British Credit Unions: Transformation and Challenge

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Abstract This paper gives an overview and analysis of the development of the British credit union movement, and highlights current major challenges facing the sector. In 2013, the British Government announced a 35.6 million pounds investment into the sector through the Association of British Credit Unions to support its expansion within British society, particularly within low- and moderate-income communities. The paper will explore the background to this government investment as well as the dynamics of the strengthening and expansion programme it will support. A key element of the expansion programme is the migration of a group of lead credit unions onto a collaborative and shared electronic operating system.

1 Introduction

Credit unions in Great Britain are not-for-profit financial co-operatives that are owned and controlled by their members. By philosophy and legislation, they are limited to serving their members and unlike banks, are not open to the general public. Eligibility for membership is defined by a 'common bond' or field of membership, which may be living or working in the same locality, being a member of an association or organisation, or being employed in a particular sector, profession or company. Unlike banks, credit unions do not seek wholesale funds to finance operations and to build capital; they depend mostly on attracting savings deposits from members to finance lending to members.[1]

[1] Credit unions do sometimes receive grants or capital investments from Government, local municipalities, private or voluntary organisations to support lending particularly to low-income groups. The Government Financial Inclusion Growth Fund, for example, is referred to later in this article.

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Credit unions were first established in Great Britain in the 1960s, but have only begun to make any significant headway since the late 1990s. At year end 2014, there were 371 British credit unions serving 1,046,623 adult members and around 115,000 junior savers. Total savings on deposit amounted to 1.05 billion pounds; 688 million pounds was out on loan to members and credit union assets totalled 1.24 billion pounds.[2] About 2 % of the British adult population are members of credit unions.

However, credit unions have made making significant progress within certain segments of the financial market. They have grown particularly well in low-income communities, in certain regions of the country and among particular employee and professional groups. In the 10 year period 2003–2013, overall credit union membership increased by 110 %, savings by 169 %, loans by 125 % and assets by 179 % (see Table 1). In many cities and towns around the country, credit unions are establishing themselves as professional and visible co-operative financial institutions. Many of these modernised credit unions typically have between 5000 and 12,000 members with assets in the region of 3 million pounds to 10 million pounds (cf. Jones and Ellison 2011). There are now several credit unions in Britain each with over 30,000 members and with assets around 70–100 million pounds.[3]

2 Establishment and Evolution

2.1 Origins of the British Credit Union Movement

The first credit unions in Britain were established in the 1960s by immigrants to London who, once settled in Britain, found it difficult if not impossible to obtain credit from banks and mainstream financial providers. Often disadvantaged by loan companies charging excessive interest rates[4] (O'Connell 2005), yet familiar with credit unions in their home countries, they came together to create self-help financial co-operatives to serve the needs of their local communities (Jones and Ellison 2011).

The credit union concept spread to other communities in London and to other British cities. These early credit unions were small, local, self-help savings and loans organisations established and run by volunteers inspired by a sense of social purpose. There was a strong focus on serving people on lower incomes through the

[2] Financial Service Authority figures as of September 2012 as reported by ABCUL.

[3] In June 2012, Glasgow Credit Union was the first credit union in Britain to reach £100 million in assets. Glasgow Credit Union has 30,000 members cf. http://www.abcul.org/media-and-research/news/view/251, accessed July 2012.

[4] In the UK there is no interest rate cap on loans. In 2015, home credit companies that target low-income families can typically charge 272 % APR on a £200 loan over a 52 week period. Overall representative rate on loans is 399.7 % APR. Cf http://www.providentpersonalcredit.com (accessed 23/03/2015).

Table 1 British credit union statistics 1994–2014[a]

Year	Number of credit unions	Total assets (£000s)	Savings (£000s)	Loans (£000s)	Members
1994	475	60,742	53,706	49,590	138,582
1995	530	79,945	70,012	64,710	161,502
1996	550	100,348	87,686	81,242	190,825
1997	596	123,979	107,394	98,811	224,674
1998	630	147,940	126,721	121,813	255,596
1999	666	180,633	153,850	147,781	295,826
2000	687	214,977	182,771	174,667	325,058
2001	698	263,404	223,847	205,046	365,934
2002	686	318,877	272,491	246,138	406,564
2003	665	388,872	338,006	284,905	451,819
2004	594	432,031	381,495	314,418	496,254
2005	569	466,728	410,248	341,152	529,521
2006	554	505,034	438,680	363,335	553,892
2007	532	548,034	456,326	403,671	604,945
2008	508	595,142	489,537	441,694	659,281
2009	454	674,152	581,729	464,186	718,322
2010	436	751,483	648,606	506,364	777,454
2011	412	857,918	717,129	575,990	842,209
2012	389	956,614	807,377	605,787	917,544
2013	382	1,086,361	909,633	639,939	948,330
2014	371	1,237,979	1,048,532	687,783	1,046,623

With the exception of number of credit unions and membership, all figures are rounded to the nearest £’000

[a]Statistics supplied by ABCUL (March 2015) based on figures obtained from the regulator

provision of low-cost loans to small savers who had little or no access to other financial institutions. Most credit unions were run from community or church halls, or even from members’ own homes, and high priority was given to community involvement, democratic member participation and the personal development of volunteers. These credit unions served often small local neighbourhoods where volunteer staff knew and understood the members (Jones 1999).

Through the 1980s and 1990s, the social and economic deprivation faced by many communities in Britain encouraged the continued development of community-based credit unions, often supported by local authorities as part of their strategic response to the fight against poverty and the regeneration of deprived local communities. Similarly, employee credit unions were also supported by employers as vehicles to assist their staff in achieving financial stability particularly through difficult economic times. With the support of publicly funded grants and resources, and the intervention of local authority development staff, the number of credit unions started to expand rapidly (Jones 1999; Goth et al. 2006). In 1986, there were just 94 British credit unions, but by 2001, there were almost 700, the majority of which were community credit unions serving low-income neighbourhoods.

By the end of the 1990s however, despite the rapid growth in the numbers of credit unions, it was clear that individual British credit unions were not developing at a rate seen in other parts of the world. Most community credit unions serving low income communities remained financially weak, vulnerable and serving less than 200 members (Jones 1999; Ward and McKillop 2005; Goth et al. 2006). The development of credit unions serving employee groups was stronger but still relatively modest, most recruiting less than 1000 members (Jones 1999).

2.2 Change and Transformation: 1999–2011

Taking into account the challenge of poor growth, research published in 1999 recognised that credit unions had to adopt a more professional and business-like approach if they were to succeed in the financial market-place (Jones 1999): even in low income communities, credit unions were not reaching many of those whom they were designed to serve. Credit unions began to question the traditional approach to development based on small, tight-knit common bonds, volunteerism and informal collective action.

Instead, credit unions began to promote a more business-focused approach to development based on robust business planning, suitable premises, the introduction of computerised accounting systems and the retention of staff to eliminate dependence upon volunteer labour. This resulted in the strengthening of a number of credit unions and in an increase in the number of mergers as credit unions endeavoured to benefit from economies of scale. From 2001 onwards, despite the registrations of new credit unions, increasing mergers resulted in the overall number of credit unions starting to decline (see Table 1). Over the period 2013–2013, the number of credit unions declined by 42 %, whilst overall membership increased by 110 %.

Around the same time, international research undertaken by the World Council of Credit Unions convinced many British credit unions that if they were to build the capacity to make a lasting impact within low-income communities, a much greater reform would be required than the adoption of basic business practices (Richardson 2000a, b; Branch and Cifuentes 2001; Jones 2004a, b). The transformation of credit unions, as argued for in international studies, demanded a more radical financial, organisational and operational restructuring, known as the 'new model' of credit union development (Richardson 2000b; Jones 2004b, 2008).

New model reform was based on seven key elements, regarded by Richardson (2000a) as "doctrines of success", all of which would present significant challenges to the operation of traditional model British credit unions. The first element is to serve the financial needs of a wider population, rather than focusing entirely on low-income and financially-excluded communities. The second element was the maximisation of savings: traditional credit unions had often concentrated primarily on offering low-cost loans, and only marginally promoted member saving. Without generating the savings of members however, funds for on-lending would remain limited as would the income necessary to build credit union strength.

The third element of new model reform was product diversification, or offering a range of financial products and services in response to people's needs and wants. This was a major challenge for many credit unions, as most had offered a single identical savings and loan product to all. The next three elements of success were operating efficiency, financial discipline and effective self-governance, all of which would demand major reviews of operating practices in credit unions.

The seventh and final element was assimilation. By this was meant the process of bringing the poor into the mainstream economy by providing them with access to comparable financial products and services to those found in conventional financial institutions (Richardson 2000a). It was this final element that challenged many credit unions to rethink their role in low-income communities and the way in which they could offer members pathways to long-term financial inclusion. It was this concern that would result in some credit unions developing into full-service modern financial co-operatives, offering current accounts, insurance, money transmission services and a range of savings and loan products.

3 Legislation and Regulation

Since the turn of the century, the credit union movement, supported by the Association of British Credit Unions Ltd. (ABCUL), has prioritised sound governance and management, the development of sustainable business models and the diversification of products and services in order to strengthen individual credit unions and to expand their membership. However, it also recognised that the slow growth of credit unions was the result of restrictive British credit union legislation and regulation. In fact, by the early 1970s, appropriate credit union legislation and regulation was seen as central to credit union development. The Credit Unions Act, passed in 1979 gave credit unions, for the first time, a legal identity and the means to become secure and safer financial institutions. Under the 1979 Act, all credit unions were regulated by the Registry of Friendly Societies, and had to take out fidelity bond insurance to protect members' assets against theft and fraud.

At the time however, credit unions were regarded by government as small community enterprises and not as co-operative financial institutions that could grow to compete with banks or other financial service providers. The new Act had such a strong focus on mitigating risk that it resulted in legislation that itself restricted and limited growth. From the mid-1990s onwards therefore, British legislation began to be modified and, in some respects, relaxed. Larger common bond sizes were introduced around 1995, and credit unions serving towns of up to 50,000 people began to be accepted. In 1996, a new category of 'live or work' common bond was introduced and, for the first time, those who worked in an area could join a credit union alongside its residents.

After the 1979 Credit Unions Act, the single most important legislative advance for the credit union movement was the passing of the Financial Services and Markets Act (2000). This Act provided the framework for a single regulator for the financial services industry, the Financial Services Authority (FSA) which, in 2002, took over the regulation of credit unions from the Registry of Friendly Societies. A culture of compliance was introduced and credit unions had to meet defined and more rigorous operating standards. They were expected to provide timely and accurate financial returns to the FSA, maintain adequate levels of capital and meet defined standards in liquidity management and provision for loan losses.

The new legislation and regulatory regime brought a range of benefits for credit unions. For the first time, credit unions were no longer restricted to an upper limit on the number of members. The FSA also established the framework for a single Financial Ombudsman for handling complaints and the Financial Services Compensation Scheme (FSCS) to provide overall protection for members. Under the FSCS, for the first time credit union deposits were guaranteed with the same level of protection as the deposits of customers of banks and building societies. As of December 2010, this is now 100 % of the first £85,000 saved in a credit union. The reform implemented in 2002 also opened the way for credit unions to raise secondary capital through subordinated loans from external organisations.

A further legislative advance took place in 2006. Credit unions are the only credit provider in Britain that has by law an interest rate ceiling. Since the 1979 Act, this ceiling had been set at 12.68 % APR (or 1 % per month). This posed a problem for many credit unions operating in low-income communities, as their labour-intensive, low-value and often high-risk loans were not economically viable in any numbers at 12.68 % APR. The Credit Unions (Maximum Interest Rate on Loans) Order 2006 increased the limit on the maximum interest chargeable from 1 to 2 % per month (26.8 % APR). Unlike for all other credit providers however, an interest rate cap was maintained for credit unions. The cap was increased again in April 2014 from 2 to 3 % a month on the reducing balance of the loan (42.6 % APR).

In 2007, the opportunity for a further major advance in credit union legislation arose when the Government announced a review of co-operative and credit union legislation in Great Britain. Following consultation with the sector, this led, by July 2008, to firm proposals being made for legislative reform for both credit unions and industrial and provident societies (HMT 2008). The proposals made by the Government for credit unions were set out in the HM Treasury document, “Proposals for a Legislative Reform Order for Credit Unions and Industrial & Provident Societies in Great Britain” (HMT 2008) and, for the most part, already reflected the wishes of the credit union movement. Following several years of further negotiation, in January 2012, credit union legislation was finally significantly modernised.

From January 2012, the following new legislation came into force:

- The common bond: Credit unions still have to define their common bond or field of membership but they no longer have to prove that all the people able to join the credit union have something in common. Credit union membership is more open, accessible and flexible. Credit unions can define multiple common bonds and thus be able to provide products and services to different groups of people within the one credit union. However, credit unions with a geographical common bond are limited to an area of two million potential members.

- Corporate membership: Credit unions are no longer limited to providing services to just individuals, they can now choose to offer membership to unincorporated associations and corporate bodies such as companies, partnerships and co-operatives. However corporate members can make up a maximum of 10 % of a credit union's total membership, hold a maximum of 25 % of shares and be granted a maximum of 10 % of the value of the loans in a credit union.
- Interest on savings deposits: All credit unions can now offer variable and guaranteed interest rates on savings deposits if they hold reserves of £50,000 or 5 % of total assets, whichever is higher, providing they can demonstrate to the FSA the capacity to manage and control interest-bearing accounts. Individual credit unions can choose to continue to offer dividends on shares instead of interest, or they can choose to offer dividend-bearing shares and interest-bearing deposits.
- Charging for ancillary services: Credit unions can now charge market rates for ancillary services. Previously credit unions could only pass on the cost of providing a service to members. However the ability to charge fees will only apply to future members, not those already in the credit union.
- Non-qualifying members: These are members who were once part of the common bond but are so no longer (e.g. they have moved away from the area). Previously there was a 10 % limit on non-qualifying membership as a proportion of the overall membership. This is now left to the discretion of the credit union which can set its own rules. This will prevent many people from losing access to financial services when they change their job or home.

4 Government Support for Credit Unions

As member-only, not-for-profit, socially-oriented organisations, credit unions do not pay tax on income from lending. This exemption from taxation reflects the fact that credit unions are recognised by government as serving only their members, as playing an important role in reaching out to people with low incomes and in promoting financial inclusion.

Political and financial support for credit unions by central and local government has gone well beyond providing tax exemptions however. Local government support was particularly high during the 1980s and 1990s when credit unions often formed part of local strategies to tackle poverty and disadvantage. It was with the support of publicly funded grants and resources and the intervention of local authority development staff that credit unions expanded rapidly during this period (Jones 1999; Goth et al. 2006).

Such support had both positive and negative effects. It certainly kick-started the registration of credit unions and assisted their development and growth in the early days. However, as local authorities ultimately recognised, it did not always lead to the longer-term stabilisation and strengthening of credit unions (Morris 1999; LGA 2001). External subsidies to cover costs could sometimes create a culture of grant dependency and confirm an image of credit unions as organisations funded to provide financial services to the poor. Grant funding could sometimes compromise the spirit of enterprise and leadership necessary to build an economically diverse membership: a key to success (McKillop et al. 2007).

It would be unfair, however, to argue that all external financial support undermined the development of credit unions. When properly targeted with defined measurable targets; such support, as confirmed in international studies, can facilitate the significant strengthening of credit unions (Arbuckle 1994; Arbuckle and Adams 2000).

4.1 Financial Inclusion Growth Fund

Progress in credit union development resulted in the UK Government growing in confidence in the ability of credit unions to serve low-income communities (see HCTC 2006). From 2006 to 2011, as part of a strategy to fight financial exclusion, the Labour Government created a Financial Inclusion Growth Fund to expand the availability of affordable credit through credit unions and community development financial institutions (CDFIs). The aim was to enable financially-excluded borrowers to avoid resorting to sub-prime, high-cost loan companies and to instead move into credit union or CDFI[5] membership. Nearly 100 million pounds was invested into the Growth Fund which provided credit unions and CDFIs with capital for on-lending and revenue to cover administrative costs.

Through the Growth Fund, 405,134 affordable loans to low-income members were made, to a total value of over 175 million pounds.[6] Around 90 % of Growth Fund loans were through the circa 100 credit unions contracted to deliver the programme.

Unlike some public subsidies of the past, the Growth Fund was tied to credit unions operating as market-oriented organisations and to their meeting defined targets and operating standards. Growth Fund contracts were awarded only to credit unions that were assessed to have the organisational capacity to deliver affordable credit to large numbers of low-income people. Significantly, the Growth Fund itself had a strengthening effect on these credit unions. Independent evaluation revealed

[5] Community Development Finance Institution—a form of social firm that offers loans in low-income communities. CDFIs are not member owned co-operatives as are credit unions.

[6] http://www.dwp.gov.uk/other-specialists/the-growth-fund/statistics/, accessed July 2012.

that 80 % of Growth Fund lenders improved operations and business practices as a result of the delivery of the programme (Collard et al. 2010).

Overall, the current UK Coalition Government has regarded the delivery of the Growth Fund to be a success. As a result, and to build on this success, in March 2011 it announced the creation of a new credit union modernisation and expansion fund of up to 73 million pounds to replace the Financial Inclusion Growth Fund, which ended the same month. The new fund would not provide further capital for on-lending but rather would aim to modernise delivery and customer support systems so that credit unions, and some CDFIs, could extend products and services to many more people on lower incomes.

Before committing to establishing the new modernisation and expansion fund, from April to September 2011 the Government commissioned a study to explore the potential and the feasibility of modernising those credit unions that are ready to expand (DWP 2011). The report confirmed that a market exists amongst over seven million people on lower incomes for locally provided banking, savings and loan services from trusted providers such as credit unions. More than 60 % of over 4500 people consulted in the study said they would use credit union services if they were available to them. The report concluded that, in order to modernise and expand, credit unions needed to demonstrate a commitment to change, to working more closely together and to making greater use of technology. On the basis of the study, the Government revised its figures and, through the Department of Work and Pensions (DWP), committed to make an investment of up to 38 million pounds over the 3 years 2012–2015. In April 2013, the Association of British Credit Unions Ltd was awarded the Credit Union Expansion Program (CUEP) contract to assist credit unions to sustainably provide services to a million more people and to develop a collaborative business model in order to provide an expanded and modernised service consistently across the country.

5 Current Models of Development

A changing approach to credit union organisation and management, together with the impact of new legislation and regulation and the renewed expectations of government, had already resulted in the emergence of a new vision of effective credit union development among many within the credit union sector. This vision is based on an understanding of credit unions as co-operative financial institutions having the capacity to offer a range of modern financial products and services to meet the varying needs of different segments of the low- and moderate-income market. Integral to the vision is organisational soundness and stability and an emphasis on operating efficiency, financial discipline, good governance and effective management. It envisages credit unions as serving the financial needs of an economically diverse population, within which a focus on low-income members can be preserved.

5.1 Wide Variety in Organisational Capacity and Product Offerings

In Britain, credit union are autonomous and independent financial institutions and, as such, take different approaches to organisational management and service delivery, and face distinct challenges and resource issues. The result is a wide variety of credit union models. Credit unions not only vary in size from around 200 members to over 30,000 members, they also vary in the products and services they are able to offer. All British credit unions offer savings and loans products; however, the terms and conditions of these can vary widely. Some credit unions offer just a simple loan and savings product, whilst other more modernised credit unions offer a wider range of savings products, including cash ISAs, and multiple loan and insurance products. A few credit unions have started to offer home equity loans or mortgages. Since 2006, 24 credit unions now offer a current transactional account.

There are now a large number of credit unions that are endeavouring to develop towards becoming modern professional financial co-operatives but have not yet established themselves fully as financially independent organisations. Many have received the financial support of local authorities or other funders and have not yet built the business sufficiently to become independent of external financial support. These credit unions also often have visible high-street premises and paid staff, and endeavour to offer a range of financial services to people on low and moderate incomes. Many still retain a number of volunteers as operational staff, even though most now employ a paid manager.

6 Economic and Organisational Challenges

Most credit unions in Britain face on-going economic and organisational challenges in developing the business and in expanding their membership and assets. Growth depends ultimately on economic strength, organisational capacity and operational efficiency. Recent research studies among London credit unions (Jones and Ellison 2011) and among credit unions in the North East of England and Cumbria (Jones 2012) have revealed a range of difficulties that credit unions typically face in establishing themselves as strong and efficient co-operative institutions.

In London, as elsewhere, there are major challenges for credit unions in maximising income and in reducing costs, in attracting savings and in ensuring effective lending. Many credit unions are not yet generating sufficient income to sustain and develop the business. Expense-to-asset ratios are high, often exacerbated through the operational demands of serving the low income market. As the London study demonstrated, credit unions are endeavouring to develop efficiencies in systems and procedures. This is, however, not easy: many credit union directors and managers lack the experience, staff or resources to make rapid progress in re-engineering the business. The result is that most London credit unions still depend to some extent on external financial or in-kind support to cover basic operating costs (Jones and Ellison 2011).

Long-term development depends on maximising savings, for it is the savings of members that creates the funds to on-lend and thus to generate income. Maximising savings involves attracting an increasing number of people on more moderate incomes with the capacity to save. But the ability to attract a more economically diverse membership depends on offering quality products and services that people want and on using the kinds of modernised, electronic delivery channels that more moderate-income members find attractive. In London, as elsewhere, variations in approach and capacity have resulted in credit unions offering products and services that are so dissimilar from one another as to be inconsistent in quality and in efficiency of service delivery. Even though there are notable exceptions, most individual credit unions lack the resources to develop an attractive range of products and services and to introduce modern IT and electronic systems.

The new credit union legislative reform offers credit unions a new range of new opportunities to maximise savings: these include the introduction of corporate deposits, deferred shares and the ability to pay interest on savings deposits. The possibility of attracting organisations, groups and companies into membership for the first time could be particularly significant for credit unions. However, in the London study not all credit unions had yet developed the capacity, expertise or technology to take full advantage of the new legislation.

Another area of challenge that emerged strongly in the London study was the need for credit unions to develop effective lending at realistic prices both to attract higher-value borrowers and to meet the cost of serving high-maintenance borrowers with low-value loans. For most London credit unions, the lending business was not performing at a rate or size to achieve optimum financial return. The average loan-to-asset ratio among live-or-work credit unions was around 56 %, whereas the World Council of Credit Union recommends that 70–80 % of assets need to be out on loan in order to achieve financial stability (Jones and Ellison 2011).

The challenges faced by credit unions are not just economic, but also concern governance and operational management. There is not always the common vision and focus throughout the credit union sector that is needed to drive credit unions forward—neither is there sufficient staffing in credit unions, particularly at the middle management level, to operate the business effectively. The London study (Jones and Ellison 2011) argued that the expansion of credit union financial services would require significantly higher-level skills and competencies in leadership and strategic planning; organisational management and systems, financial and asset management; credit administration and debt recovery; and human resources. The study maintained that a step change in the strategic thinking of boards and in the overall competence of management would be needed if credit unions as a whole were to develop as co-operative financial institutions with the capacity to serve large numbers of low and moderate income members.

7 The Future of the British Credit Union Movement

The London study revealed a problem with the current model of credit union development. Despite growth and expansion, credit unions overall are finding it difficult to break through as major players in the national financial market. The problem is that development currently depends on each credit union as an autonomous financial co-operative independently strengthening its own management and operational systems. This is resource intensive and expensive, and it results in developments in processes and procedures having to be replicated time and time again in individual credit unions.

This also puts a strain on each individual credit union. Many credit union managers in the London interviews described how credit unions were often understaffed, how existing staff were over-worked, and how difficult it was for them to think strategically whilst being themselves immersed in day-to-day operations. With some notable exceptions, very few credit unions had sufficient staff to develop a middle management structure and sometimes even to fill key roles and responsibilities. This left senior management with little time and energy to concentrate on expanding the business.

Added to this, credit unions are under financial as well as organisational strain. Managers in London explained the ongoing challenges of driving down costs and of generating sufficient income from lending to free themselves from dependency on external subsidies. Even the largest credit unions still had to count on some external financial support.

As credit unions endeavour to manage these organisational and financial challenges, they do so within an increasingly competitive context. To compete in the market place, credit unions need modern and efficient systems in place to deliver quality products and professional and responsive services to their members. The current model of credit union development may be under too much strain to deliver the kind of consistent and accessible service that people seek.

Such challenges have led an increasing number of credit unions to transfer engagements (merge) into another credit union. Through merger the aim has been to achieve economies of scale and to build capacity to operate in a competitive marketplace. Undoubtedly this process of consolidation is set to increase as smaller credit unions question the viability of an independent future. However, it does not solve the problem of enabling credit unions as a whole to build the systems that would make a radical difference to the organisation and service delivery.

7.1 Rethinking the Credit Union Development Model

Rather than continuing mergers, there is another (better?) solution to credit union development. This is to be found in greater collaboration and in the development of a cohesive and comprehensive system of shared services. Internationally, co-operative banks and credit unions have adopted various collaborative approaches to development. These vary greatly from country to country, from the nationally centralised federated systems of France, Austria and French-speaking Canada, to the more decentralized, voluntarily-integrated models of Australia, US, Spain, and English-speaking Canada.

This focus on the importance of collaborative systems for successful development has also been argued by Fischer (2002), Desrocher and Fischer (2005). Following extensive research into the performance of financial co-operatives operating on a federated network as opposed to an atomized-competitive network model, Fischer (2002) demonstrated that those operating on a federated network (collaborative) model displayed either equal or superior performance to those operating on a more atomised model. In a later study, Desrocher and Fischer (2005) argued that integrated, collaborative models tended to reduce the volatility of efficiency and performance and to control costs more effectively. They maintained that research also showed that, despite the high costs of running hub-like organisations in collaborative systems, these systems still operated at lower costs than less integrated systems.

The range of back-office activities that are suitable for such a collaborative approach can vary. Michael (2007), in conducting research with credit union managers in the US, found that those of keenest interest to credit union managers included compliance and internal audit, consumer lending and marketing, accounting and information technology, human resources, and facilities management and planning. When the idea of collaboration was discussed with managers in the London study, there was particular interest in greater collaborative approaches to technological innovation, credit administration and control, internal auditing and a credit union call centre.

Collaboration and the development of integrated systems will call for a cultural shift in the way boards and managers think about credit union organisation and operations. As argues, collaboration involves a primary focus on commonality rather than uniqueness, and on a radical increase in the role of operational excellence in the credit union culture. In fact, it will involve a major sea-change and restructuring in the way credit unions operate and do business (cf. Filene 2008)

Internationally, the benefits of collaboration are tangible. Collaboration generates economies of scale, enables technical expertise to be shared across credit unions, enables a wider range of products and services for small as well as larger credit unions, and offers greater stability and security within the sector. In some cases, collaboration also leads to the development of a central credit union organisation with which partner organisations and other bodies can do business.

7.2 The Emergence of a Collaborative Approach to Development

An electronic hub is the sine qua non of any credit union collaborative system. This fact led ABCUL to explore the feasibility of the development of a central services organisation containing a core electronic banking platform. This would enable extensive collaboration on back-office functions throughout the credit union sector. It would assist the operation of loan, savings and transaction accounts, including internet access and SMS messaging, and enable the development of a range of collaborative services, including treasury management, along with the possibility of general ledger accounting and internal audit.

Such a platform would facilitate the development of new credit union products and services—even for those credit unions that are not using the new platform—and is adaptable to support new functions as required, such as bill payment accounts and pre-paid debit cards. It would enable a central customer service centre, open outside of office hours, and allow a link with the Post Office Horizon platform[7] and other external platforms as they arise. The link with the Post Office has major potential benefits for the credit union movement, as it would assist many more people to access their accounts, including both deposits and withdrawals, without the need to visit a credit union branch.

Given the experience of other co-operative financial institutions world-wide, there is every reason to believe that collaboration via an electronic hub would assist in progressing towards greater professionalism and quality standards throughout the credit union movement. The core electronic banking platform is not in itself collaboration; it is the necessary technical condition for collaboration, and the long term scope of this collaboration is the choice of participating credit unions. Greater consistency in products and services would also allow such developments as a central marketing facility, something often desired in the credit union movement but still not attained.

7.3 Credit Union Expansion Project

The UK Government's commitment to make a further investment of up to 38 million pounds into the credit union sector offered the possibility of developing a collaborative business operating model to enable credit unions to modernise and to expand their products and services consistently across the country. Following an open tender process, the DWP awarded ABCUL in April 2013 the contract to develop the credit union expansion project (CUEP), now being delivered through ABCUL's subsidiary company, Cornerstone Mutual Services (CMS) This

[7] The branch office accounting system currently operating throughout the British post office system.

strengthening programme aims to build the sustainable development of the sector and to ensure that credit unions will be able to provide services to 794,000 more members by March 2015 (ABCUL 2013). It also aims to support cumulative loan and savings deposit growth by 437 million pounds and 473 million pounds respectively.

Since its launch on May 1st, 2013, 82 credit unions have signed up to be part of CUEP. Around 30 of these 82 credit unions are participating in the first phase of the project. They will be required to define their business and financial plans for increasing growth, improving efficiency and profitability, and ensuring that they are no longer dependent on any external publically-funded subsidy by 2015. The project aims to nearly double the membership of the British credit union sector, but the success of the project will be assessed more in terms of progress in sustainable development. ABCUL's approach will focus on four key performance indicators, which include the increase in the economic diversity of the membership, the increase in the average loan income ratio for the sector to 17.5 %, the reduction of operating expenses to below 5 % and a similar reduction in the delinquency ratio. These targets were to be achieved by March 2015.

The project is structured as a programme of interrelated interventions based on the promotion of collaboration among participating credit unions and founded on the development of a shared business operating model. These interventions include a marketing strategy, new centralised products and services, the development of automated account services, new electronic channels for credit union members (including a new automated membership and product on-boarding portal), along with centralised business support, back-office services and training for credit unions. These will necessitate the development and implementation of a new IT infrastructure—the electronic hub discussed in the previous section. In 2014, it was decided that the new IT platform would be hosted on Fiserv Agilit, a service retail bank technology solution.

As a minimum requirement, the DWP has identified that CUEP must deliver shared support services in the areas of credit, control, accountancy, marketing and human resources; and ensure the provision of automated account services for all participating credit unions, which include basic transaction accounts, current accounts, budgeting and bill payment accounts, loan accounts and savings accounts. DWP has agreed on a budget of up to 35.6 million pounds, to provide the majority of funding towards the project costs of centralised products, services and marketing. However 20 million pounds of this funding will go directly to participating credit unions, to incentivise growth through payment for the achievement of particular targets.

CUEP presents a major opportunity to the British credit union sector. There is little evidence that the traditional atomistic business model will enable credit unions to develop the range of quality products and services that are needed to attract large numbers of people into membership. World-wide, atomised systems seem to grow to a certain size and then stagnate. On the other hand, the move to greater collaboration and shared back-office systems holds a real possibility of modernising and professionalising the sector, driving down individual credit union costs and ensuring that credit union products and services are accessible to many more people.

It must be emphasized, however, that collaboration is not a hand-over of control of the management of the credit union to a third party. Overall responsibility for each individual credit union remains firmly with each credit union's directors and management. It is for this reason that the development of a governance strengthening programme will also form a central part of CUEP. Collaboration is based on an agreement between credit unions that their collective future is best served by sharing back-office and sometimes front-office services. This depends, of course, on the development of a high level of trust between credit unions as they learn to compromise and to delegate tasks to a centralised organisation. It will require a high-level of maturity in governance and management processes to achieve success.

Realistically, individual credit union expansions and mergers will continue. Some credit unions are still so small that meeting performance standards sufficiently to collaborate will be difficult, and some larger credit unions will still need to open up to new and emerging markets. However, the business case for greater collaboration and shared back offices is compelling. With the support of the Government, there is now a real opportunity for British credit unions to take a major leap forward. Only time will tell if CUEP is the kind of project that can make that leap forward happen.

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