A Survey of Irish Credit Unions

Prepared by the Credit Union Advisory Committee[1]

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[1] The Credit Union Advisory Committee (CUAC) is a statutory committee, established under Section 180 of the Credit Union Act 1997. Its primary task is to advise the Minister for Finance on credit union matters. The members of CUAC are Professor Donal McKillop (Chair), Ms Denise O'Connell and Mr Joe O'Toole.

EXECUTIVE SUMMARY

What is this research about?

This analysis is based on a survey of credit unions carried out by the Credit Union Advisory Committee (CUAC) between March and June 2015. The objectives of the survey were threefold. First, to obtain information on the well-being of credit unions, the competitive pressures they face and their views on potential challenges going forward. Second, to enable CUAC develop a work schedule centred upon issues important to credit unions. Third, to identify credit unions willing to meet with CUAC to discuss ideas and share views.

Who responded to the survey?

The survey was emailed to 340 credit unions and was completed by 109 credit unions. Eight of the survey returns had very few completed questions and were deleted from the analysis resulting in 101 returns, a completion rate of 30 percent. The survey was completed by a large number of community based credit unions, a disproportionately small number of industrials and a good mix of credit unions by asset size and location (rural/urban). Tables 1 and 2 on page 7 profile credit union returns received, by asset size and by location.

Who drives change within credit unions?

Management and the Board of Directors were viewed as the key drivers of change. Ideally it would be hoped that the importance of these two bodies is reflective of management being critical in the day-to-day operations of the credit union and the board being key to strategic planning coupled with oversight, control and monitoring of management. Table 3 on page 8 profiles the bodies which credit unions believe to be the primary drivers of change in their own credit union.

What are the developmental constraints faced by credit unions?

The survey detailed 21 potential developmental constraints and asked for each to be assessed. A majority of credit unions identified significant problems in a range of areas. The top seven developmental constraints, in order of importance, were *technology for service delivery, attracting and retaining young members, leadership within the respondent's credit union, Central Bank restrictions, the regulatory framework, economic conditions* and *marketing.* These constraints are set out in order of importance in Table 4 on page 10.

How have the financial conditions faced by your credit union changed?

To obtain a view on how credit unions consider financial conditions might change in the short to medium term, participants were asked to consider their credit union's income and expenditure three years ago (2012), now (2015) and expected in three years' time (2018). The survey revealed that over the last three years credit unions have faced a reduction in the share of income from loans. However, over the next three years they expect the share of income from loans to increase and contribute 62.6% of all income by 2018. The most noticeable change in expenditure is with respect to bad debt provisions and loan write-offs. In 2012 this component contributed 31.9% of total expenditure but by 2015 had fallen to 13.5%. A more modest rate of decline to 11.7% is expected by 2018. Table 5 on page 13 provides information on credit union income and expected income over 3 separate periods, while Table 6 on page 14 shows expenditure and expected expenditure over the same 3 periods.

From whom do credit unions face the greatest competitive pressure?

The survey detailed seven potential competitors to credit unions and requested that the degree of competition from each competitor be assessed as it currently stands (Table 7 page 15) and as expected in three years' time (2018) (Table 8 page 15). At present, most competitive pressure stems from retail banks followed by doorstep lenders and then credit card companies. By 2018 it is expected that the greatest degree of competition again will come from retail banks, doorstep lenders and credit card companies. However, there is also an expectation that competition from internet money lenders and other credit unions will become much more pronounced.

Will products and services offered by your credit union change over the next three years?

Almost all respondents believed that it was either extremely likely or quite likely that their credit union would offer a wider range of products and services by 2018. A number of the larger credit unions suggested this would be through provision of banc assurance products such as life insurance, serious illness and pension related products. Basic banking services including current account services with direct debits and standing orders plus debit card and credit card provision were also commonly highlighted. A significant number of credit unions detailed new loan products, including mortgages, either by the credit union itself or provided by a central agency, longer term secured loans and loans to small and medium-sized enterprises (SMEs). Table 9 on page 17 details credit union expectations for 2018.

Will the use of information and communications technology (ICT) by your credit union change over the next three years?

Almost all respondents believed that it was either extremely likely or quite likely that the manner in which their credit union uses ICT will have changed significantly by 2018. Many credit unions focused on an increase in the use of electronic funds transfer (EFT) and on-line banking, including smart phone banking solutions. A large number highlighted technology to enable specific on-line services such as on-line loan applications, balance enquiries, direct debits and bill payments. A further strand of responses centered upon ICT's use in marketing. Some respondents focused upon technology's role in network management including security and business continuity. Table 10 on page 21 provides a snapshot of current ICT usage.

Do credit unions do much on-line business with members?

Credit unions appear to do a relatively small amount of business on-line. Only 12% of credit unions have more than 20% of members doing **some** business on-line. Approximately 26% of credit unions have less than 2% of members doing **some** on-line business. Industrial credit unions tended to do most on-line business with members. One industrial credit union had almost 90% of members transacting some business on-line. Figure 1 - a pie chart on page 22 clearly shows the percentage of members conducting business on-line with credit unions.

Do credit unions have email addresses for members?

Only 12% of credit unions had an email contact for more than 40% of members with 19% having an email address for less than 5% of their members. Industrial credit unions tended to have the greatest percentage of members' email addresses. One industrial credit union had email contacts for 80% of members with another having contacts for 60%. Interestingly, those credit unions that had the greatest percentage of email contacts for members were also those credit unions undertaking the greatest percentage of business on-line with members. Figure 2 - a pie chart on page 23 clearly shows the percentage of members for which the credit union has an e-mail address.

What issues would you wish CUAC to investigate?

This was an open ended question and in consequence the responses were extremely varied. The following are the broad themes, ordered in terms of the number of suggestions, which credit unions wanted CUAC to consider: (i) products and services, (ii) regulation and compliance, (iii) function and role of the Central Bank, (iv) a review of the sector, (v) volunteers and management, (vi) mergers and amalgamations, (vii) the role of CUAC, (viii) function and role of trade associations, and (ix) credit union ethos, image and membership.

Would representatives from your credit union wish to meet with CUAC?

Respondents were asked whether directors and management would wish to meet with CUAC over the course of its term of office. These meetings would be used to share views on the development of the credit union movement. Eighty-five credit unions were agreeable to meeting with CUAC, three indicated that they were not and 13 indicated that they didn't know.

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1. Introduction

This analysis is based on a survey of credit unions carried out by the Credit Union Advisory Committee (CUAC) between March and June 2015.[2] The objectives of the survey were threefold. First, to obtain information on the well-being of credit unions, the competitive pressures they face and their views on potential challenges going forward. Second, to enable CUAC develop a work schedule centred upon issues important to credit unions. Third, to identify credit unions willing to meet with CUAC to discuss ideas and share views.

It was estimated that the survey would take approximately 30 minutes to complete. The credit union could choose to have the survey completed by either a member of the board or management. In all but two cases the survey was completed by a member of the management team. It was anticipated that there might be some questions that certain credit unions would be unable or unwilling to answer. It was emphasised that credit unions should not feel under any obligation to answer those particular questions. Credit unions were provided with an assurance that the information specific to their credit union would be treated in strict confidence and would only be used by CUAC to create an overview picture of the movement. The survey was emailed to 340 credit unions and was completed by 109 credit unions.[3] Eight of the survey returns had very few completed questions and were deleted from the analysis resulting in 101 usable returns, a survey completion rate of 30 percent.

2. Profile of Credit Unions Completing Survey

In Table 1 an asset breakdown of those credit unions completing the survey is presented. The asset breakdown used is similar to that employed in the Report of the Commission on Credit Unions (2012). Although the analysis which follows will not analyse responses on the basis of asset size, the impact on credit union operations as a consequence of size is an issue which CUAC will return to as part of its future research programme. In Table 2 credit unions completing the survey are profiled in terms of their location. Some 26% of credit unions identify themselves as rural, 37% as urban and 38% as a mix of rural and urban. The analysis

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[2] CUAC is a statutory committee, established under Section 180 of the Credit Union Act 1997, and its primary task is to advise the Minister for Finance on credit union matters. It has three members, Professor Donal McKillop (Chair), Ms Denise O'Connell and Mr Joe O'Toole.

[3] At the commencement of the survey (March 2015) there were 372 registered credit unions. Unfortunately the email addresses of a number of credit unions proved unattainable resulting in the survey being emailed to 340 credit unions.

which follows does not analyse responses on the basis of location. Again however, the impact of location is an issue which CUAC will consider at a future date. Finally, the majority of responding credit unions, 92 (91%), were classified as having a community based common bond, with 9 (9%) having an industrial common bond. Given the relatively small number of industrial credit unions in the sample it is not possible to compare and contrast results on the basis of common bond type.

Table 1: Profile of Survey Returns (Credit Union Asset Size)

Asset Size Band	Number (%)
Greater than €100m	21 (20.8%)
less than €100m but greater than or equal to €60m	17 (16.8%)
less than €60m but greater than or equal to €40m	17 (16.8%)
less than €40m but greater than or equal to €20m	25 (24.8%)
less than €20m	21 (20.8%)
Total	101 (100%)

Table 2: Profile of Survey Returns (Credit Union Location)

Location	Number (%)
Mainly Rural	26 (25.7%)
Mainly Urban	37 (36.7%)
Broadly similar split between Urban and Rural	38 (37.6%)
Total	101 (100%)

3. Drivers of Change

Credit unions are constantly evolving, influenced by the ever-changing environment within which they operate. Their corporate governance is based around the one member/one vote system and this emphasises that credit unions serve common needs rather than the needs of a handful of individuals. To ensure that credit unions continue to make decisions in the best interest of members it is important that the membership itself exercise their democratic rights. Effective credit union governance depends on the willingness of members to exercise their rights of ownership to express their views to the board of directors and to hold them accountable for the progress of the credit union. In Table 3 the opportunity is taken to profile the bodies which credit unions believe to be the primary drivers of the change process in **their** credit union. Respondents were asked to rank the bodies in terms of their relative importance in driving change (1 being the most important and 6 being the least important). To ease the readability of Table 3 we have grouped the findings as follows (very important – rank 1 and 2; moderately important – rank 3 and 4; not important rank 5 and 6).

Table 3: Drivers of change

	Very Important	Moderately Important	Not Important	Total Responses
Organisation	Rank 1 or 2 (%)	Rank 3 or 4 (%)	Rank 5 or 6 (%)	Number (%)
Credit Union Management	86%	14%	0%	101 (100%)
Board of Directors	75%	24%	1%	101 (100%)
Members	14%	62%	24%	101 (100%)
Registrar of Credit Unions	26%	65%	9%	101 (100%)
Trade Associations	0%	18%	82%	101 (100%)
Credit Union Restructuring Board (ReBo)[4]	2%	18%	80%	101 (100%)

Table 3 highlights the importance of management and the board as drivers of change in the respondent's credit union. Management achieved a rank of 1 or 2 by 86% of respondents while the Board of Directors achieved a rank of 1 or 2 by 75% of respondents. Ideally it would be hoped that the importance of these two bodies is reflective of management being critical in the day-to-day operations of the credit union and the board being key to strategic planning coupled with oversight, control and monitoring of management. In terms of the other extreme, that of not being important as a driver of change, it appears that trade associations and ReBo are not considered important by a large number of respondents, 82% and 80% respectively. The Registrar of Credit Unions is viewed as moderately important by a sizeable number of respondent, 65%. This is perhaps unsurprising given new legislation and the increase in regulation and supervisory audits over the course of the last three years.[5]

[4] The Credit Union Restructuring Board (ReBo) was established in January 2013
[5] The Credit Union and Co-operation with Overseas Regulators Act 2012 was enacted on the 19th December 2012.

4. Developmental Constraints

The Commission Report (2012) has led to the introduction of new legislation for credit unions and the establishment of ReBo to facilitate amalgamations within the sector. By July 2015, 181 credit unions had voluntarily considered a restructuring project and ReBo had successfully completed 29 mergers involving 67 credit unions (ReBo Communique, July 2015). Irish credit unions primarily lend in the short-term (less than 5 year) personal loan market and the extreme pressures placed on Irish households from the collapse of property prices and subsequent financial austerity measures implemented by the Government has led to a severe and sustained downturn in their primary market (Glass, et al. 2014). This in turn has revealed significant weakness in the Irish credit union business model with for example average loans to asset ratios falling from 52% in 2008 to 28% in 2015. Set against this backdrop the survey detailed 21 potential developmental constraints on credit unions and requested that each potential constraint should be assessed on a five-point scale – (i) extremely important, (ii) quite important, (iii) moderately important, (iv) little importance, (v) not important. To ease the readability of the tabular information detailed in Table 4 we have combined the last two categories (little importance and not Important) and we have also ranked the developmental constraints in terms of the number of respondents identifying the constraint as extremely important.

Table 4: Potential Constraints on Development of Respondent's Credit Union

Rank	Potential constraints on development of **your** credit union	Extremely important	Quite important	Moderately important	Little importance and Not important	Number
1	Technology for service delivery	60%	32%	7%	1%	101 (100%)
2	Attracting and retaining young members	57%	33%	10%	0%	101(100%)
3	Leadership within your credit union	53%	19%	16%	12%	101(100%)
4	Central Bank Restrictions	50%	19%	13%	18%	101(100%)
5	Regulatory Framework	50%	32%	14%	4%	101(100%)
6	Economic conditions	49%	41%	9%	1%	101(100%)
7	Marketing	47%	27%	23%	3%	101(100%)
8	Registrar of Credit Unions (Central Bank)	44%	33%	16%	7%	101(100%)
9	Leadership at movement level	43%	33%	15%	9%	101(100%)
10	Legislative Environment	41%	38%	17%	4%	101(100%)
11	Lack of product and service demand by members	39%	34%	22%	6%	101(100%)
12	Credit union image	38%	37%	16%	9%	101(100%)
13	Limited product and service offerings	32%	46%	16%	6%	101(100%)
14	Training	31%	32%	24%	13%	101(100%)
15	Volunteers with appropriate skills	27%	36%	20%	17%	101(100%)
16	Competition from other financial providers	23%	47%	28%	2%	101(100%)
17	Limited provision of centralized services	23%	44%	19%	14%	101(100%)
18	Common bond	21%	23%	38%	18%	101(100%)
19	Age profile of members	21%	40%	27%	12%	101(100%)
20	Credit union size	17%	39%	29%	15%	101(100%)
21	Quality of premises	4%	23%	33%	40%	101(100%)

Based on the number of respondents highlighting a developmental constraint as extremely important it is apparent from Table 4 that the top three constraints are to a large degree under the control of the credit union itself and consequently could be considered as internal constraints. The dominant concern is that of *technology for service delivery* (60% of respondents highlighted this constraint as extremely important). Technological progress is often cited as the main, if not the most important, driver of change in the financial services industry. Worldwide, information and communications technology (ICT) utilization has been linked with the advancement and success of financial intermediaries. ICT developments affect financial services in two main ways. First, they contribute to reducing costs associated with the management of information (collection, storage, processing and transmission), mainly by substituting paper-based and labour-intensive procedures with automated processes. Second, they alter the ways in which customers have access to services and products with the trend increasingly moving towards the automation of distribution channels through the internet and smart phones. Engagement with ICT has also led in many cases to improvements in profitability of financial services companies primarily via increased revenues from service charges, or through lower processing costs (Hernando and Nieto, 2007; De Young et al., 2007, McKillop and Quinn, 2015). A question which arises for credit unions is whether they have the scale necessary to put in place a technology solution by themselves or whether a group approach is required.

Attracting and retaining young members was ranked second in terms of the extremely important categorisation (57% of respondents highlighted this constraint as extremely important). Young members are the future of credit unions and are necessary for the continued viability of credit unions. Young members are at a point in the savings borrowing cycle where they are most likely to be net borrowers. Given that the majority of credit unions are currently significantly under-lent it is not surprising that attracting and retaining young members is viewed to be of high importance. Arguably the concerns about *attracting and retaining young members* and *technology for service delivery* are linked. The young increasingly transact many services, including financial services, by way of technology.

Leadership within your credit union was ranked third in terms of the extremely important category. In that most of the surveys were completed by managers one could perhaps conjecture that the issue of concern may be around either the breadth of the management team or perhaps the leadership emanating from the Board of Directors. With respect to the management team, new regulatory requirements necessitate the employment of individuals in new areas such as risk management. The concern may therefore centre on the availability of individuals with such skills sets. With regard to the Board of Directors the concern from management may be that many board members do not have the requisite skill sets. World Council of Credit Unions (WOCCU, 2002) has set out minimum requirements that the majority of directors would be expected to meet. Each board member must be a member of the credit union and capable of the following so that they are an active and effective part of the board:

ability to read and interpret financial statements; basic understanding of the laws governing the credit union; knowledge of risk measurement and effective management; knowledge of and a commitment to the credit union philosophy; familiarity with asset liability management; familiarity with lending and collections; familiarity with marketing concepts; ability to work as part of a team; ability to commit enough time to successfully complete all required duties and responsibilities; and strong oral communications skills.

Six of the next seven concerns highlighted as extremely important could be considered external constraints on credit union development. One relates to economic conditions and this is to be expected given that the adverse economic conditions faced by all credit unions in recent times have placed significant pressures on many of them. Four external constraints relate to regulation, legislation, restrictions applied by the Central Bank and the role of the Central Bank itself. This can be in part explained by the role that the Central Bank has in the implementation of regulation and the policing of the sector. The other external constraint on development relates to the trade associations. It is difficult to understand why so many credit union respondents should identify this as an extremely important concern as the activities and services provided by the trade associations would be unlikely to place a constraint on development. Perhaps the issue relates to the expectations that credit unions have of their trade body in terms of service provision and at present they may expect more. The seventh constraint on development was that of marketing. This is in all probability an internal constraint but there is an external element in that some marketing of credit unions is pursued at sectoral level.

The remainder of the potential constraints on development have in each instance less than 40% of respondents identifying the constraint as extremely important. While we have chosen not to comment further on these constraints it is clear that many credit unions consider themselves to have significant problems in many of these areas. Table 4, taken as a whole, emphasises the considerable pressures presently faced by credit unions.

5. Financial Conditions

In 2006, prior to the financial crisis, there were 425 credit unions with a membership of 2.6 million and assets under their control of €12.8 billion. In 2006 the average cost to income ratio was 50%, loans in arrears over 9 weeks were averaging at 6%, the average dividend rate was 2.1%, the loan book as a percentage of total assets was 47% and the average return on assets was 3.3%. More recent statistics depict a very different situation. In December 2015 there were 349 credit unions serving 3.1 million members with assets under their control of €15.1 billion. However, the average cost to income ratio was 71%, loans in arrears over 9 weeks were averaging 13%, the average dividend rate was 0.7%, the loan book as a percentage of total assets was 28% and the average return on assets was 1.2% (Central, December 2015).[6]

To obtain a view on how credit unions consider financial conditions might change in the short to medium term, participants were asked to consider their credit union's income and expenditure three years ago, now, and expected in three years' time. Information on income is presented in Table 5 while information on expenditure is detailed in Table 6. This information is averaged across all survey returns.

Table 5: Income Profile

Asset category	2012 (3 years ago)	2015 (currently)	2018 (3 years' time)
Loans	62.0%	57.8%	65.0%
Investments	35.4%	38.3%	30.0%
Other products and services	2.6%	3.9%	5.0%

In Table 5 it can be seen that relative to 2012 credit unions in 2015 obtain a lower percentage of income from loans (57.8% in 2015 compared to 62.0% in 2012) with this then reflected in a commensurate increase in the share of income arising from investments and other products and services. This shift in the percentage balance across these asset categories should also be set in the context that over this period there has been a general decline in total income generated by credit unions due to a reduction in the return available on investments and a fall in the volume of lending.[7] Going forward there appears to be a general expectation that the share of income from loans will increase to 65.0% in 2018. This is positive in that the core business of credit unions is that of loans to members. However to set this expectation in context the share of interest income as a percentage of total income for all credit unions prior

[6] This data was provided by the Central Bank of Ireland.
[7] Central Bank data (2015) highlights a decline in total income since 2012 - €836m (2012); €752m (2013); €682m (2014). This data was provided by the Central Bank of Ireland.

to and at the outset of the financial crisis was much higher - 73% (2006); 67% (2007); and 75% (2008).

Table 6: Expenditure Profile

	2012 (3 years ago)	2015 (currently)	2018 (3 years' time)
Wages and salaries	25.7%	33.2%	33.5%
Loan write-off\provisions	31.9%	13.5%	11.7%
Insurance (all types)	14.9%	17.5%	18.2%
Marketing costs	2.8%	4.0%	5.9%
Other	24.7%	31.8%	30.7%

In Table 6 the most noticeable change in expenditure is that of the share of bad debt provisions plus loan write-offs. In 2012 this component contributed 31.9% of the total expenditures of the responding credit unions but had fallen sharply to 13.5% by 2015. The decline is expected to continue, but at a more modest rate, with bad debt provisions plus loan write-offs expected to account for 11.7% of expenditure by 2018. There are two further points of note from Table 6. The first is that insurance expenditure as a percentage of total expenditure is expected to continue to rise. The second is that wages and salaries are also expected to capture an increasing share of the expenditure base, rising to 33.5% by 2018. This latter finding emphasises the importance of technology solutions for credit unions.

6. Competition

The survey detailed seven potential competitors to credit unions and requested that the degree of competition from each competitor be assessed on a five-point scale – (i) extremely high, (ii) high, (iii) moderate, (iv) weak, (v) non-existent. In Table 7 information is detailed on respondents' views on the degree of competition now (2015) while Table 8 profiles respondents' views on the degree of competition expected in three years' time (2018). As previously, we have ranked responses in terms of the number of respondents identifying competition levels as extremely high.

Table 7: Degree of Competition Now (2015) Faced by Credit Unions

Organisation	Extremely High	High	Moderate	Weak	Non-Existent	Total number (%)
Retail Banks	41%	47%	9%	3%	0%	101 (100%)
Home Collection Loan Agencies (Doorstep Lenders)	18%	26%	38%	14%	4%	101 (100%)
Credit Card Companies	12%	50%	30%	8%	0%	101 (100%)
Internet Money Lenders	5%	10%	35%	36%	14%	101 (100%)
Other Credit Unions	3%	15%	45%	27%	10%	101 (100%)
High Cost Retail Stores And Catalogues	3%	13%	42%	39%	3%	101 (100%)
Pawn Shops, Cash Converters	0%	6%	15%	46%	33%	101 (100%)

Table 8: Degree of Competition Expected by Credit Unions in Three Years' Time (2018)

Organisation	Extremely High	High	Moderate	Weak	Non-Existent	Total number (%)
Retail Banks	58%	36%	6%	0%	0%	101 (100%)
Home Collection Loan Agencies (Doorstep Lenders)	23%	50%	23%	4%	0%	101 (100%)
Credit Card Companies	20%	25%	35%	15%	5%	101 (100%)
Internet Money Lenders	18%	36%	30%	14%	2%	101 (100%)
Other Credit Unions	16%	39%	26%	16%	3%	101 (100%)
High Cost Retail Stores And Catalogues	9%	19%	44%	25%	3%	101 (100%)
Pawn Shops, Cash Converters	1%	6%	26%	41%	26%	101 (100%)

A number of points emerge from Tables 7 and 8. In the first instance in terms of the ranking of where extreme pressure emanates a similar picture emerges from both tables with the ranking of organisations now (2015) and expected in in three years' time (2018) exactly the same. Credit unions see their main competitors in 2015 and in 2018 as being the retail banks followed by doorstep lenders and then credit card companies. Competition from the other organisations appears more muted. It is also apparent from a comparison of the two tables that credit union respondents expect competitive pressures to increase in the future from all organisations. The most pronounced increase, in terms of the extremely high category, being from the retail banks with 58% of respondents believing that competitive pressure would be extremely high in 2018. Interestingly there is an expectation that competition from internet money lenders and from other credit unions will also significantly increase by 2018. The expected increase in competition from other credit unions is perhaps due to current amalgamations which may result in an increased overlapping of common bonds or the expectation that the common bond may in the future be relaxed, as has happened in other credit union movements.

Tables 7 and 8 highlight that credit unions now and in the near future face and can expect to face little competition from pawn shops and cash converters. Perhaps this creates an opportunity for credit unions. Those that use these pawn shops and cash converters and indeed internet money lenders invariably are subject to short-term cash needs and the costs of borrowings funds in this way can be excessive. In a number of other movements, such as the US, credit unions offer payday loans but have positioned themselves as a cheaper and ethical alternative to the payday lending sector. A financial product such as payday loans might be a new source of income for Irish credit unions although such a product offering could challenge and conflict with the credit union objective of providing cheap loans to members.[8]

7. Going Forward

The survey asked respondents to consider in detail their expectation in three years' time (2018) for loan book growth, an increase in products and services, a decline in the cost base and change in the use of ICT. Each aspect was to be assessed on a five-point scale – (i) extremely likely, (ii) quite likely, (iii) not sure, (iv) unlikely, (v) definitely not likely. This information is detailed in Table 9. In each case follow up questions were then asked to ascertain the thinking behind a particular response. For example, regarding loan book growth, respondents were asked to detail three reasons why they might expect the identified change in the loan book. A similar question was asked regarding products and services, the cost base and ICT.

[8] In the UK the monthly interest credit unions may charge on loans was increased from 1% to 2% in 2005 with a further increase to 3% announced in 2012. To some extent, this paves the way for UK credit unions to enter the payday lending market.

Table 9: Expectations for 2018

Question	Extremely likely	Quite likely	Not sure	Unlikely	Definitely not	Total number (%)
In three years' time do you think it likely that the loan book of your credit union will have grown significantly?	16%	50%	14%	20%	0%	101 (100%)
In three years' time do you think it likely that your credit union will offer a wider range of products and services?	41%	51%	7%	1%	0%	101(100%)
In three years' time do you think it likely that your credit union will have reduced its cost base?	11%	29%	13%	40%	7%	101(100%)
In three years' time do you think it likely that the manner in which your credit union uses ICT will have changed significantly?	49%	40%	7%	4%	0%	101(100%)

7.1 Going Forward - Loan Book Growth

From Table 9 it can be seen that 66% of respondents believed that it was either extremely likely or quite likely that the loan book would have grown significantly by 2018 while 20% of respondents believed that it was either unlikely or definitely the case that the loan book would not have grown significantly by 2018. On balance there was therefore a positive outlook although given the current historically low loan to asset ratio one might have expected a much higher proportion anticipating significant loan book growth.

Those that considered loan book growth was extremely likely or quite likely put forward a selection of reasons. The most common reason voiced for the improvement in the loan book was that of improved promotion, marketing and branding of products and services. In certain cases this was to be focused on groups within the common bond such as businesses and sport organisations. Public perception was a further reason given for loan growth. The view was that credit unions are now considered as a strong alternative to retail banks for loans and savings. A third reason was that economic conditions had started to improve and with this improvement there were signs of a modest upturn in loan demand which respondents expected to gather pace. Improved service delivery was a further reason given for expected growth. Credit unions suggested a number of ways in which this improvement would occur. Some focused on technology indicating that, for example, an upgraded ICT platform should make it easier for members to apply for loans. Others focused on improved efficiencies in the loan process suggesting that they were attempting to change the borrowing public's perception about credit union lending by making the process both faster and easier. A relatively small number of credit unions focused on product offering. Of those that did, some suggested that subject to regulatory approval they would introduce new targeted lending products such as home loans greater than 10 years in maturity and home improvement loans 5 to 10 years in maturity. The amalgamation process was also considered to be a vehicle through which loan growth might occur. A number of respondents highlighted that their credit union had merged with another credit union which resulted in an enhanced common bond creating greater scope for lending. Finally, quite a few credit unions expected loan restrictions imposed by the Central Bank to be lifted which would improve their capability to lend.

For those more pessimistic about future loan growth there was a belief that the contraction in borrowing demand would not be reversed by 2018. The explanation provided was that there was too much personal debt and a general pessimism about economic prospects. Competition from traditional sources, such as the retail banks, and from car manufacturers providing their own in-house finance schemes was also an issue. The age profile of the membership was also put forward as an issue with the suggestion that there were a disproportionate number of older members who tended not to borrow. This was compounded for some credit unions by emigration which had reduced the number of members in the age bracket 19-25. This age group is viewed as more likely to borrow from their credit union.

7.2 Going Forward – Products and Services

From Table 9 it can be seen that 92% of respondents believed that it was either extremely likely or quite likely that their credit union would offer a wider range of products and services by 2018. Clearly credit union ambitions in this area are extremely positive with a desire to offer a more complete service to their members. For those respondents suggesting that new products and services would be introduced, they were asked to provide up to three examples. Approximately 75% of credit unions took the opportunity to detail three, 15% provided two examples and 10% one.

Fee and commission generating services were common. For example, a number of the larger credit unions suggested banc assurance products such as life insurance, serious illness and pension related products. A few credit unions also suggested providing an enhanced range of general insurance services. Basic banking services including current account services with direct debits and standing orders plus debit card and credit card provision were also commonly highlighted. Further examples of potential fee and commission services included bill paying services, money transfers, and foreign exchange. Some of these additional services are dependent on electronic funds transfer (EFT) and many credit unions highlighted this as a further service enhancement. A number of credit unions focused on service delivery and suggested that new technology offered opportunities in the form of phone access, interactive websites and mobile phone applications. A significant number of credit unions detailed new loan products. In the case of some the examples were non-specific and simply emphasised the introduction of new lending products targeted at specific market segments. Others were more specific. Loan products suggested included mortgages, either by the credit union itself or provided by a central agency established for that purpose, more longer term secured loans such as on cars, loans to small and medium-sized enterprises (SMEs) and social enterprises, on-line loan products, including non-signature loan agreements with no need to visit the credit union to sign credit agreements. Unsurprisingly few credit unions detailed new savings products.

7.3 Going Forward – The Cost Base

From Table 9 it can be seen that 40% of respondents believed that it was either extremely likely or quite likely that the credit union would have reduced its cost base by 2018 while marginally more, 47% of respondents, believed that it was either unlikely or definitely not the case that the credit union would have reduced its cost base by 2018. On balance there was therefore a negative outlook on the cost position. This is somewhat of a surprise as since 2011 the aggregate costs of credit unions have declined year on year (2011 €667m; 2012 €509m; 2013 €488m; 2014 €413m).

Those that suggested the cost base would increase, highlighted that the increased complexity of the business model with new product and service lines would require the appointment of skilled staff and an investment in new technologies. Some respondents suggested that the move towards on-line services for members would come with a high cost from their ICT providers arguing that safe ways of transacting on-line and securing data on-line are costly. There was also a view that as the merger process continued and credit unions became larger this would increasingly require the replacement of non-pay volunteers with salaried professionals. In a similar vein one credit union opined that the continuation of a high quality personal service to members required staff, and staff were expensive. A large number of respondents highlighted rising regulatory costs, emphasising regulatory fees and internal audit costs. Some respondents pointed to increasing insurance costs driven in part by the ageing profile of their membership. Others stressed that marketing and advertising budgets were expected to increase.

Those that anticipated that costs were unlikely to rise placed significant hope in the merger and amalgamation process arguing that this was likely to generate scale economies. Due to the merger and amalgamation process they anticipated savings to occur in the areas of, internal audit, marketing, legal, risk, technology and staff. Others, stopping short of merger and amalgamations, believed that costs could be kept under control by way of collaboration with other credit unions and the sharing of resources. ICT was also viewed as a means of keeping the cost base under control. For example, some respondents anticipated that online transactions would generate efficiency savings by reducing footfall and hence staff numbers. Some respondents viewed improving economic conditions would result in a reduction in write-offs and provisions and hence lower costs. It was also clear from the responses that a large number of credit unions were actively monitoring their cost structure with an expectation that there would be areas where costs could be reduced. Areas mentioned included natural retirements allowing high salaried staff to be replaced by lower cost staff; some staff reduction as part of rationalisation programmes; reducing the number of branch outlets; obtaining better value from suppliers; and reviewing specific insurance product costs and loan and savings benefit protection costs.

7.4 Going Forward – ICT

From Table 9 it can be seen that 89% of respondents believed that it was either extremely likely or quite likely that the manner in which their credit union uses ICT will have changed significantly by 2018. Credit union ambitions are extremely positive with most expressing that there was an urgent need for a more effective and innovative use of ICT. For those respondents suggesting that their uses of ICT will change significantly in the next three years they were asked to provide up to three examples. Before considering these examples it is perhaps instrumental to consider aspects of their present behaviour. The survey considered a number of areas which either focused specifically on ICT or a tangential component, see Table 10.

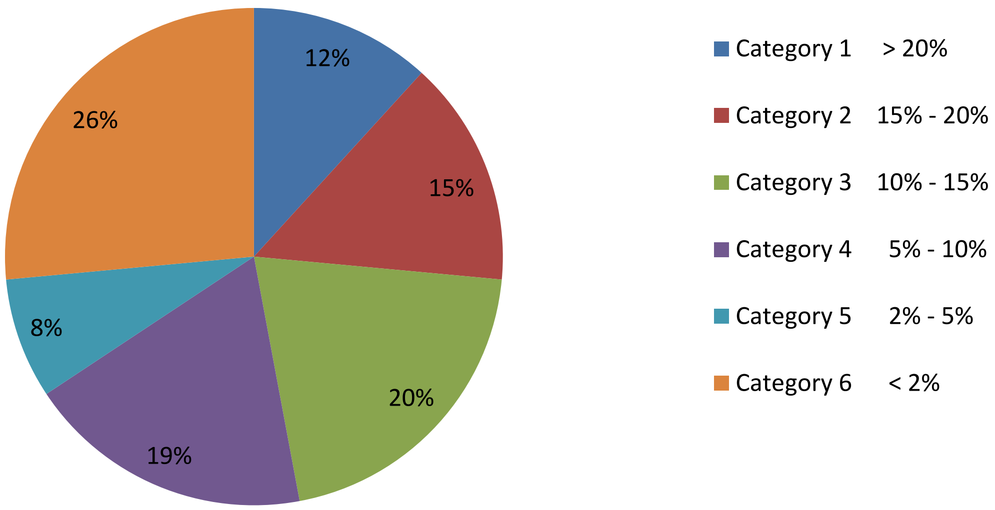
From Table 10 we see that 94% of credit unions have a website, 78% provide some money transmission services by ATM, 75% had an Electronic Funds Transfer (ETF) facility, 81% offered members the facility to check their balance(s) on-line, 42% offer members the facility to make a loan application on-line, and 42% present their annual report online. Some of the above are arguably not directly linked to ICT but the expectation would be that a credit union that is effective in its ICT use would, as a matter of course, provide all these functions/services. That a significant number are not, is indicative that there is much scope for ICT enhancements.

Table 10: Snapshot of Current ICT Use

Question	Yes	No	Total Responses
Does your credit union have a website?	94%	6%	101 (100%)
Does your credit union have an ATM?	78%	22%	101(100%)
Does your credit union offer Electronic Funds Transfer?	75%	25%	101(100%)
Does your credit union offered members the facility to check their balance(s) on-line?	81%	19%	101 (100%)
Does your credit union offer members the facility to make a loan application on-line	42%	58%	101 (100%)

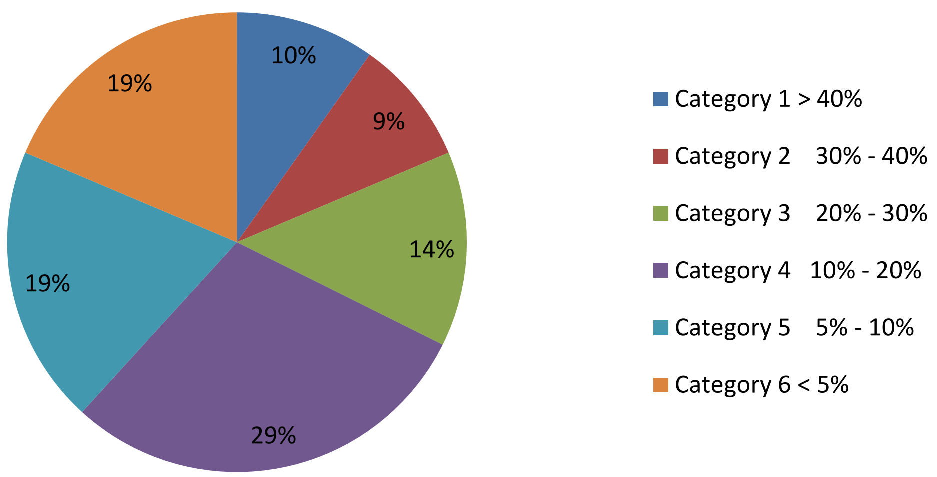
The level of ICT engagement is further explored in Figure 1 which profiles information on the percentage of credit union members that do some on-line business with the credit union. We present six categories and from Figure 1 we see only 12% of credit unions having more than 20% of their members doing some business on-line. For the most part these credit unions are industrial credit unions. One credit union had almost 90% of its members transacting some business on-line.

Figure 1
Percentage of members doing some business on-line with credit union



In Figure 2 information is detailed on the percentage of members that have provided an email address to the credit union. Again the data is presented in the form of six categories. Only 10% of credit unions had an email contact for more than 40% of members with 19% having an email address for less than 5% of their members. Industrial credit unions tended to have the greatest percentage of members' email addresses. One industrial credit union had email contacts for 80% of members with another having contacts for 60%. Interestingly, those credit unions that had the greatest percentage of email contacts for members were also those credit unions undertaking the greatest percentage of business on-line with members.

Figure 2
Percentage of membership with an email address with the credit union



Accepting that there is significant scope for an improved use of ICT we conclude this aspect of the discussion by now summarising the responses to the question: *if you consider it likely that your credit union's use of ICT will change, can you detail up to three ways in which ICT use will change?*

Many credit unions focused on an increase in the use of EFT and on-line banking, including smart phone banking solutions. A number emphasised the importance of replacing the increasingly costly cheque and cash usage by EFT based money transmission systems. A large number highlighted technology to enable specific on-line services such as on-line loan applications, balance enquiries, direct debits and bill payment. One respondent mentioned that technology would be employed to provide more self-service member activities in branch. In terms of technology and product enhancement the key emphasis was that there would be more automated transactions and less face to face transactions enabling a potential redeployment of staff. A further strand of responses centred upon ICT's use in marketing. Some respondents took the view that ICT would help credit unions better interrogate membership data enabling credit unions to more clearly identify the needs of members. A number noted that their credit union had a vast amount of information but it was not being utilised. Essentially ICT would be used in the segmentation of the marketplace for targeted technology based marketing campaigns to include the use of social media. As part of this enhanced marketing many respondents suggested that their website would also be upgraded. More generally, while there was recognition that there would be a continued need for face to face communication with members, there was an expectation of a strong growth in digital communication. Some respondents focused upon technology's role in network management including security, maintenance and business continuity. Technology offered a number of credit unions the vehicle to create a more streamlined and cost efficient infrastructure.

8. Future Research Agenda

As part of the survey CUAC asked participating credit unions to detail up to three things that CUAC should consider over the three years of its term of office, (September 2014- September 2017). This was an open ended question and in consequence the responses were extremely varied. The ensuing overview groups the responses under ten broad headings, although it is the case that some responses could potentially have been categorised under more than one heading. The ten headings ranked in order of number of suggestions provided by respondents are (i) products and services, (ii) regulation and compliance, (iii) function and role of the Central Bank, (iv) sectoral review, (v) volunteers and management, (vi) mergers and amalgamations, (vii) role of CUAC, (viii) function and role of trade bodies (ix) ethos, image and membership, (x) miscellaneous

8.1 Responses: Products and Services

The greatest number of suggestions on issues which CUAC should pursue related to products and services. Given the low rate of return currently available on investment products, coupled with the low loan to asset ratio faced by many credit unions, this is an area of some concern for credit unions. There were 41 suggestions for CUAC to pursue work in this area. Responses centred around ‘how can the falling loan book be addressed’, ‘what are the opportunities for credit unions to diversify into new product areas’, ‘the importance of centralisation and sharing in product and service delivery such as with mortgage and treasury management products’, ‘lack of access to the clearing system for credit unions’, ‘increase the number of services deemed exempt services’ and ‘review lending term limits to enable longer term lending’.

8.2 Responses: Regulation and Compliance

A further broad heading under which CUAC grouped suggestions, 33 in total, was that of regulation and compliance. The large number of responses in this area may be linked to the debate around the introduction of CP88 which was centre stage when the survey was carried out. Under regulation and compliance, the issues responding credit unions wished considered included ‘does one size fit all’, ‘that there should be proportionality in regulation’, ‘why were the recommendations of the Commission on Credit Unions relating to tiered regulation of credit unions not implemented’, ‘review the cost of regulatory levies’, ‘review the impact of regulation and compliance on the profitability and performance of credit unions’ and ‘the effect of the current regulatory approach on the credit union business model’.

8.3 Responses: Function and Role of the Central Bank

The Central Bank has been very much to the fore over the last number of years and consequently many responses centre on how the Central Bank deals with and interfaces with credit unions. CUAC grouped 26 suggestions under function and role of the Central Bank. The issues exercising credit unions included ‘the micro-managing of credit unions by the Central Bank’, ‘the nature of communication between the Central Bank and credit unions’, ‘the impact on credit unions of Central Bank imposed lending and investment restrictions’, whether the regulation of credit unions by the Central Bank is more onerous than the regulatory environment faced by banks’.

8.4 Responses: Sector Review

A further area where there were a large number of responses, 25 in total, was around respondents wanting CUAC to undertake a review of the sector or specific areas within the sector. The suggestions included a 'review of legislation' 'a review of the viability of credit unions long term' 'review the extent to which the recommendations made by the Credit Union Commission (2012) have been implemented', 'consider the role of credit unions in 21st Century Ireland' and 'assess whether the skill levels within the movement are adequate to manage a major change program effectively'.

8.5 Responses: Volunteers and Management

A further area of importance related to responses around the provision of help and advice to volunteers and staff within credit unions. There were 20 suggestions, the majority of which related to volunteers. Responses focused on 'qualifications for volunteers', 'how to encourage more members to volunteer', 'training of volunteers and staff', 'whether payments should be made to directors' and 'minimum qualifications for senior management'.

8.6 Responses: Mergers and Amalgamations

There were 14 suggestions around mergers and amalgamations. Given that this is a central issue at present due to the work of ReBo, the interest in work in this area is of no surprise. The comments were invariably centred on themes around whether mergers and amalgamations were a solution to the problems currently faced by credit unions or whether there was an alternative and superior solution. A number of suggestions centred on undertaking analysis of whether or not restructuring has delivered the expected benefits. Three suggestions asked for consideration to be given to what replaces ReBo when its term ends.

8.7 Responses: The Role of CUAC

A further area of interest for those responding to the survey related to the role and structure of CUAC. There were 12 suggestions. Some commented on the need for CUAC to advocate more on behalf of credit unions, others questioned the make-up of CUAC, while others asked that CUAC provide advice directly to credit unions.

8.8 Responses: Function and Role of Trade Bodies

There were 10 suggestions which CUAC labelled function and role of trade bodies. Some commented on the services provided by the trade bodies to credit unions and wished CUAC to consider how those services could be improved. Other respondents focused on the need for effective leadership. Some replies advocated an investigation into the concept of a ‘centralised head-office’ for all credit unions.

8.9 Responses: Ethos, Image and Membership

A further broad area of interest for those responding to the survey, again with 10 suggestions, related to the ethos and image of credit unions. Areas of interest were quite varied, ranging from debating how the ethos and principles of the ‘old day’ credit unions can be maintained, to questions around how a modern image of credit unions can be promoted to copper fasten their presence in the financial services industry.

8.10 Responses: Miscellaneous

The final categorisation is entitled Miscellaneous and captures a variety of areas. There were four suggestions about ICT, with one suggestion that an analysis should be undertaken of potential benefits that might accrue if there was a single IT provider. There were four responses around the common bond. All questioned the continued relevance of the common bond. There were three suggestions on Section 35 with each encouraging CUAC to investigate whether Section 35 hinders credit union growth. There were three suggestions that centred on the importance of credit unions in limiting the growth of money lenders. Finally there were four suggestions which asked CUAC to question whether a ‘level playing field’ existed for credit unions as they competed with other financial institutions.

9. Engagement with CUAC

The final question in the survey asked whether directors and management of the respondent’s credit union would be interested in meeting with CUAC over the course of the next three years. It was highlighted that these meetings would be used to share views on the development of the credit union movement in Ireland. Eighty-five credit unions were agreeable to meeting with CUAC, three indicated that they were not and 13 indicated that they didn’t know. The latter response probably reflects the fact that the person completing the survey felt they did not have the capacity to make a decision without first referring to the Board of Directors.[9]

10. Concluding Comments

This analysis is based on a survey of credit unions carried out by the Credit Union Advisory Committee (CUAC) between March and June 2015. The objectives of the survey were threefold. First, to obtain information on the well-being of credit unions, the competitive pressures they face and their views on potential challenges going forward. Second, to enable CUAC develop a work schedule centred upon issues important to credit unions. Third, to identify credit unions willing to meet with CUAC to discuss ideas and share views.

CUAC has the utmost confidence in the research on which this discussion document is based. However the analysis presented in this document should not be taken as a definitive position on what is happening in credit unions. We are the first to admit that the data can be interpreted in different ways and, at times, may conceal as much as it reveals. It is therefore our hope that readers of this discussion document will critically assess both the information and the interpretation of that information.

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[9] Six credit unions have met with CUAC to explore issues impacting on credit union viability. A further six credit unions have met with CUAC as part of the review of the implementation of recommendations in the Commission on Credit Unions Report (2012).

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