Institution: Queen's University Belfast		
Unit of Assessment: UoA 17 Business and Management		
Title of case study: Structural and Regulatory Change in the Irish Credit Union Sector		
Period when the underpinning research was undertaken: 1995 to 2017		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s):	**Role(s) (e.g. job title):**	**Period(s) employed by submitting HEI:**
Donal McKillop	Professor	September 1994 to present
Barry Quinn	Lecturer	October 2010 to present
Period when the claimed impact occurred: August 2013 to 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)

McKillop's research has played a key role in shaping a dramatic transformation of the credit union sector in Ireland; much of this change has occurred since August 2013. The transformation has, in part, emanated from a series of recommendations made by a government-appointed body, the Commission on Credit Unions (CCU), which was chaired by McKillop and drew extensively on his research. Research on regulatory change has helped guide the introduction of a strengthened regulatory framework to promote financial stability and offer diversification opportunities for credit unions. Research on mergers has influenced industry consolidation as credit unions, through transfers of engagements, have sought efficiency gains. Research on organisational change has helped to progress business model development through the identification of change enablers.

2. Underpinning research (indicative maximum 500 words)

McKillop, over the course of the past twenty-five years has developed a considerable body of research on credit unions in the US, Canada and Ireland. This research is invariably empirical in form and based upon extensive panel datasets. Work on US credit unions is undertaken with Goddard (Professor Emeritus, University of Bangor) and Wilson (Professor, St Andrews University) and jointly contributed to in each instance. Work on Irish and Canadian credit unions is led by McKillop and undertaken with Glass (Professor Emeritus, University of Ulster), Hyndman (Professor Emeritus, Queen's University Belfast), Goth and Rasaratnam, (PhD students of McKillop) and Quinn (Lecturer, Queen's University Belfast). Three of the issues on which McKillop's research has focused are regulatory change, sectoral consolidation, and business model development.

Regulatory Change

Research (with Goth and Hyndman) compared governance in Irish and Canadian credit unions. The analysis found that the governance process in Irish credit unions had not accommodated or responded to developments elsewhere in corporate governance. For many Irish credit unions governance was little more than a regulatory technicality, and not an instrument for improving board quality [**R1**]. Research (with Glass and Rasaratnam) investigated regulatory compliance and found that regulatory guidance, particularly with regard to bad debt, resulted in a deterioration in non-parametric measures of efficiency for a third of all Irish credit unions [**R3**]. Research (with Goddard and Wilson) investigated the capitalisation of US credit unions before and after the introduction of the capital adequacy regulatory framework in 2000. The research found that capitalization varied pro-cyclically and, until the financial crisis of 2008, credit unions classified as adequately capitalized or below followed a faster adjustment path than well capitalized credit unions. This pattern was reversed in the aftermath of the crisis [**R5**].

Sectoral Consolidation (Mergers)

The comparative research, referred to above, on governance in Irish and Canadian credit unions identified the importance of strategic mergers in the promotion of stability and the generation of member benefits. In contrast, mergers between strong and weak credit unions resulted in a dilution in membership focus, an increase in loan arrears and reduced dividends [**R1**]. Research on industry structure (with Goddard and Wilson) explored the impact of exit through merger and acquisition (M&A), or through failure and internally generated growth, on the size distribution of credit unions in the US. The research found that M&A was the principal cause of the reduction in US credit union numbers, but that its impact on concentration was small. Divergence between the internally generated growth of smaller and larger credit unions was the principal driver of a rise in concentration [**R4**].

Business Model Development

Research (with Goddard and Wilson) investigated the influence of diversification on business model development. The analysis found that small credit unions should avoid diversification and continue to operate as simple savings and loan institutions while large credit unions should exploit new opportunities around their core expertise [**R2**]. McKillop and his Queen's Management School colleague, Barry Quinn, examined complexity and diversity in the business model of Irish credit unions. Three classes of business models were identified with two of the three classes subject to diseconomies of scale. The analysis concluded that such complexity and diversity could not be accommodated within a one size fits all regulatory framework [**R6**].

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

The landmark synthesis book [1] is built on a raft of published peer-reviewed work of at least the 2* quality threshold. The peer-reviewed articles [2] to [6] are in journals of international standing.

1. McKillop, D.G., Goth, P. and Hyndman, N., (2006), *The Structure, Performance and Governance of Irish Credit Unions*, Gill and McMillan, 432 pages. ISBN-10 : 0903854198

2. Goddard, J., McKillop, D.G. and Wilson, J., (2008), The Diversification and Financial Performance of US Credit Unions, *Journal of Banking and Finance*, 32 (9), 1836-1849. *https://doi.org/10.1016/j.jbankfin.2007.12.015*

3. Glass, J.C., McKillop, D.G., Rasaratnam, S. (2010), Irish Credit Unions: Investigating Performance Determinants and the Opportunity Cost of Regulatory Compliance, *Journal of Banking and Finance,* 34, 1, 67-76. *https://doi.org/10.1016/j.jbankfin.2009.07.001*

4. Goddard, J., McKillop, D.G. and Wilson, J., (2014), US Credit Unions: Survival, Consolidation and Growth, *Economic Inquiry*, 52 (1), 304–319. *https://doi.org/10.1111/ecin.12032*

5. Goddard, J., McKillop, D.G. and Wilson, J., (2016), Regulatory Change and Capital Adjustment of US Credit Unions, *Journal of Financial Services Research*, 50 (1), 29–55. *https://doi.org/10.1007/s10693-015-0217-y*

6. McKillop, D.G. and Quinn, B., (2017) Irish Credit Unions: Differential Regulation based on Business Model Complexity, *British Accounting Review*, 49 (2), 230-241. https://doi.org/10.1016/j.bar.2016.07.001

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

McKillop's research has played a key role in effecting and shaping a dramatic transformation of the credit union sector in Ireland; much of this change has occurred since August 2013. The transformation has, in part, emanated from recommendations made by the CCU, chaired by McKillop, which drew extensively on his research [**A, C**]. By June 2016, 48 of the 54 recommendations made by the CCU had been enacted through the Credit Union and Co-operation with Overseas Regulators Act 2012, either by regulation or by other means [**B**].

Regulatory change

The recommendations which drew, in particular, on McKillop's research concerned enhanced reserves, liquidity and capital requirements, and other prudential and governance measures [**C, D**]. The introduction of the strengthened regulatory framework for credit unions began on 1 August 2013 with the commencement of a bespoke fitness and probity regime for credit unions followed by new governance and prudential requirements on 11 October 2013. The remaining sections of the 2012 Act, which were commenced on 1 January 2016, provided the Central Bank with the power to make regulations. The 2016 regulations covered reserves, liquidity, lending, investments, savings, and borrowings, building on existing prudential and governance requirements in these areas [**E**].

At the launch of these regulations, in January 2016, the Registrar of Credit Unions, Anne Marie McKiernan, said:

> The Report of the CCU 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 sector [**E**].

The improved regulatory framework made a positive impact on the sector, as Patrick Casey, then the Registrar of Credit Unions, observed in November 2018:

> We see higher performing credit unions have typically moved beyond a mere 'tick box' compliance attitude to exhibit a more rounded governance culture, with the board and management teams demonstrating strong risk awareness and understanding [**F**].

Commenting on the contribution of McKillop's research, the head of the Department of Finance's Shareholder and Financial Advisory Division noted:

> The academic research on credit unions undertaken by Professor McKillop helped inform the work of the CCU, the Credit Union Advisory Committee (CUAC) and the work of the Department of Finance. Professor McKillop's work in these roles was instrumental in the delivery of in-depth policy research and practical recommendations which could be progressed by legislators, regulators and the credit union sector itself [**C**].

Sectoral Consolidation (Mergers)
One of the key recommendations made by the CCU was the establishment of a credit union restructuring board. In response to this recommendation, the Irish government established the Credit Union Restructuring Board (ReBo) in January 2013. Restructuring was a way of addressing weaknesses in the sector and a business strategy for credit unions that wanted to achieve the scale necessary to move to a more sophisticated business model [**A**]. McKillop's research on the importance of strategic mergers to yield scale and scope economies helped influence the types of mergers encouraged and supported by ReBo [**G**]. When ReBo ceased its restructuring operations on 31 March 2017, it had supported 82 mergers involving 156 credit unions with total assets in excess of €6.7bn (approximately 50% of the total assets of the sector) [**H**].

As Bobby McVeigh the Chair of ReBo, noted in July 2017:

> Positive outcomes have been evidenced in the credit union sector's financial stability as a result of the mergers enacted, and perhaps just as importantly, a marked positive difference in the credit union attitude toward restructuring has been effected throughout the sector [**H**].

At the launch of the Central Bank's thematic review of restructuring, in February 2019, the Registrar of Credit Unions, Patrick Casey, observed:

> Since 2013 restructuring has transformed the sector, as credit unions transferred to become part of larger, stronger credit unions, with multiple business locations. Today's report highlights that credit unions that have completed transfers are delivering higher lending growth and improved cost to income metrics compared to peers [**I**].

Commenting on the contribution of McKillop's research, the CEO of Credit Union Development Association (CUDA), and member of the ReBo board (January 2014 to July 2017) noted:

> … Donal and his colleagues' work on credit union transfer of engagements helped shape ReBo's approach to restructuring, in particular its emphasis on building up stronger credit unions to ensure that restructuring does not reward failure and that ultimately members benefit from being part of a much stronger entity [**G**].

Business Model Development
CCU stated that business model choice could vary from a simple savings and loan model to a more complex and broader product mix model. However, greater complexity necessitates more stringent regulatory requirements [**A**]. McKillop's research has helped inform business model choice by highlighting that diversification may be detrimental for small credit unions and, although large credit unions are better placed to exploit new opportunities, diversification should be tied to core product areas [**J**]. To support business model development, the Central Bank in 2019 issued new lending measures which enabled larger and better capitalised credit unions to engage in longer term lending including home mortgage and business lending.

Introducing the changes in November 2019, the Registrar of Credit Unions, Patrick Casey said:

> The amending regulations represent significant and fundamental structural framework changes, providing sufficient capacity and flexibility to enable safe and sound business model transformation on a sustainable basis serving members' long term interests [**K**].

In September 2018, the Central Bank facilitated the establishment of a CEO led Business Model Forum (chaired by McKillop) to identify change enablers that would facilitate business model development. The work of the CEO Forum in the intervening period has been outcomes-focused and has delivered product solutions, a collaborative model, and intermediated services [**L**].

Commenting on the contribution of McKillop's research on business model development, the Chairman of CUNA Mutual Group Europe, a leading global provider of financial solutions to Credit Unions and Mutuals, noted:

> Professor McKillop and his research colleagues have empirically assessed the constraints faced by credit unions in developing their business model(s) and explored means through which constraints can be overcome, most notably through collaborative ventures. This research has been influential to the thinking of a variety of stakeholders including Credit Unions, their representative bodies and the Central Bank [**J**].

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

A. Commission on Credit Unions (2012) *Report of the Commission on Credit Unions,* Department of Finance, Government of Ireland

B. CUAC, *Review of Implementation of the Recommendations in the Commission on Credit Unions Report*, June 2016.

C. Testimonial letter, 16th June 2020, from Head of Shareholder and Advisory Division, Department of Finance, Government of Ireland.

D. Testimonial letter, undated, from Registrar of Credit Unions, Central Bank of Ireland.

E. Central Bank of Ireland press release, '*New regulations for credit unions now in force*', 11th January 2016.

F. Patrick Casey, '*Governance and the credit union future*', address to the National Supervisors Forum AGM, 5th November 2018, Central Bank of Ireland website.

G. Testimonial letter, 16th November 2020, from CEO Credit Union Development Association (CUDA), and Credit Union Restructuring Board (ReBo) member (2014–2017)

H. Credit Union Restructuring Board, *Final report, restructuring of the credit union sector in Ireland, 2013-2017*, 16th June 2017, Department of Finance, Government of Ireland

I. Central Bank of Ireland press release, *Thematic review of restructuring in the credit union sector,* 21st February 2019

J. Testimonial letter, 15th Dec 2020, from Chairman CUNA Mutual Group Europe.

K. Central Bank of Ireland, '*New Lending Rules to come into force for Credit Unions'*, press release, 21st November 2019.

L. *CEO Business Model Forum*, website showcasing business model outputs.