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| Section A | | |
| Institution: University of St Andrews | |  |
| Unit of Assessment: UoA 17: Business and Management Studies | | |
| Title of case study: Structural and Regulatory Change in the Irish Credit Union Sector | | |
| Period when the underpinning research was undertaken: September 2000 - June 2016 | | |
| Details of staff conducting the underpinning research from the submitting unit: | | |
| Name(s): John O.S. Wilson | Role(s) (e.g. job title): Professor | Period(s) employed by submitting HEI: 01 September 2000 - present |
| Period when the claimed impact occurred: January 2014 – 31 December 2020 | | |
| Is this case study continued from a case study submitted in 2014? N | | |
| Section B | | |
| 1. Summary of the impact (indicative maximum 100 words) | | |
| <p>Wilson's research findings on the growth, consolidation, diversification, governance, innovation, and performance of credit unions influenced the research field as well as the regulatory and supervisory changes and industry restructuring that took place in the Irish Credit Union sector during the REF2021 impact census period.</p> <p>Insights from Wilson's research informed the raft of regulatory and supervisory changes, including the regulations on operational risk, governance, transfers of engagements, liquidity and capital enacted by the Registry of Credit Unions at the Central Bank of Ireland, which came into force (over the period between 2014 and 2018). Following these changes, the performance and safety of credit unions improved via increased returns and improved capital positions.</p> <p>The insights derived from Wilson's research also influenced the formation and operation of a Restructuring Board in 2013 to facilitate merger and acquisitions between Irish credit unions. Since 2014, this Restructuring Board supported industry consolidation via a large number of mergers and acquisitions until its dissolution in March 2017. This resulted in a reduction in the number of credit unions (from 380 to 241), and an increase in the average asset size of those remaining (aggregate assets increased from EUR14,200,000,000 to EUR18,300,000,000).</p> | | |
| 2. Underpinning research (indicative maximum 500 words) | | |
| <p>The underpinning research (selected aspects referenced in Section 3) spanning the past 20 years is concerned with credit unions. Credit unions are not-for-profit cooperative financial institutions that provide financial services to its members on the basis of a (community, occupational or associational) common bond. Credit unions play an important role in the financial systems of many countries around the world. They act as a haven for deposits especially during periods of economic turbulence (such as the global financial crisis and the COVID-19 pandemic) and are major sources of credit for households and small- and medium-sized businesses. Their not-for-profit ethos and focus on maximising benefits to borrowing and savings members has ensured the enduring popularity and sustainability of credit unions. This is particularly evident since the global financial crisis and COVID-19 pandemic when in many cases credit unions continued to extend credit to members as many profit-orientated commercial banks restricted credit to households and firms.</p> <p>Wilson's research and knowledge engagement activities in relation to credit unions have produced a significant volume of high-quality outputs in leading academic and practitioner journals (as well as reports for third sector, professional and governmental organisations). These outputs provide valuable insights into the growth, consolidation, diversification, governance, process innovation, technology adoption and performance of credit unions in Canada, Ireland,</p> | | |

the United Kingdom and the United States. A 2019 review article (Cardoso Maia et al. Scientometrics) suggests that based upon citations, Wilson (and McKillop) are the most influential authors on research pertaining to credit unions worldwide.

Underpinning research (published between 2002 and 2016) utilises theoretical frameworks and large-scale primary and secondary datasets to investigate a variety of research hypotheses regarding the behaviour of credit unions. Extensive contextual and econometric investigations produce clear evidence that credit unions that are relatively large, well governed [R1] and diversified close to their core business of deposit taking and lending to members [R2], tend to be much more likely to grow and prosper relative to their smaller, less diversified counterparts [R3]. Moreover, credit unions failing to embrace new online digital technologies (such as internet transactional banking) are prone to poor performance and more vulnerable to acquisition by managers of other credit unions who have the technological capability to improve the performance of the target credit union [R4]. Lack of scale and failure to adopt new process technologies such as transactional internet banking (along with changes in regulation and supervision by government agencies) are major factors in explaining the wave of mergers and acquisitions and industry consolidation observed in the credit union sector around the world [R5].

Wilson's research also provides valuable insights into the effects of regulation and supervision on the capitalisation and risk of credit unions before and after the global financial crisis. Specifically, the results of this research suggest that strong capital regulatory and supervisory frameworks result in less undercapitalised (risky) credit unions, and in contrast to their commercial banking counterparts lead to credit unions building capital buffers during buoyant economic conditions in order to absorb negative balance sheet shocks when a deterioration occurs [R6].

3. References to the research (indicative maximum of six references)

The underpinning research listed is representative of an extensive portfolio of work that was published in highly ranked academic journals and submitted to previous (RAE2008; REF2014) and current (REF2021) research evaluation exercises.

R1: *Corporate Governance in US and Canadian Credit Unions*, Filene Research Institute, Centre for Credit Union Research Madison Wisconsin, 2012 (with Peter Goth & Donal McKillop). https://p.widencdn.net/fkoikg/274_EXS_Corp_Governance

R2: 'The Diversification and Financial Performance of US Credit Unions', *Journal of Banking & Finance*, 2008, 32, pp.1836-1849 (with Donal McKillop & John Goddard). DOI: [10.1016/j.jbankfin.2007.12.015](https://doi.org/10.1016/j.jbankfin.2007.12.015)

R3: 'The Growth of US Credit Unions', *Journal of Banking & Finance*, 2002, 22, pp.2327-2356 (with Donal McKillop & John Goddard). DOI: [10.1016/S0378-4266\(01\)00203-5](https://doi.org/10.1016/S0378-4266(01)00203-5)

R4: 'Which Credit Unions are Acquired?' *Journal of Financial Services Research*, 2009, 36, pp.231-252 (with Donal McKillop & John Goddard). DOI: [10.1007/s10693-009-0055-x](https://doi.org/10.1007/s10693-009-0055-x)

R5: 'US Credit Unions: Survival, Consolidation and Growth', *Economic Inquiry*, 2014, 52, pp.304-319 (with Donal McKillop & John Goddard). DOI: [10.1111/ecin.12032](https://doi.org/10.1111/ecin.12032)

R6: 'Regulatory Change and Capital Adjustment of US Credit Unions'. *Journal of Financial Services Research*, 2016, 50, pp.29-55 (with Donal McKillop & John Goddard). DOI: [10.1007/s10693-015-0217-y](https://doi.org/10.1007/s10693-015-0217-y)

4. Details of the impact (indicative maximum 750 words).

The insights afforded by Wilson's research regarding the governance, diversification and safety and soundness of credit unions influenced an overhaul of credit union regulation and supervision in Ireland that came into force (between 2014 and 2018) led to an improvement in the performance and stability of Irish credit unions. Moreover, insights from Wilson's research regarding the benefits of organisational scale (achieved via internally generated growth and merger and acquisition) informed the establishment of a Restructuring Board to support industry consolidation (which came into effect in 2013 and operated through 31 March 2017), which, in turn, led to fundamental changes in the structure of the Irish Credit Union Sector over the period

between 2014 and 2020. These changes resulted in increased industry assets and consolidation (the number of active credit unions declined from 380 to 241 and aggregate assets increased from EUR14,200,000,000 to EUR18,300,000,000). Credit unions involved in mergers were more efficient and achieved higher returns on assets (*Thematic Review of Restructuring in the Credit Union Sector*). As of March 2020, total membership at Irish Credit unions was 3,100,000 people (a penetration rate of 63% of the Irish population), accounting for 34% of the personal lending market there.

Context: The Irish Credit Union Commission

Historically, credit unions in Ireland: have been small; offered a limited product range; lacked integrated information systems; and held low average loan-to-asset ratios. Concerns over these issues along with the global financial crisis and an international bailout (by the European Commission, European Central Bank, International Monetary Fund) led to the Irish Government establishing a Commission (between June 2011 and April 2012) to review the structural and regulatory landscape within which credit unions operate (of which Wilson was a member). In a final report published in 2012 that was used as the basis for new legislation (Credit Union and Co-operation with Overseas Regulators Act 2012) passed in the Irish parliament in 2013, the commission made over 60 recommendations (covering corporate governance, prudential regulation, stabilisation policy and sector re-structuring). The changes flowing from these recommendations, which were influenced by Wilson's research findings and described here took place between 1 August 2013 and 31 December 2020. Much of this research has been carried out with collaborators from UK-based universities (primarily McKillop, Queen's University of Belfast; Goddard, Emeritus, Bangor University). In the remainder of this section, corroborating evidence is presented to support the assertions that Wilson's research has impacted upon regulatory and supervisory change and industry restructuring.

Evidence Corroborating Research Influence on Regulatory and Supervisory Change and Industry Restructuring

In 2020, the Registrar of Credit Unions (Chief Regulator) at the Central Bank of Ireland notes that: "*Much of the regulatory change that has taken place was necessitated by a raft of recommendations produced by a government appointed commission (comprising representatives from the Central Bank, academics, politicians and industry stakeholders) and changes in primary legislation that was passed by Oireachtas Éireann in 2013. Professor John Wilson was a member of this commission and played an important role (via insights from academic research much of which was written by himself with the other academic on the commission, McKillop) in contributing toward the recommendations toward industry restructuring and regulatory change, which have taken place since the commission report and remain ongoing at the time of writing. These changes include enhanced reserves, liquidity and capital requirements, along with other prudential and governance arrangements.*" [S1]

In particular, Wilson's research [R1-R6] influenced the recommendations, which later led to changes to regulation, supervisory oversight and industry restructuring. These changes are acknowledged widely at government and sectoral level and have continued throughout the post-commission period to the present day. In 2020, the CEO of the Credit Union Development Association (Trade Association) notes that: "*Capable credit unions in Ireland have a desire to do more but require measured assistance in making this a reality. The outcome of Professor Wilson's research informs and assists this, as evidenced by his thinking behind recommendations detailed in numerous reports produced by the Irish Government since 2013, including the regulations on operational risk (January 2016), governance (January 2016) transfers of engagements and amalgamations (May 2016) enacted by the Registry of Credit Unions at the Irish Central Bank. Through the Irish Credit Union Commission, Professor Wilson's research has contributed to its benefits, including enhanced business model development; assisted mergers; and enhanced the safety and soundness of the movement.*" [S2] A 2017 Oireachtas (Irish Parliament) Joint Committee (comprising member of the Dáil and Seanad)

Report on Credit Unions notes that “*most Commission recommendations have been implemented, either by legislation or regulation.*” [S3, p.11].

The Credit Union Commission recommended that a new regulatory framework be enacted to ensure long-term safety and soundness of the sector. Consequently, the Central Bank of Ireland introduced new regulations to implement the terms of The Credit Union and Co-operation with Overseas Regulators Act. At the launch of the new regulations in January 2016, the Registrar of Credit Unions at the Irish Central Bank stated: “*The Report of the Commission on Credit Unions made a number of recommendations regarding the strengthening of the regulatory framework for credit unions. These regulations mark a further important step in the development of a strengthened regulatory framework for the credit union sector and will contribute to the maintenance of the financial stability of the credit union sector.*” [S4 - <https://www.centralbank.ie/news/article/new-regulations-for-credit-unions-now-in-force>] The new regulations (summarised in a new handbook for credit unions) cover rules related to reserves, liquidity, lending, investments, savings, borrowings, risk and governance [S5 - <https://www.centralbank.ie/regulation/industry-market-sectors/credit-unions/credit-union-handbook>].

In January 2013, the Minister of Finance established a Credit Union Restructuring Board (ReBO) to facilitate and oversee industry consolidation and ensure the long-term sustainability of the sector. In 2020, the former CEO the Credit Union Restructuring Board notes that: “*Professor Wilson’s prior research and contribution to the Irish Credit Union Commission informed thinking around mergers and industry consolidation which led to the formation and activities carried out by ReBo during the period 2013-2017, and that industry consolidation continues to this day bringing benefits to the credit unions involved.*” [S6]

The operating principles of the Restructuring Board included fulfilling the terms of the Credit Union and Co-operation with Overseas Regulators Act, and the recommendations made by the Commission on Credit Unions. EUR250,000,000 (albeit only EUR12,000,000 was ultimately used) was provided to support merging credit unions. A credit union levy was introduced in December 2014 (and was effective until December 2017) in order to support the activities of ReBo. Between 2014 and 2017, the Restructuring Board oversaw 117 credit union amalgamations [S7, p.6]. In March 2017, the Minister of Finance was satisfied that the Restructuring Board had fulfilled its remit under the 2012 Act. Over its lifetime, the Restructuring Board facilitated 82 restructuring projects, which involved 156 credit unions with assets of EUR6,000,000,000 (50% of the total assets of the sector). The number of credit unions was reduced by 127 (one-third) from 395 to 268 [S7, p.13] with 55 of these credit unions having assets in excess of EUR100,000,000. Although credit unions are now more stable, the consolidation process continues as credit unions seek to improve their operations particularly in information technology and human resources. A year later (March 2018), eight of these projects involving 10 credit unions had been completed, nine were still ongoing, and three did not proceed. The dissolution of the Restructuring Board did not halt restructuring with the Central Bank overseeing projects post Restructuring Board [S7, p.4] [S8, p.16 - <https://www.gov.ie/ga/foilsuichan/ee48d7-review-of-implementation-of-the-recommendations-in-the-commission-on/>]. Overall, there is a general consensus that the recommendations made by the Credit Union Commission and subsequent regulatory change, which were in significant part informed by the prior research findings of Wilson, led to changes in the industry observed between 1 August 2013 and 31 December 2020 [S7].

Influencing the Credit Union Policy Environment

The reach and influence of Wilson’s research contributions and insights to the wider financial services policy environment are exemplified by his invitation to an Academy of Social Sciences Event as part of the *Making the Case for Social Sciences* at the House of Commons in May 2018 to explain how his research on credit unions impacted upon the regulation and evolution of the sector in Ireland. The event was Chaired by the (then) Chief Secretary to HM Treasury Elizabeth Truss, and attended by senior academics, policymakers and practitioners [S9].

Finally, in 2020, the Chairman of the CUNA Mutual Group noted that “*John Wilson’s research has also been referenced as a source of insight in ongoing strategic discussions across both the Building Societies sector and Credit union sector in the United Kingdom, and key stakeholders in the Building Societies Association and the Association of British Credit Unions*” [S10].

5. Sources to corroborate the impact (indicative maximum of ten references)

S1. Letter (September 2020): Registrar of Credit Unions, Central Bank of Ireland.

S2. Letter (5th September 2020): Chief Executive Officer, Credit Union Development Association.

S3. Houses of the Oireachtas (Irish Parliament) Report (October 2017): Report on the Review of the Credit Union Sector with specific reference to the Credit Union Advisory Committee Review of Implementation of the Recommendations in the Commission on Credit Unions Report

S4. Press release (11th January 2016): Central Bank of Ireland 2016 - *New regulations for credit unions now in force*.

S5. Central Bank of Ireland 2018 - *Credit Union Handbook*.

S6: Letter (8th September 2020) Former Chief Executive Officer, Credit Union Restructuring Board, ReBo (2013-2014).

S7. Central Bank of Ireland 2019 - *Thematic review of restructuring in the credit union sector*

S8. Credit Union Advisory Committee (2016) *Review of Implementation of the Recommendations in the Commission on Credit Unions Report*.

S9. Academy for Social Sciences 2018 *Making the Case for the Social Sciences: Accounting and Finance*, pp.17-18, *launched at the Palace of Westminster* 11th May 2018

S10. Letter (15th October 2020): Chairman, CUNA Mutual Limited.