakened the incentive for larger credit unions to remain in traditional collaborative arrangements.

Additionally, regulatory changes, such as a statutory liquidity requirement to force credit unions to hold liquidity at the central, was removed. This represented a further step away from the role of centrals played in the ecosystem.

> "As big credit unions got bigger and the cost of delivering those services became more challenging, I would say both the central ceased to be as effective in delivering for a variety of credit union needs, and the large credit unions saw that the central was ceasing to be as effective." (Canadian central representative)

Lessons for Britain:

- The Canadian centrals' role worked most effectively when the sector was relatively homogenous; collaboration failed once the interests among these diverged. As such, **governance and pricing models in collaborative projects need to account for these disparities or should be targeted at smaller groups of similar size credit unions that share similar goals.**

- As a response to this switch in the sector and growing pressure from regulators for small credit unions to merge, an alternative approach is emerging in British Columbia, with early discussions taking place about establishing a federated model for credit unions, similar to the Desjardins model in Quebec. The model as envisioned retains independence of small credit unions while allowing access to the benefits of collaborating and a clear objective to grow, not just cutting costs. Sharing liquidity, pooling capital, and leveraging excess capital across credit unions are some of the envisioned services that the federation would offer. As a starting point, **a relatively high level of homogeneity and a small initial group are necessary conditions.**

- The market entry of private sector providers may provide a higher level of competitiveness for mature credit unions and experience that discourages collaboration. However, it may also provide an easier and more cost-effective way for small credit unions to offer certain products and services to members. **A balanced consideration of how and when third parties should be a part of the shared services offer is fundamental.**

3.3 BREAKEVEN ANALYSIS: HOW TO PRIORITISE

Different shared infrastructure services have different costs and levels of complexity. Some services, such as shared compliance services, could be easily achieved with just a few credit unions participating. Others, such as the liquidity, lending and investment services provided by a central finance facility (CFF), otherwise known as a corporate credit union (CCU), would require far greater participation from credit unions and overall, a significantly larger sector.

The following section sets out a potential breakeven for these two shared infrastructure projects, as an illustration of the viability and sustainability for

CUSOs and CCUs in Britain. It must be noted that the following estimations do not account for the need for CUSOs to build their own reserves or capital. This will need to be factored in the financial plan and may further determine its sustainability and minimum capital and transfers required.

CUSO for shared compliance and internal auditing

The first breakeven model estimates the viability of a CUSO for shared compliance and internal auditing. Fixed costs for such a CUSO would predominantly be labour costs, ie the salaries for a compliance manager, an internal audit manager, two internal auditors (as internal audits are time consuming and require visits to credit unions), and an administrator, with a total cost of £215,000. Finally, while chairs of participating credit unions may wish to sit on the CUSO board, there should be an independently appointed chair at a minimum, as recommended by the PRA. Taking all employer national insurance (NI) and relevant pension contributions into account, this would take total personnel costs up to £279,727. Other fixed costs would include IT products and support, legal and auditing services, as well as insurance. Cost for an office space is also included, although shared office within a credit union might also be considered by participating credit unions. As shown in Table 2, this would bring total fixed costs up to £337,417.

TABLE 2. VARIABLE COSTS FOR A CUSO

Fixed costs	
Personnel + NI	£279,727
Legal retainer	£2,270
External auditing	£6,000
IT	£17,510
Insurance	£10,310
Office Space	£21,600
Total	£337,417

Source: Methodology annexe

In addition to fixed costs, it is possible to estimate average revenue received from each member credit union. The CUSO might charge different fees depending on the size of each credit union, but an average suffices for this estimate. It is assumed that the subscription fee must not be more than what a credit union would pay normally for compliance and internal auditing, otherwise there would be no point in the credit union joining the CUSO.

Most credit unions would not have their own compliance and internal audit staff; they would instead hire an audit consultant and have a compliance retainer. An internal audit consultant will charge around £500 a day.[31] Assuming four weeks (ie 20 days), this would come to £10,000.[32] Meanwhile, a compliance retainer will cost around £18,000.[33] That puts total costs for a credit union procuring these services individually at around £28,000. We can consequently assume that the CUSO charges £20,000 (ie it provides a meaningful cost reduction). Note that all these prices exclude VAT; as VAT is transferred to the government, it does not represent a revenue that can be used to cover costs.

The CUSO is predominantly selling human expertise, so its variable costs will be low. There will be some travel and expenses costs as internal audit staff members will have to visit member credit unions. Budgeting an average of £1,000 per year in travel and expenses for visiting each member credit union. This means revenue per unit of £20,000 minus £1,000, ie £19,000.

This puts breakeven number of units at:

$$\frac{337,417}{19,000} = 17.8$$

In other words, if the CUSO charged an average of £20,000 per member credit union, the CUSO would be viable with 18-member credit unions. Note that, for other types of CUSOs, fixed and variable costs as well as potential income may vary, providing different levels of viability. Costings are also highly conservative and are only indicative.

Central financial facility

A preliminary diagnosis of the sector shows that a CFF in line with the one being developed in Ireland (as a tool for pooling surplus liquidity and managing asset and liability management (ALM) risk on a large investment book) would operate in a British sector with weak operating efficiency, escalating credit losses, thin surpluses, and sub-scale institutions, with a shrinking investment book as assets are pushed into lending.

The sector is small and concentrated, with an average institution accounting for £13.6m in assets. Despite an adequate capital base, only large credit unions would be likely to be able to contribute meaningful capital to a central financial facility. In absolute terms, total sector capital in 2025 was £282m, an average of £1.39m per credit union. Given size distribution, a large majority would hold less than that. However, the capital buffer of the sector remains relatively high, with £281.7m in capital and a 10.2% capital-to-assets ratio.

Considering the PRA-required schedule, however, we may infer that surplus capital is concentrated in large credit unions, with small credit unions having small available capital in absolute terms.[f]

In Ireland, the sector holds €3.7bn of reserves, at a 16.8% reserve ratio, totalling roughly €21m per credit union. This shows a much larger, under-deployed capital-and-liquidity pool that makes an Irish CFF more fundable.

We run the breakeven analysis assuming a reasonably basic CFF. We assume the CFF provides liquidity, lending, and investment opportunities to the credit union community, but does not do its own payments, settlements, and asset management. Based on this analysis, we can estimate the minimum size of the British credit union sector needed to maintain a basic CFF. For the analysis, we assume that one unit is £1 of assets under management.

Table 3 provides a summary of estimated variable costings, across both variable and fixed (for a full description, see the annexe). We assume a revenue per unit based on current Bank of England rates, and UK gilt and investment yield, given the CFF takes deposits from members and invests them. The revenue per unit is thus the interest earned over the course of a year on £1 invested, with an estimated blended portfolio with revenue per unit of around 4.7%.

In terms of variable costs per unit, we estimate that the most significant variable cost per unit will be the return the CFF pays to its credit union members. We assume the CFF would have to ensure it is providing a return to its members that is at least as high as the prevailing market rate on these business saving accounts. UK business notice accounts currently seem to offer up to around 4%, so we set the return on investment that the CFF will pay its members at 4%.[34]

Other minor variable costs would likely include brokerage fees, settlement charges, custodian charges, provision for expected credit losses as per International Financial Reporting Standards, the cost of keeping a backup credit line open, and asset management fees. This brings total variable costs to around 4.62% and revenue minus variable costs to around 0.08%.

For a £1 unit, this equates to 0.08p. In the US, for example, one CCU, Millenium, had a net margin per unit of 0.33% in 2025, while another, Alloya, enjoyed 0.83% in 2025.[35,36] As such, estimated costs here may be highly conservative and must only be considered as indicative. Note that 87% of variable costs come from the return paid to member credit unions, so this is by far the most significant variable cost.

f Less than £5m in assets (and more than 5,000 members) at 3%, between £5, and £10m in assets (and more than 5,000 members) at 5%, and more than £10m in assets (and more than 15,000 members) at 8%.

TABLE 3. SUMMARY OF VARIABLE COSTS OF A CFF

Variable costs	
Return to members	4%
Brokerage fees	0.0132%
Settlement and other transaction fees	0.05%
Custodian fees	0.018%
ECL charge	0.2%
Backup credit line	0.28%
Asset management fees	5%
Total variable costs per unit	4.6%

Source: Methodology annexe

TABLE 4. SUMMARY OF FIXED COSTS OF A CFF

Fixed costs	
Personnel	£1,194,709
Treasury management	£66,500
Trading terminal	£21,250
RegTech	£120,000
IT	£15,800
Auditing	£93,600
Compliance and legal	£55,500
Insurance	£62,700
Office	£68,000
HR and secretarial	£13,600
Regulatory fee	£120,000
Total	£1,834,359

Source: Methodology annexe

Moving on to fixed costs, the main sources of fixed costs will be personnel, technology, legal and auditing, insurance, office space, and administrative overheads.

Assuming personnel to include a CEO, a chief financial officer (CFO), a chief compliance officer (CCO), a money laundering reporting officer (MLRO), and non-executive board members. The PRA states that minimum expectations for board composition are the CEO, the CFO, and the chair. However, it says it is "established good practice" for the board of a new bank to also have two additional non-executive directors.[37] This brings the total cost of all seven staff members to £1,194,709, inclusive of on-costs.

This brings total fixed costs to £1,834,359. In this model, the number of units required to break even is:

$$\frac{1{,}834{,}359}{0.0008} = 2{,}327{,}866{,}117$$

As each unit is £1m, this represents total assets under management of around £2.3bn. In 2025, total assets under management in the British credit union sector were £2.7bn. Thus, our estimations would mean all British credit union assets would need to be pledged to the CFF. Evidently, this is not possible. We can assume total assets would be the only indication of size viability, but the sector would need to have the cash spare and not tied up in other vital things, even if we can expect it to replace

some existing investments (ie if a credit union is investing in gilts itself, it might invest through the CFF instead). Additionally, limits to how much the sector is able to pledge will be further reliant on regulatory restrictions and the legal structure (ie corporate structure and counterparty concentration limits).

We conclude that the CFF can be deemed as an aspiring goal for the sector, but not something currently viable.

4. DISCUSSION AND RECOMMENDATIONS

4.1 THE MOMENT FOR COLLABORATION

The British credit union movement has an opportunity to transform and grow its impact, with collaboration at the heart of that transformation. The government's manifesto commitment to double the size of the co-operatives and mutuals sector shows the national importance of democratic ownership, including in the financial system. Within the credit union movement itself, momentum is building around the need for greater collaboration. Regulators named collaboration as one of four ways to address the key challenges facing financial mutuals in the Prudential Regulation Authority (PRA) and Financial Conduct Authority's (FCA) 2025 Mutuals Landscape report,[38] and the sector's own Growth Plan names collaboration as one of five growth initiatives.[39] Amendments to the PRA's Rulebook in 2026 defined how credit unions can invest in credit union service organisations (CUSOs), increased the investment limit, and opened the door to partnerships with other mutuals. Finally, the Fair4All Transformation Fund has a dedicated workstream for shared infrastructure and CUSO investment, so this growing interest in collaboration is now backed by a tangible funding stream.

4.1.1 Building the foundations

How can this growing momentum behind collaboration be harnessed to support the credit union movement's growth and sustainability? Our research suggests that foundational work is needed before collaboration can happen at scale. Many of the pre-conditions for collaboration discussed in Section 3.1.1 are cultural: board and management capability, appetite for risk, and trust within and between institutions. Others require strategic investment, particularly in technology and data infrastructure.

Few credit unions are equipped to address these limitations on their own, and the bigger credit unions that are better positioned to invest – in, for example, new technologies or capacity building – are not incentivised to collaborate. Yet the diversity, in scale, type, and location, of the British credit union movement is something to be celebrated and protected. Which is why a sector wide approach to collaboration is needed. This can include a shared strategy to guide how and where collaboration happens, shared standards for how CUSOs are governed, and clear leadership to carry the commitment to collaboration forward.

4.1.2 Start small, build ambitions

Our illustrative breakeven analysis supports a phased approach. A straightforward cost-saving CUSO, such as a shared compliance and internal audit CUSO, could break even with around 18 members. A central finance facility (CFF), by contrast, would need close to the entire sector's assets under management. Starting with services that have low fixed costs and a clear cost-saving purpose lets credit unions build trust, capability, and a track record of success. That proof of concept may also be needed to make the case for future regulatory changes, such as a higher investment cap. But starting small should not mean thinking small: early CUSOs should be strategic first steps towards more ambitious shared infrastructure, rather than an end in themselves.

4.1.3 Beyond shared services

While this report has focused on shared services delivered through CUSOs, if the British credit union movement aims to achieve meaningful scale while maintaining its diversity and meeting the needs of members today and in the future, more fundamental approaches to collaboration should be considered. Internationally, the Desjardins federation in Quebec and early discussions in British Columbia point to models where credit unions stay independent while pooling liquidity, capital, and services. In Ireland, the government launched a project in April 2026 to develop a sector-wide credit union strategy, with ongoing discussions suggesting possible appetite for a federated model. Beyond the national strategy, Irish credit unions are showing interest in more structural forms of collaboration, including with the creation of a treasury CUSO, designed to evolve into a corporate credit union when it achieves an appropriate scale.

These deeper models of collaboration depend on conditions that do not yet exist within the British system. But the choices made now about CUSO governance, standards, and coordination will shape whether more structural collaboration is possible in the future. The task for the sector now is to start with what is achievable immediately, and build from there.

4.2 ACTION PLAN

Short-term (0–2 years):

- **Coordinate and convene a sector-wide CUSO strategy through independently chaired convening**. As the largest trade body, All Together Money, is well placed to convene this work. It should:
  - Carry out a market study of shared services that prioritises areas for collaboration (ie number of CUs/members, existing capabilities, member needs).
  - Develop guidance on minimum governance standards for CUSOs (ie options for board composition, voting, exit strategy, wind-down).
- **Publish a register of CUSOs**, to avoid duplication and encourage buy-in. This could be undertaken by All Together Money, in partnership with Fair4All and the PRA.
- **Build board and management capability as a precondition for collaboration**.
  - Credit unions should carry out board skills audits and succession planning and appoint at least one board member with financial and/or technology expertise.
  - Trade bodies and larger credit unions may support with the process of building a pool of independent non-executive directors able to sit on credit union and CUSO boards.
  - Regulators should issue clearer expectation on board experience, independence and term limits. Requirements should be proportionate as to avoid pushing small credit unions to not meeting requirements.
- **Provide shared legal and practical tools for setting up CUSOs**. Model documents would lower set-up costs and raise standards, such as the following: business plan template, shareholder agreement, risk assessment, terms for bringing in non-credit-union co-owners, and exit strategies or succession plans. Common guidance on competition law should also be prepared, particularly for joint pricing. This is something that Fair4All and All Together Money could collaborate on through the Credit Union Transformation Fund partnership.
- **Particularly for small and medium credit unions, start with services that need few members to break even and that meet clear needs.** New CUSOs should start with services that have low fixed costs, a clear purpose, and a modest breakeven point. While primarily the responsibility of credit union and CUSO leaders, funders – such as a Fair4All – can use funding requirements to shape behaviour. Technology upgrades should be phased in step by step rather than delivered through a single migration. Consider whether marketing, digital onboarding and payments, should be prioritised, as these are key to reaching new and younger members. CUSOs should show:
  - Clear need and income case
  - Estimate of members needed to breakeven
  - Founding members committed
  - Defined exit strategy

Medium term (2–5 years):

- **Build CUSO criteria into public funding for credit union transformation.** The £30m Credit Union Transformation Fund is an opportunity to support well-designed CUSOs. Funding decisions could be guided by a steering committee that includes sector and independent members.
- **Explore public, low-cost finance for capital-intensive shared infrastructure**. The government should consider whether public investment could offer concessional finance for the development of CUSOs, whether from the Transformation Fund's recoverable financing, or other innovative approaches, such as local

governments' low-cost lending to credit unions. Finance should be tied to governance and funding criteria, so that capital reaches projects that are ready to use it well.

- **Explore CUSO partnerships with the wider mutual sector**. The PRA rules now allow CUSOs to serve other UK-regulated mutuals. This could widen the customer base and improve the case for services that small credit unions can't sustain alone. Partnerships should come with clear safeguards to protect against drifting from credit union's inherent co-operative purpose.

- **Review the CUSO investment cap based on evidence**. The rise in the cap to 7.5% of capital is a step forward, but parts of the sector argue it remains too low. The PRA should commit to reviewing it based on how CUSOs perform.

Long-term (5+ years):

- **Lay the groundwork for deeper integration, including a possible federated model and a central finance facility**. As CUSOs mature and the sector changes, it may consider deeper integration. One option is a federated model that keeps credit unions independent while pooling liquidity and capital, similar to Desjardins and the early discussions in British Columbia. A CFF is not viable under current conditions, but the sector may be able to revisit its feasibility in the future.

METHODOLOGICAL ANNEXE

Breakeven analysis follows the following formula, where revenue required from an activity (ie cover costs) is estimated. To calculate this, fixed costs, variable costs, and the unit contribution margins are estimated. Fixed costs stay the same regardless of the number of units transacted, while variable costs change as output changes.

$$\text{Required number of units sold each year to break even (BEunits)} = \frac{\text{Fixed costs}}{\text{Revenue per unit - variable cost per uni}}$$

and Total annual revenue required
= BEunits * price per unit

CREDIT UNION SERVICE ORGANISATION

Fixed costs for such a credit union service organisation (CUSO) would predominantly be labour costs, ie the salaries for a compliance manager, an internal audit manager, two internal auditors (internal audits are time consuming and require visits to credit unions), and an administrator, with a total cost of £215,000.[40,41,42,43] Finally, while chairs of participating credit unions may wish to sit on the CUSO board, there should be an independently appointed chair at least, as recommended by the Prudential Regulation Authority (PRA). For a small CUSO, £28,000 should cover this salary.[44] A dual regulated firm that takes deposits, like a credit union, is not allowed to outsource its money laundering reporting officer,[45] so the CUSO doesn't need to hire one. Taking all employer national insurance (NI) and relevant pension contributions into account, this would take total personnel costs up to £279,727.

The CUSO provides services which are subject to VAT. As such, it can reclaim from the government any VAT that it pays on its inputs. The VAT that it pays is thus not a real expense and so it can be left out of the breakeven calculation. However, the same is not true for insurance premium tax, which cannot be reclaimed.

Office and technology services would amount to £17,510, including Microsoft office products,[46] encrypted file sharing platform,[47] cyber security certification and an independent technical audit,[48] audit software,[49] IT support,[50] and cloud accounting software.[51] A legal retainer service will cost around £2,270,[52] and external auditing costs should come to around £6,000.[53]

Insurance costs, including professional indemnity.[54] Cyber liability insurance should cost around the same,[55] as will directors and officers (D&O) insurance.[56] Meanwhile employers' liability insurance would cost around £230.[57] All these insurance costs include insurance premium tax.

Office space outside of London that is suitable for six staff members should cost around £21,600.[58] Which brings total fixed costs up to £337,417.

CENTRAL FINANCE FACILITY

Revenue per unit. With the Bank of England base rate currently sitting at 3.75%[g], the central finance facility (CFF) could earn approximately this amount on overnight lending. UK gilts, meanwhile, currently yield between 4.3 and 5.7%,[59] and UK investment grade corporate bond indexes report a yield to worst, the lowest potential return excluding a default, of around 5.8%.[60] The CFF's portfolio will likely be skewed towards shorter-term assets, as it must be ready to provide liquidity to the sector. It will want to avoid having to sell bonds early, which risks a capital loss. Let us thus assume a blended portfolio with revenue per unit of around 4.7%. As we will see, if the CFF were to earn much less than this, it would not be able to cover its variable costs.

g As of 12th August 2026

Return paid to members. Businesses, including credit unions, can open savings accounts, called Corporate Notice Accounts, at banks. The CFF would thus have to ensure it is providing a return to its members that is at least as high as the prevailing market rate on these business saving accounts. UK business notice accounts currently seem to offer up to around 4%,[61] so let us assume that the CFF will pay its members a 4% return on their investment.

Brokerage fees. To trade, the CFF would probably use an online trading platform, such as MarketAxess. MarketAxess's average variable brokerage fees for government bonds and corporate bonds vary between 0.044 to 0.051 basis points and 1.25 to 1.32 basis points, respectively.[62] As a conservative estimate, therefore, let us use 0.0132% as estimated transaction fees.

Settlement and other transaction fees. Any bonds bought will typically be settled via CREST, the central securities depository, which will coordinate with the Bank of England. Both charge a flat fee regardless of the size of the trade, and a custodian bank will also charge a fee on top of this to facilitate the trade. The Bank of England charges £1.60 per transaction,[63] while CREST charges around 38p.[64] Transaction fees from UK banks are not publicly available, but an equivalent US bank, BNY Mellon, charges $4, which is approximately £2.95.[h] This suggests total settlement costs of amount to £5 per trade. On a £10,000, £100,000, £1m, and £10m sized trades, this would equate to 5bp, 0.5bp, 0.05bp, and 0.005bp, respectively. To be very conservative, let us assume 0.05% fees.

In addition to the transaction fee, the bank will charge custodian fees for holding the bonds. UK banks custodian fees are not publicly available, but equivalent fees from US bank, BNY Mellon, suggest annual custodian fees from 0.5 to 1.5bp.[65] Let us take 0.015% to be conservative, or 0.018% including VAT.

The IFRS 9 international framework states that financial institutions must anticipate future losses and adjust the value of assets accordingly. Under IFRS 9, Bank of England reserves and UK gilts would be classified as risk free and so no expected credit losses adjustment is required.[66] Investment grade corporate bonds, however, would require around a 0.04% adjustment.[67] Expected credit loss (ECL) calculations for loans to member credit unions are more complicated, as the credit unions won't have public credit ratings. However, if the CFF does secured lending to credit unions, ie if loans are well secured on the member credit unions' loan books, then the loss in the event of default could be negligible.[68] With a suitable haircut, senior secured creditor status, and if only performing loans are accepted as collateral, then the CFFs loans should be safe even if the member credit union's underlying loan book develops problems. Given the over-collateralisation from the haircut, one could assume no ECL charge, but let us be conservative and say 0.02%. The costs of collateral auditing will probably be passed on to the member credit unions, and so can be excluded from our breakeven analysis. Given a blended portfolio of reserves, gilts, investment grade corporate bonds and loans to member credit unions, let us assume an average ECL charge of 0.02%.

In case too many credit unions withdraw deposits at the same time, the CFF will need a backup credit or repo line with a clearing bank. Such banks use the spread above the base rate that one would be charged in the event of borrowing money to calculate the fee for keeping the credit line open. Assuming the CFF is considered a secure borrower, it could expect to pay a margin above base rate of around 80bps.[i,69] Roughly 35% of this would be payable to keep the facility open,[70] so approximately 0.28%.

The CFF would also have to pay asset management fees. Given its conservative assets, fees would probably amount to 0.2%,[71] or 0.24% including VAT.

This brings total variable costs to around 4.62% and revenue minus variable costs to around 0.08%. For a £1 unit, this equates to 0.08bp. This estimated margin approximately ties out with international examples. In the US, for example, one corporate credit union, Millenium, had a net margin per unit of 0.33% in 2025,[72] while another, Alloya, enjoyed 0.83% in 2025.[73] Our estimate thus feels conservative. Note that 87% of variable costs come from the return paid to member credit unions, so this is by far the most significant variable cost.

h Exchange rate as of 17th Aug 2026.
i See the rate quoted for Santander facility.

Moving on to fixed costs, the main sources of fixed costs will be personnel, technology, legal and auditing, insurance, office space, and administrative overheads.

Personnel must surely include a CEO, a chief financial officer (CFO), a chief compliance officer (CCO), a money laundering reporting officer (MLRO), and non-executive board members. A good CEO is likely to demand around a minimum of £350,000, including pension contributions,[74] while a CFO may cost around £200,000, excluding pension contributions.[75] A CCO may cost £160,000[76] and an MLRO £150,000,[77] both excluding pension contributions. Non-executive directors on the board will require renumeration of around £50,000 each,[78] while the chair may need £80,000.[79] The PRA states that minimum expectations for board composition are the CEO, the CFO, and the chair. However, it says it is "established good practice" for the board of a new bank to also have two additional non-executive directors.[80] The salaries of the three board members beyond the CEO and the CFO would thus cost around £180,000. Including NI contributions[81] for all staff, and pension contributions[j] for everyone except the chair and independent board members, who are not eligible for statutory employer pension contributions, this brings the total cost of all seven staff members to £1,194,709.

All the prices in the following paragraphs include VAT unless otherwise stated, as the CFF provides VAT-exempt products (eg savings and loans) and so the CFF will not be able to reclaim any VAT it pays suppliers.

On the technology front, the CFF will need a Treasury Management System. Annual fees for such a platform average around $90,000,[82] ie around £66,500.[k] The CFF would also need a trading terminal, such as Bloomberg, to price transactions for member credit unions, value collateral, manage daily working cash, and fulfil regulatory requirements to monitor and be able to challenge the asset manager. Bloomberg costs around $28,800 per year,[83] or £21,250.[l] The CFF will also need RegTech, to automate compliance, anti-money laundering, and reporting. This may cost around £120,000.[84] A cloud-to-cloud backup service will cost £800,[85] while IT support will cost £15,000.[86]

External auditing to check financial statements will likely cost at least £57,600 per year.[m,87] Meanwhile, internal auditing to assess operational risks will cost around £36,000.[88] The CCO will likely want support from a compliance consultant, to keep on top of regulatory policy and consultations, to help interpret rules, and advise on industry standards. This is likely to come to £19,500 annually,[89] while legal advice should cost around £36,000.[n,90]

Insurance-wise, the CFF will require D&O liability, professional indemnity, and cybercrime insurance. D&O insurance could cost around $33,600 year,[o,91] ie £24,600.[p] Professional indemnity insurance may cost £22,400.[92] Cybercrime insurance will likely cost at least £15,700.[93] Note that all these insurance premiums include insurance premium tax, rather than VAT.

Assuming a staff of seven, a London-based serviced office may cost around £68,000 per year,[94] including VAT.

The CFF would also have to pay an annual regulatory fee to cover the costs of supervision. Assuming total eligible liabilities of around £2.14bn,[q] fees would amount to around £120,000.[r,95] Regulatory fees are not subject to VAT.

An outsourced company secretarial retainer should cost around £3,000 per year,[96] while a HR retainer should cost around £8,600 and HR software around £2,000.[s,97] Cloud accounting software (separate to the treasury management system included earlier) should cost around £1,000 per year.[98] Microsoft Office licences should cost around £1,700 per year.[t,99]

j Assuming the statutory minimum pension contributions.
k Exchange rate on 18th Aug 2026
l Exchange rate on 18th Aug 2026
m Assuming 30 days' work at £1,000 per day, excluding VAT.
n Assuming £1,500 per day, excluding VAT, for 20 days.
o Assuming $3m in coverage.
p Exchange rate on 19th Aug.
q This represents the £2.3 billion later calculated as the required AUM, minus a roughly 8% capital buffer.
r Using FCA fee block A001.
s Assuming 7 staff members.
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