

# **CREDIT UNIONS IN NORTHERN IRELAND: A SECTOR IN TRANSITION**

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## **Introduction**

Credit unions are financial co-operatives based on the principles of open membership, democratic control, limited interest on capital, equal distribution of any surplus, education and federalisation. Currently, there are 570 registered credit unions in Ireland, 148 of which are located in Northern Ireland. With approximately 12 percent of the population holding credit union membership, credit unions increasingly occupy an important position within the Northern Ireland financial services sector. That credit unions have thrived in Northern Ireland can be largely attributed to two main factors; firstly, the structure of the Northern Ireland credit market which can be considered as a concentration of close knit communities; and secondly, the role of the Roman Catholic church in the active encouragement and promotion of the credit union ideal (Quinn, 1994).

In the UK, credit unions belong for the most part to one of three trade organisations. The Association of British Credit Unions (ABCUL) represents 245 credit unions in England, Scotland and Wales. ABCUL is equivalent to the Irish League of Credit Unions (ILCU) which represents 526 credit unions in Ireland of which 102 are based in Northern Ireland. The other trade group is that of the National Federation of Credit Unions (NFCU). Currently, NFCU has 117 members, however, unlike ABCUL their membership is spread across the UK and at the end of 1992 they had some 38 members based in Northern Ireland. It should be noted that there are 8 credit unions in Northern Ireland unaffiliated to any trade grouping.

## **Northern Ireland Credit Unions in Context**

An appreciation of the significant position of the Northern Ireland ILCU credit unions within the overall UK sector can be gained from Table 1. Here a distribution based upon asset size of asset share, credit union numbers and credit union members is provided for the trade groupings in the UK credit union sector. Information, based on 1992 data, is provided for each of the trade organisations as well as in aggregate form for those credit unions which have opted to remain unaffiliated.

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**Table 1: Trade Organisations**

<i>Assets Range £'s</i>	<i>Number of Credit Unions</i>	<i>Number of Members</i>	<i>Total Assets</i>	<i>Assets of each Group as % of Total Assets</i>
<i>Association of British Credit Unions</i>				
Over £1,000,000	9	22,343	14,090,024	0.093
£500,000 to £999,999	5	7,236	3,691,479	0.024
£250,000 to £499,999	11	8,972	3,826,596	0.025
£100,000 to £249,999	20	8,437	3,406,455	0.022
£50,000 to £99,999	32	10,059	2,286,648	0.015
£969 to £49,999	160	17,680	2,263,596	0.015
Totals	237	74,727	29,564,798	0.195
<i>National Federation of Credit Unions</i>				
Over £1,000,000	0	0	0	0
£500,000 to £999,999	0	0	0	0
£250,000 to £499,999	4	3,430	1,301,660	0.009
£100,000 to £249,999	7	3,204	955,180	0.006
£50,000 to £99,999	11	2,566	770,215	0.005
£969 to £49,999	113	9,476	1,353,345	0.009
Totals	135	18,676	4,380,400	0.0
<i>Irish League of Credit Unions</i>				
Over £1,000,000	30	104,597	80,563,571	0.531
£500,000 to £999,999	35	37,864	23,761,466	0.157
£250,000 to £499,999	19	13,170	7,224,981	0.048
£100,000 to £249,999	13	5,204	2,413,571	0.016
£50,000 to £99,999	4	1,019	283,974	0.002
£969 to £49,999	1	156	45,850	0.000
Totals	102	162,010	114,293,413	0.754
<i>Unaffiliated</i>				
Over £1,000,000	0	0	0	0
£500,000 to £999,999	3	3,190	2,029,307	0.013
£250,000 to £499,999	1	859	296,069	0.002
£100,000 to £249,999	5	1,994	761,414	0.005
£50,000 to £99,999	3	696	205,695	0.001
£969 to £49,999	4	512	92,171	0.001
Totals	16	7,251	3,384,656	0.022

At over 75 per cent, the assets of the ILCU grouping of credit unions as a percentage of the total trade organisation groupings is particularly noteworthy. With total assets in the sector of £151,623,267 it is evident that Northern Ireland credit unions affiliated to the ILCU occupy in strength the upper size brackets for both membership and asset share. The relative strength in asset terms of ILCU credit unions is a function of their longer tradition of credit union activity compared to the UK, where much of the growth in credit unions is relatively recent in origin. Also, it can be seen in Table 1 that NFCU credit unions are, in contrast to the ILCU credit unions, far smaller in both asset and membership size and in Northern Ireland they are a fairly recent phenomenon drawing membership largely from the Protestant community.

In Table 2 an opportunity is taken to demonstrate the cost structure for UK credit unions within the various trade organisation groupings. It is apparent from Table 2 that credit unions in the ILCU grouping spend a relatively greater share of their total expenditure towards salary and occupancy costs than is the case with other trade organisation groupings. This reflects the fact that in Northern Ireland, the ILCU credit union grouping has achieved a stage of development that marks a shift away from a purely voluntary ethos to credit union operations. Greater reliance is placed on employing staff and in paying for resources and accommodation, signifying a move perhaps toward greater professionalisation of credit union operations.

It might be argued that the growth of credit unions in Northern Ireland has now reached a critical stage of development and that some of the larger credit unions may legitimately have aspirations to behave more as mainstream financial institutions. Whether they will, in fact, ever compete more directly with other financial institutions depends crucially on a number of issues, including the deregulation of the legal regime governing their activities; changes in the philosophy of credit unions towards a more commercial orientation; the attitudes towards greater business efficiency and growth demonstrated by the different umbrella trade organisations within the sector; plus the viability of the sector (or parts of the sector) to operate efficiently and without undue risk in the competitive marketplace of mainstream financial services. By considering these issues in more detail the scope of potential future change within the credit union sector in Northern Ireland can be usefully debated.

**Table 2: Cost Structure Of UK Credit Unions, 1992**

<i>Assets Range</i>	<i>Salaries</i>	<i>Occupancy Costs</i>	<i>Other Expenses</i>	<i>Total Expenses</i>
<i>Association of British Credit Unions</i>				
Over £1,000,000	256,674	33,297	430,396	720,367
£500,000 to £999,999	71,159	9,834	195,114	276,107
£250,000 to £499,999	69,529	17,781	157,930	245,240
£100,000 to £249,999	7,331	9,127	151,496	167,954
£50,000 to £99,999	6,212	3,904	121,324	131,440
£969 to £49,999	11,583	15,627	348,471	375,681
<i>National Federation of Credit Unions</i>				
Over £1,000,000	0	0	0	0
£500,000 to £999,999	0	0	0	0
£250,000 to £499,999	5,228	1,713	54,733	61,674
£100,000 to £249,999	1,075	4,654	29,037	34,766
£50,000 to £99,999	500	3,256	29,771	33,527
£969 to £49,999	550	4,121	87,451	92,122
<i>Irish League of Credit Unions</i>				
Over £1,000,000	1,259,613	115,493	2,422,731	3,797,837
£500,000 to £999,999	295,666	42,567	840,043	1,178,276
£250,000 to £499,999	37,881	16,062	286,885	340,828
£100,000 to £249,999	2,861	7,010	111,821	121,692
£50,000 to £99,999	0	288	8,430	8,718
£969 to £49,999	0	100	1,602	1,702
<i>Unaffiliated</i>				
Over £1,000,000	0	0	0	0
£500,000 to £999,999	16,053	4,513	47,228	67,794
£250,000 to £499,999	0	0	2,270	2,270
£100,000 to £249,999	4,094	4,594	31,469	40,157
£50,000 to £99,999	0	794	8,067	9,761
£969 to £49,999	195	282	4,982	5,459

## The Common Bond

Credit unions are unique financial institutions in that they are consumer co-operatives and are limited to serving the market for consumer credit and savings. These institutions cannot do business with the general public due to charter limitations based on serving a membership that is characterised by a common bond. Under the Credit Unions (Northern Ireland) Order, 1985 the common bond is based upon either:

- following a particular occupation;
- residing or being employed in a particular locality;
- being employed by a particular employer;
- being a member of a bona fide organisation or being otherwise associated with other members of the society for a purpose other than that of forming a society to be registered as a credit union and such other qualifications as are for the time being approved by the Registrar of Friendly Societies.

The predominant type of common bond used by credit unions in Northern Ireland relates to the 'community' aspect of living in a particular locality. Interestingly, credit unions in Northern Ireland have not utilised the potential to establish themselves on the basis of a common bond based on occupation or employment.

The requirement to prove a common bond for the foundation and operation of a credit union is consistent with basic co-operative principles. These principles include open membership to all that are within the potential membership, one vote per member, the financial education of members and the promotion of thrift. In addition, the common bond restriction on credit union membership is assumed to reduce the cost of gathering credit information and, in consequence, to minimise the exposure of individual credit unions to bad debt losses.

Although the concept of the common bond is both appropriate and essential for the operation of credit unions there are those within the credit union world who believe that current formulations of the common bond are too restrictive. For instance, a recent UK National Consumer Report (1994) highlights specific examples as to the manner in which the restrictive interpretation of the common bond is perceived by many as hindering credit union development in the UK. For example, common bonds based on residence are considered to be often too narrowly drawn and, in consequence, in order to qualify for registration a credit union has to find its membership from too small a geographic area. Another specific example relates to occupational credit unions where concern has been expressed about members who retire and at which juncture are strictly no longer eligible for full membership entitlements.

More generally, a common bond which is too restrictive may inhibit credit union growth. The importance of growth for credit unions rests with the fact that it can enhance the achievement of cost efficiency and scale economies (McKillop et al, 1995). The achievement of scale economies and cost efficiency can in turn enable credit unions to more easily meet their reserve requirements; generate a superior surplus performance; narrow the spread between borrowing and savings rates; reduce the incidence of bad

debt by permitting credit unions to more easily diversify particularly in terms of their customer base and, finally, allow credit unions to become less dependent on donated labour, equipment and premises.

A loosening of the strictures of the common bond requirement, could potentially help overcome both a weakness of the UK wide sector in that it is dominated by small credit unions and also provide support for the take off and growth of credit unions amongst a more diverse clientele (McKillop and Ferguson, 1995). Even in Northern Ireland, where ILCU credit unions in particular display a much stronger profile, credit unions are still nevertheless defined in unitary terms with a single common bond between members being the defining characteristic. In the US, a broader Fields-of-Membership (FOM) concept has allowed credit unions to incorporate multiple groups each with its relatively distinct common bond (CUNA Task Force Report 1994). The distinction between US and UK credit unions lies in the fact that the relationship between members (common bond) serves more as a limiting factor to credit union operations in the UK. Although the common bond is still an important component within US credit unions, the broader FOM concept does provide greater incentive to credit unions to be pro-active in defining their membership. Shifting the contours of the common bond unquestionably leads credit unions into new territory, where the traditional certainties of credit union behaviour have to be re-thought.

It should be stressed that entirely open membership to credit unions is not being suggested here and that the reforms advocated in the US are an attempt to widen access to credit unions without abandoning the distinctive co-operative feature of credit unions. Making it easier for groups to define their own common bond by a shift to the FOM concept, is an innovation that can bring benefits to credit unions. Despite its relatively healthy position in a UK context there are still important structural weaknesses in the Northern Ireland sector - for example the questionable viability of the smaller NFCU credit unions in terms of their size and cost inefficiency, their lower reserve levels and their reduced surplus performance. This, coupled with the lack of an appropriate mergers and transfer mechanism within the sector and indeed the high risk profile of dedicated credit unions based on a single common bond, suggests that the value of considering the implications of broadening the basis of credit unions through an FOM framework is at least worthy of consideration.

The logic of creating a FOM framework, with emphasis on multiple common bonds is, as has been argued, aimed at supporting the growth of more economically viable credit unions through greater membership penetration. The statutory membership ceiling for credit unions in Northern Ireland is 5,000 members although this in fact has been exceeded by some credit unions. For example the Derry Credit Union has over 14,000 members, as the Registrar of Friendly Societies can approve membership in excess of 5,000 if a case is put forward by a credit union and is merited. Raising the statutory membership ceiling seems a natural concomitant to an FOM approach, aiding both further growth and increased efficiency within the sector.

What is also implied in an FOM approach is an increase in the potential for both competition and co-operation within the credit union sector. Recognition exists, certainly in the CUNA Task Force Report, that competition among credit unions is beneficial to members and that co-operation among credit unions is also essential to extending credit union services to more credit union members and potential members. Any move towards credit unions structured along FOM lines raises the obvious issue of membership overlap which is an obvious source of potential competition and conflict. In the highly developed US credit union sector, overlapping FOMs are indeed certain to create a more competitive environment between credit unions. In Northern Ireland, where the credit union sector is relatively less well advanced in terms of membership penetration, and where membership tends to be skewed towards the community based credit union, such competitive pressures within the sector are likely to be far less pronounced. Even if the maximum permissible membership in Northern Ireland doubled to 10,000 credit unions here would still face an imposed break on membership growth aspirations which is in contrast to their US counterparts. This, coupled with the modest level of credit union density compared to the US, means that growth in new credit unions serving a new membership could be the defining feature. Thus, the potential for conflict relating to membership overlap needs to be seen as a trade off against the scope to increase overall membership density.

It should of course also be noted that growth in the credit union sector, in the long term, can afford the potential to replicate those features evident in the US in respect of co-operative credit union institutions such as a central finance facility. Depending on how far Northern Ireland credit unions aspire to emulate their US counterparts in the provision of a wider portfolio of member services, and depending on future changes to their regulatory regime, co-operative ventures involving shared credit union products and services are as much a desirable outcome of FOM innovations as any potential increase in competitive forces set loose by a move away from the single common bond.

An FOM approach within a credit union sector is a double edged sword. As far as the US sector is concerned it appears preferable to the limitations associated with a unitary definition of a common bond as the defining feature of credit union operations. The challenge for the US sector will be to ensure that it extracts maximum benefit from the flexibility created by FOM whilst minimising the potentially negative aspects of such an approach. As a mature credit union sector, the US will provide a demonstration effect of the merits or otherwise of an FOM multiple common bonds approach that no doubt will be eagerly studied by credit unions in the UK and Ireland.

## **Deregulation**

It is apparent that deregulation of the credit union sector will occur in both the UK and Ireland. Reform of UK credit union legislation was highlighted in the recent Government White Paper, *Deregulation: Cutting the Red Tape*. The White Paper highlighted two

possible areas of current credit union legislation which are viewed suitable for deregulation. The first related to an extension of the maximum limit of shares and loans which was put into effect in February 1994 under the delegated powers of the Registrar of Friendly Societies. The second related to additions of new categories of common bond. Consultation between the Registrar of Friendly Societies and representatives of the credit union movement on this issue are presently ongoing. It will be interesting to see what attention is shown towards embracing an FOM approach with its emphasis on multiple common bonds.

At this juncture it does appear that there is agreement that the amount of time and effort expended by government departments in establishing that a common bond exists is excessive. The view appears to be that the credit union supporting body, be it the board of management of a company or a tenants' association, should be permitted self-determination in the creation of their own common bond. This change would go some way towards relaxing the qualification for membership of a credit union. Once the consultation process has been completed, it is anticipated that the Government will use the deregulation order-making power under Clause 1 of the Deregulation and Contracting Out Bill to make the necessary changes to the 1979 Credit Unions Act as soon as the Bill becomes law.

Similarly, in the Republic of Ireland legislation is currently being drafted at the Department of Enterprise and Employment which will allow certain credit unions to introduce ATM facilities and cheque books for use by their members. By improving the range of services that they offer, credit unions are deliberately targeting members from middle incomes to extend their clientele beyond the confines of the less-well-off sections of society (Ferguson and McKillop, 1994). Allowing credit unions to improve the service they offer customers will invariably lead to increased competition with other mainstream financial institutions and already the banks are indicating a reluctance to welcome credit unions as providers of these new types of service.

In Northern Ireland credit unions are regulated by the provisions of the 1985 Credit Union Order. It is unlikely that the sector will remain untouched by the impact of the reforms set to take place both in the UK and Ireland. The Registrar of Friendly Societies in Belfast is faced with a particularly complex situation in revising the Northern Ireland legislation. Many of the dimensions associated with credit unions are historically specific to Northern Ireland. The sector in Northern Ireland displays dual characteristics with a large segment of strong, well developed ILCU credit unions and a much weaker NFCU segment. Since the ILCU is a major force representing the interests of its credit union members in an all Ireland context, it can be anticipated that it will desire a large degree of compatibility and consistency in the powers granted to credit unions both sides of the border. Equally, the NFCU, as a UK trade organisation, might look towards UK legislation as a source of operational compatibility for its Northern Ireland members.

It must also be considered that credit union trade organisations do in fact differ markedly in their enthusiasm for deregulation and reform. The NFCU for instance is less committed than other trade groups to credit unions moving too far from their traditional role and function. NFCU focuses on community development, self help and small units. While it encourages its members to become economically viable by developing to a size appropriate to the needs of its members and the local community, it nevertheless prefers credit unions not to exceed a few hundred members. Expansion, where it occurs, should be in the development of new credit unions.

### Managing New Risks

The viability of the sector (or parts of the sector) to operate efficiently in the competitive marketplace of mainstream financial services is an important question that obviously needs to inform the debate about the possible transition of credit unions. Both the UK Credit Union Act 1979 and the Northern Ireland Credit Unions Order 1985 stipulate that credit unions are required to establish and maintain a general reserve. If at the end of any year of account the amount standing to general reserve is less than 10 percent of total assets, a credit union is obligated to transfer to its general reserve not less than 20 percent of its surplus for that year or such lesser sum as is required to bring the general reserve up to 10 percent of its total assets. In Table 3 the opportunity is taken to present, on the basis of asset class, reserve ratios for UK credit unions for the years 1992 and 1991.

**Table 3: Reserve To Asset Ratios**

<i>Assets of a credit union as a percentage of total assets of all credit unions</i>	<i>Reserves/ Total assets 1992</i>	<i>Reserves/ Total assets 1991</i>
5% or more	0.0930	0.0960
1% to 5%	0.0966	0.1037
0.2% to 1%	0.1028	0.1042
0.1% to 0.2%	0.1004	0.0943
0.05% to 0.1%	0.0605	0.0661
0.025% to 0.05%	0.0644	0.0531
less than 0.025%	0.0777	0.0789

In Table 3, across the respective groupings, a broadly similar picture emerges for both 1991 and 1992. The picture is essentially one of smaller credit unions having much lower reserve ratios than their larger counterparts, with this particularly pronounced for the three smallest credit union groupings. Indeed these three groups have reserve ratios significantly lower than the stipulated reserve requirement under the legislation.

This in turn raises serious questions as to their ability to withstand significant financial adversity. Since Northern Ireland's ILCU credit unions are in the largest asset classes, the implication is that they are better placed to withstand financial adversity than the smaller asset sized UK credit unions as well as the Northern Ireland based NFCU credit unions.

Relaxation of the deposit and borrowing ceilings coupled with liberalisation of both the common bond requirement and the financial portfolio open to credit unions is likely to result in profound changes in credit union operating characteristics and performance. In particular the risk profile of credit unions will alter with credit unions subject to more pronounced levels of business risk. For example credit unions information cost advantage on new loan applicants may decrease and default rates may rise as the common bond widens.

It is perhaps somewhat incongruous that credit unions are at this juncture seeking enhanced business freedom, with obvious implication for their risk profile, without as yet having in place a depositor/shareholder protection scheme.<sup>1</sup> Although under UK and Irish legislation credit unions are required to be insured against loss to their members from fraud, such insurance does not cover all forms of loss, notably failure of administration or failure of borrowers to repay their loans. Whilst there seems to be a prima facie need to establish a mutual protection scheme there appears to be a reluctance within the credit union world to speedily progress the matter, much to the frustration of regulators.

Deposit insurance mechanisms have been in place in the US for credit unions for over twenty years. More specifically legislation providing federal deposit insurance was enacted which created the National Credit Union Share Insurance Fund, NCUSIF. Implementation of the insurance program began in 1971. To qualify for entry into the scheme credit unions had to satisfy certain minimum financial standards. Those credit unions which did not meet the required standards were issued a temporary insurance certificate which provided insurance cover for a two year period. At the end of this period these sub-standard credit unions were required either to have satisfied the requisite financial conditions, to have merged with another credit union, to have switched to a state charter or to have liquidated. During this two year transition period a sizeable number of credit unions availed of one of the latter three options with the number of cancellations of federal credit union charters rising from an average annual rate of 300 to around 700 in both 1972 and 1973. By the end of 1973 all federal credit unions were insured and the transitory effects had significantly reduced with federal credit union cancellations falling back to between 300 and 400.

Under the 1970 legislation state-chartered credit unions could themselves elect to have NCUSIF coverage. For those that do not opt for the federal scheme, insurance coverage is provided by a state agency. Reichert and Rubens (1994), however, indicate that at present some 90 percent of all credit unions are covered by federal deposit insurance and that in total they control approximately 88 percent of the industry's assets.

Federal deposit insurance currently covers individual deposits up to a level of \$100,000, the same level as for other US depository institutions. In the case of federal credit unions the insurance coverage is extensive in that it covers almost 100 percent of total deposits with deposits making up some 90 percent of credit unions' liabilities. The insurance premium is the same percentage of insured deposits for all credit unions regardless of risk. Initially the premium was set at 0.083 percent of the total amount of deposits in insured accounts, however, this was revised to 0.15 percent of total deposits in insured accounts by the Financial Institutions Reform, Recovery and Enforcement Act of 1989.

Financial theory argues that changes in asset mix or financial leverage should influence expected returns on equity. In that shareholders hold residual claims on earnings their interests may at times diverge from those of creditors. Because their liability is limited to the amount of their investment, shareholders have incentives to invest in risky assets if the increase in the firm's variance of returns from investing in these assets is sufficiently increased. If the investments pay off shareholders keep all the gains, if losses are incurred they are shared with creditors. This basic conflict combined with the fact that equity holders, because they control the firm, have superior information, leads to a serious agency problem. This argument is all the more powerful, the lower the fraction of equity in a firm's total assets. Thus this analysis is particularly important for analyzing the structure of privately owned banks where the equity proportion of total assets is typically small relative to other types of firms.

The incentive for shareholders to invest in risky assets exist with or without deposit insurance. Without deposit insurance depositors would, however, impose market discipline on the use of their funds either by requiring a higher return on their funds for bearing increased risk or by reducing the availability of funds to perceived riskier institutions. The net outcome is that the firm's desire to invest in risky assets is counterbalanced by the concern of depositors for the safety of their funds.

Deposit insurance schemes in that they are designed to protect depositors' funds can, somewhat paradoxically, create a framework which encourages excessive risk-taking by firms. As with any insurance contract, the insured firm in that it is shielded from the consequences of its actions has an incentive to operate in a way which increases the insurer's exposure to risk. In essence the cost of the insured firm's risk-taking is shifted onto the insurance fund. The danger that the insured party may act in this manner is referred to as moral hazard. When the design of an optimal system of deposit insurance for UK and Irish credit unions is considered, poorly constructed deposit insurance schemes such as those which do not discriminate between high and low risk firms could exacerbate the moral hazard problem even further.

Deposit insurance funds also create adverse selection problems. Assuming that membership in the insurance fund is voluntary, the fact that the insurance fund now bears risk in return for some particular premium, only those insurees who have ex ante

costs of risk taking greater than that premium will accept the insurance contract, and the higher the insurer sets the premium the higher will be the average riskiness of his insurees. To get around such problems, insurers are reduced to identifying risk classes of potential insurees through observable characteristics and then to price discriminate across these classes. Although, within such classes, the insurer still faces, not only a moral hazard problem, but again the same adverse selection problem.

It is therefore clear that there are costs in the establishment of a deposit protection scheme in that it reduces the incentive for depositors to impose market discipline on the use of their funds. Accepting that such costs are involved in the establishment of a protection scheme the case for its introduction for credit unions is weakened further in that credit unions differ in important aspects from other banking firms. First in credit unions, while it is true that some depositors hold net equity positions while others hold net debt position, there is no conflict between creditors and equity holders because of the democratic nature of control of the firm. For example, depositors are assigned voting rights on policy and management issues according to their gross equity position. Thus depositors in credit unions can be thought of as equity holders with the same rights as equity holders in other privately owned firms. This is distinct from depositors in other types of banks who can be considered bond holders and who are assigned no voting rights over bank policy. Thus if the credit union were to take a more risky posture, the gains and losses are fully borne by the equity holders who stand to gain according to their share position, and their share position must be proportional to the extent of their exposure to risk. Furthermore, even though net debtors also vote according to their equity position, there is no incentive for them to vote for risk taking either since, in the case of the credit union becoming bankrupt, the debtor depositors are still liable as before.

The above analysis suggests that it is questionable whether a system of deposit insurance is necessary for ILCU credit unions. Such a conclusion may, however, not be the case with the comparatively weaker credit unions affiliated to NFCU and ABCUL. The majority of these latter credit unions are run and operated by volunteers with only limited financial expertise and under such circumstances there is an enhanced probability of credit union default. Under such conditions and without a system of deposit insurance there is always an incentive for depositors to withdraw funds at the first hint of financial difficulty be it real or imaginary. Furthermore if a run on one credit union shakes depositors' confidence in the sector as a whole contagious runs may emerge which may drive solvent credit unions insolvent if to restore liquidity they have to sell assets at knock-down prices. Given that the credit union movement is still very much in its formative stages in many parts of the UK, the occurrence of a contagious run would in all probability lead to its demise. Consequently the establishment of an appropriate deposit insurance mechanism may prove to yield significant benefits.

## Conclusion

Credit unions in Northern Ireland have successfully grown to a point where they are the strongest segment of the UK credit union sector and are a significant part of the Irish credit union sector. How the Northern Ireland credit union sector evolves in the future is for the members of the credit union movement to shape in ways that bring benefits to existing and potential members. The diverse factors of influence currently acting upon the credit union sector in Northern Ireland would seem however to point to a future where there is scope to extend the range of services offered to members and where the purely voluntary ethos of traditional credit unions might be increasingly underwritten by greater professionalism through the employment of paid staff. The size and efficiency of many of Northern Ireland's credit unions provides a foundation upon which new innovations might be based such as increased joint ventures between credit unions in the provision of services.

The scope to increase credit union membership in Northern Ireland may result from deregulation and from any future moves towards the FOM concept based on multiple common bonds. Credit unions offer to individuals an alternative way to manage their financial affairs. Reaching a new clientele has proved a powerful mechanism in the US for credit union reform and this may also be the case in Northern Ireland if credit unions decide that there is merit in reaching out beyond the traditional membership of community based credit unions to target, for instance, the workplace as the focus of future membership growth.

As voluntary organisations, credit unions are distinctive in both their ethos and operation. Moves towards reform and innovation can create dilemmas if they fail to take account of the strong value system associated with credit unions. However, the diverse factors of influence currently acting upon the credit union sector are already causing consideration of new ideas about the role and function of credit unions. All organisations change and adapt, and the credit union sector in Northern Ireland is in a period of transition. It is inappropriate to be prescriptive about the shape of future change; the intention here has been to show that by the end of the century Northern Ireland's credit union sector could be quite different from to-day. Of course, the extent to which it is will be largely determined, rightly, by the credit union movement. It will be interesting though to observe how far credit unions proceed from their traditions.

## Note

- 1 Since 1989, credit unions affiliated to ILCU can be considered for assistance under a Savings Protection Scheme if they were to experience financial difficulty. However, participation in this scheme does not confer any legal right to receive assistance. For this reason, this Savings Protection Scheme differs from a statutory deposit insurance scheme where a legal right to receive assistance exists. The discussion relates purely to statutory deposit insurance schemes.

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