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# A review of credit union best practice based on findings from countries with established credit unions

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A review of credit union best practice based on findings from countries with established credit unions

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# Glossary

**Association of British Credit Unions Limited (ABCUL)**

ABCUL are a network of British credit unions supporting the development of credit unions in the UK.

**Common bond**

The common bond defines who can join a credit union, such as residents of a specific area being eligible for membership.

**Credit Unions**

Credit unions are non-profit financial cooperatives which are operated of a mixture of voluntary and professional staff.

**Credit Unions of Wales (CUW)**

CUW are a network of Welsh credit unions who advocate for the use of credit unions across Wales.

**PEARLS**

PEARLS is a development framework developed by WOCCU. It stands for protection, effective financial structure, asset quality, rates of return and cost, liquidity, signs of growth.

**World Council of Credit Unions (WOCCU)**

WOCCU are a global trade association and development platform for credit unions. They advocate for the credit union model worldwide and support existing credit union sectors to grow sustainably.

# Summary

**Introduction**: Credit unions are non-profit financial cooperatives which are operated by a mixture of voluntary and professional staff. In countries such as the USA, Republic of Ireland, and Canada, credit unions have high market penetration and rival banks in their use as financial services. Wales, and the rest of the UK, have comparatively low market penetration. Credit unions have been recognised for their social value in their ethical lending practices and for offering financial services to a wider range of people than banks. For this reason, Welsh Government have been interested in how credit union market penetration can be increased in Wales. This literature review aimed to answer research questions on what makes credit unions in high usage countries successful, what promotes growth, and what hinders it.

**Methods**: The Welsh Government library service were contacted to gather initial sources of literature. The library service searched several databases and returned 40 sources of literature from 2000 onwards. Some sources were excluded due to relevance, and others were included after searching for additional literature on Google Scholar and looking at literature reference lists. Literature was analysed and synthesised into seven themes.

**Findings**: There are several factors which contribute to credit union success. First, credit unions that position themselves as businesses tend to see better growth than those that focus primarily on community and social aims. Second, credit unions benefit from greater pools of eligible users through expanded common bonds. Third, credit unions in successful countries are well known, whereas the UK could benefit from improved branding, particularly to new audiences. Fourth, countries with higher usage benefit from strong legislative support which is tailored to credit union operating models. Fifth, external funding can be beneficial when purposeful and given with conditions, but can risk leading to dependence rather than self-sufficient business practices. Sixth, the most successful credit unions rely on increased numbers of professional staff as opposed to volunteers. This extends to management as credit unions with more business-oriented strategies tend to see greater usage. Seventh, high-usage credit unions benefit from a wider range of services and collaboration. More work may be needed to improve the services on offer by credit unions to attract new, higher-income, earners. This can be aided by greater collaboration between credit unions and with banks.

**Conclusion**: Credit unions in high-usage countries succeed by operating as self-sufficient businesses with strong branding, professional management, and diverse services. To increase market penetration in Wales, credit unions might focus on these areas while also benefiting from supportive legislation and strategic collaboration.

# 1. Introduction

A credit union is a not-for-profit financial cooperative owned and operated by its members for their mutual benefit (Ryder, 2005). In the UK, credit unions are often made up of a mixture of voluntary and employed staff, along with a dedicated management team and board of directors. Membership of a credit union is based on a common bond, which can be defined by geographic location, occupation, or association with existing members.

Despite their benefits, credit unions in the UK have experienced lower market penetration compared to countries such as the Republic of Ireland, the USA, Canada, and Australia. Within the UK, there are notable disparities in credit union usage. Northern Ireland has the highest market penetration at 34%, followed by Scotland at 8.1%, Wales at 2.2%, and England at 1.7% (Bank of England, 2025). This low market penetration has prompted academics and governments to explore strategies for increasing their usage. Much of the literature on credit unions examines high-usage countries, while some studies investigate internal barriers that prevent the UK from developing a mature credit union sector. Literature on credit unions also highlights their role as instruments for social inclusion, financial literacy, and community cohesion. Policymakers have recognised and supported credit unions for these reasons.

The reviewed literature suggests that credit union development and market penetration depend on several factors, including geographic context, policy landscape, and government support, levels of credit union professionalism, and visibility. By exploring these themes, it is possible to identify lessons for the Welsh policy context and potential avenues for further developing credit unions.

It is important to note that the UK Government has also been interested in empowering the credit union sector, recently publishing a call for evidence (HM Treasury, 2024). The publication seeks input from any interested parties on how the common bond can be reformed to improve the sustainability and growth of credit unions. The call for evidence closed on 6 March 2025 and ran for 16 weeks. UK government has said that it will use the responses to publish a summary and description of next steps at an unspecified later date, which may include a consultation. This work demonstrates a continued commitment to making evidence-based decisions for improving the sector, recognising its potential for helping to address issues relating to financial exclusion and community cohesion.

# 2. Methodology

This literature review aims to explore credit union best practices, factors leading to high credit union usage, and barriers to credit union growth, with a focus on relevance to Wales.

## 2.1. Literature search

The literature was initially gathered by the Welsh Government library service. The databases searched were Science Direct, Web of Science, Scopus, ProQuest Social Science Premium Collection, and OECD. Given the relatively limited amount of literature initially identified, a specific date range was set to focus on literature published between 2000 and 2025. The search was limited to English-speaking countries as these would be the most relevant to Wales. In the case of literature from the UK, it is worth bearing in mind that the majority of the literature identified was published over a decade ago. Therefore, it may not be as relevant to the current Welsh credit union sector. It is also worth considering that literature relating to other countries may not be as applicable to a Welsh context.

A total of 40 references were identified from the literature search. Several references were omitted as they did not meet the criteria of being from English-speaking countries or the full-text publications were not available. Several additional references were added by searching for keywords on Google scholar and using references from initial sources. The literature was reviewed and analysed, resulting in a set of common themes being identified, which are discussed in relation to the research questions below.

## 2.2. Research questions

The research questions were initially provided by Communities and Tackling Poverty policy officials. Following the literature search, the questions were refined to reflect interim findings. The three research questions are:

- what are the key factors that influence the success of credit unions in other countries?
- what leads to high credit union usage in other countries?
- what holds credit unions back from growing in other countries?

# 3. Findings

## 3.1. What does best practice look like?

Ferguson and McKillop (1997, in Iddrisu, 2021) developed a typology framework for credit union development which categorises countries depending on whether they are in the nascent, transition, or mature stages of credit union development. Nascent countries are those where credit unions have not yet established themselves as credible institutions which focus on attracting members and beginning operations. Transition countries, which include the UK, are those experiencing credit union growth and professionalisation, and tend to rely on external funding and loan offers to sustain themselves. Mature credit unions, which include the USA, the Republic of Ireland, Canada, and Australia, are well-established with a significant market penetration. They offer a diverse and sophisticated range of products and compete with banks for customers. Countries with mature credit union sectors offer a set of success criteria for countries seeking to support credit unions to improve their market penetration and appeal to the general population. Principles of this framework have also been previously identified as useful for developing the Welsh credit union sector (Scott Cato and others, 2009).

Following analysis of the literature, several themes were identified. These themes relate to the research questions. Each finding is based on insights from literature on how credit union growth and success has been achieved in other countries, or could be achieved, as well as factors identified as holding back growth.

- Theme 1: credit union values
- Theme 2: common bonds
- Theme 3: credit union visibility
- Theme 4: legislative environment
- Theme 5: external funding
- Theme 6: management and professionalism
- Theme 7: expanding services and collaboration

## 3.2. Theme 1: credit union values

Throughout the literature, there is frequent discussion of what values a credit union should adopt. This includes whether a credit union should adhere to the social model or the new model of development. This section explores how these differing values models may influence, or present a barrier to, credit union growth.

### 3.2.1. Social model

Traditionally, UK credit unions have been social model institutions. These credit unions have generally had a community focus, designed to meet the needs of disadvantaged people in their immediate community who may be excluded from traditional banking. These credit unions tend to be run by a majority volunteer workforce and rely on a tighter common bond between members to protect against loan delinquency and encourage mutual savings. They also aim to improve the financial literacy of members, encouraging financial responsibility and savings (Scott Cato, 2009).

The social model puts the most disadvantaged at the forefront of their operation. They can be described as developing out of necessity when people have become disillusioned with banks, particularly during times of crisis (Ryder, 2005; Power and O'Connor, 2012). For example, the UK saw growth in the credit union sector following the 2008 financial crash where membership of credit unions doubled to over 1.5 million (Tischer and others, 2015). The social model has contributed to credit unions in the UK being viewed as a 'poor man's bank' and therefore tends to only be used by financially disadvantaged people, or people who are drawn to the social mission of credit unions (Myers and others, 2012). This may have meant credit unions are less desirable for middle- and higher-income earners who do not feel credit unions cater for their needs, nor are able to offer the products and services offered by traditional financial institutions (Jones, 2012).

### 3.2.2. New model

The new model for credit unions is championed by World Council of Credit Unions (WOCCU) and Association of British Credit Unions Limited (ABCUL) and is associated with more successful credit union sectors. New model credit unions are characterised by being professional, providing a range of services to a large community, maintaining sustainable business practices, and practising entrepreneurialism. These credit unions are motivated by effective business, and the social benefits are viewed as an inevitable byproduct of this (McGrath, 2019). Richardson (2000, in Edmonds, 2015) identifies seven doctrines linked to the new model methodology. First, credit unions should appeal to all sections of the population, not just the financially disadvantaged. Second, credit unions should offer attractive interest rates to encourage savings. Third, credit unions need to diversify their product offer beyond single loans and savings. Fourth and fifth, credit unions need to ensure they operate efficiently and with financial discipline. Sixth, credit unions need to be sustainable and govern themselves independently, and seventh, they need to integrate financially disadvantaged people into the mainstream economy through accessible finance (Edmonds, 2015).

Advocates of new model credit union development point towards credit union successes in other countries such as Ireland and the USA, where credit unions have a much higher market penetration and are seen as a genuine threat to traditional banks. In some instances, this has led to lobbying by banks against the legislative benefits credit unions receive (Jones, 2001; Edmonds, 2015). They also adhere to Richardson's (2000) principles as sustainable institutions that do not rely on government funding and employ professionals to manage the credit union full time. New model credit unions are also characterised by their collaboration and partnership with each other and other organisations.

Whilst much of the success of credit unions in these countries may be down to the initial conditions that led to credit union uptake in the 19th century (discussed further in this report), their sustained growth and vast reach may be attributed to the underlying ethos of these credit unions as businesses first and social institutions second.

### 3.2.3. Social model versus new model

The literature indicates that the development and effectiveness of credit unions in a country depends largely on the ethos of their business model. The credit union development framework developed by Ferguson and McKillop (1997, cited in Iddrisu 2021) suggests that mature credit union sectors – the most sustainable and with the most members – are those which practice principles of the new model. However, some have raised concerns that pursuing sustainability and growth shifts the primary mission of credit unions as mechanisms of combating financial exclusion, which is viewed as the primary strength of credit unions in the first place (Edmonds, 2015). In this context, they are viewed as institutions that do not need to compete with banks but complement them by being accessible for those who cannot access the services of a bank. Historically, there has been some pushback from some academics and credit union associations against 'merging into the mainstream' as they believe the mainstream is what leads to financial exclusion in the first place (Edmonds, 2015; Jones, 2004). However, WOCCU consider this view as inhibiting credit union growth (Edmonds, 2015).

Jones (1999, in Ward and McKillop, 2005) argues that many credit unions, which prioritise ethical goals, are unlikely to remain viable community businesses in the long run, and that their impact on the community may be minimal. For instance, a credit union with only 100 members may not significantly contribute to the social objectives of the remaining 19,900 people within its 20,000-member common bond. Moreover, Edmonds (2015) argues that, despite academic resistance to the new model methodology, it is a direct result of efforts towards poverty alleviation; to combat financial exclusion, a credit union needs to have the organisational capacity and sustainability to do so.

## 3.3. Theme 2: common bonds

Credit union membership is dependent on a common bond which links members by residence, occupation, or association to a member (Ward and Forker, 2017). There is some debate around whether it is more beneficial to have a tighter common bond, through stricter requirements for membership, or a looser common bond, involving a relaxation of membership requirements. This also reflects differences in the social model versus the new model debate. Understanding the approaches to credit unions common bonds is important to understanding how greater growth can be achieved.

Advocates of the new model suggest the loosening of common bonds to increase the pool of individuals that can join a credit union (WOCCU, 2015). Looking at the credit union development model (Ferguson and McKillop, 1997 in Iddrisu, 2021), nascent credit unions are viewed as being held back by small user bases and rely on a tighter common bond which may impede growth. Moreover, as credit unions have developed internationally, credit unions with more relaxed common bonds have typically seen the highest growth rates (Iddrisu, 2021), while some jurisdictions have seen the common bond eliminated altogether (WOCCU, 2015).

However, Brown and others (1999, in Ward and McKillop, 2005) in their study of Australian credit unions over three years found that tighter common bonds improved credit union effectiveness and reduced operating costs due to decreased information asymmetry. They found that benefits were most notable in associational common bonds, followed by occupational and then residential. These findings are corroborated by Ferguson and McKillop (1997, in Ward and McKillop, 2005) who reported that occupational common bonds had higher efficiency due to members having a fixed income stream and the potential for loan repayments to be made directly through a payroll deduction scheme.

Jones (2001) similarly reported that in Britain, at the time of writing, many looser community and residential-based credit unions did not exceed 200 members whilst occupation-based credit unions were able to achieve the highest membership growth rates. The latter made up 15% of all credit unions in Britain but accounted for 50% of all credit union members and held the majority of assets. Common bonds also serve to build trust among members, incentivising members to pay back their loans, thereby decreasing the likelihood of bad debts (Brown and others, 1999). By relying on existing social bonds, credit unions have been able to distinguish themselves from banks and attract those unable to access their services (Jones, 2001).

However, in countries where credit unions have achieved high market penetration, they have relied less on small social bonds and focused more on expanded services for a larger portion of the population (Iddrisu, 2021; Credit Union Commission Report, 2018). This has been the view of UK and Welsh Government with successive policies relaxing the requirements for a common bond (Bryer, 2014). However, despite a high coverage of the Welsh population (and wider UK population) by a common bond, credit unions still have a low market penetration (Scott Cato and others, 2009). This may be partly due to relatively easy access to other financial institutions in the UK, in comparison to more transitional economies with inaccessible finance (Scott Cato and others, 2009; McKillop and Wilson, 2008).

Ward and McKillop (2005) suggest that along with the loosening of a common bond, credit unions should focus on serving more diverse areas beyond low-income communities. They argue that this has been a factor behind the slow growth of credit unions across the UK. This would also enable the credit union mechanism of ‘recycling’ assets from the more affluent to the financially excluded, reduce bad debts through a lower risk membership base, and improve reputation (McKillop and Wilson, 2003; Reifner, 1997). In the past, efforts to achieve greater diversity have been made through relaxing the common bond and allowing credit unions to borrow from each other to enable greater dividends for members (Ward and McKillop, 2005). Partnership working between credit unions is discussed further in this report.

## 3.4. Theme 3: credit union visibility

In the UK, credit unions have status as 'Britain's best kept secret' or the 'poor man's bank' (Moore, 2022; Jones, 2004). Either people do not know that they exist or view them primarily as financial institutions for lower-income earners. The literature suggests that there are several reasons for the lack of awareness of credit unions across the UK and proposes ways in which this could be addressed. This theme considers how visibility and public perception can contribute to growth or present a barrier.

### 3.4.1. Credit union image

Atkinson and others (2023) conducted a study aimed at identifying barriers for achieving financial inclusion in the UK. Their study was based on primary data from a series of workshops with professional stakeholders and individuals with lived experience of financial exclusion. The study found that across England, there was a lack of awareness of the offer of credit unions for those experiencing financial exclusion. Several individuals experiencing financial exclusion interviewed in the study had not heard of credit unions. Some stakeholders suggested that there should be more promotion of credit unions, whilst others argued that promotion only went so far when credit union services were increasingly inaccessible. As one participant said "they used to be better before; they are now like banks – too privatised! They lost their real purpose" (Atkinson and others, 2023, p.16). This links to the difficulties faced by credit unions, aiming to both serve the financially excluded while also adopting business practices to increase and widen their market penetration. The study recommended targeted funding to improve credit union promotion, an issue that is discussed further later in this review.

Conversely, credit unions may be harmed by their image of being seen as only for the disadvantaged and too different from banks. Jones (2004) conducted an analysis of several model credit unions in the West Midlands to help understand how credit unions can grow. One of his findings was that credit unions were being held back by their status as a 'poor man's bank', and credit unions were unable to combat this image. In some instances, credit unions had abandoned the title 'Credit Union' altogether as they did not believe it was understood by the public. Furthermore, Scott Cato and others (2009) argue that the term 'Credit Union' might be problematic because the words 'Credit' and 'Union' can have negative connotations for some people. These associations may vary based on political viewpoints, potentially affecting how individuals perceive and engage with credit unions. Credit union stakeholders in a focus group suggested that this may be helped by a more unified brand for Welsh credit unions which would require greater collaboration between credit unions (Scott Cato and others, 2009).

### 3.4.2. Improving marketing

Beyond promotion towards financially excluded individuals, credit unions in the US have been looking towards promoting credit unions to Gen Z[1] customers to maintain high market penetration (McKinsey and Company, 2024). In their article, McKinsey and Company (2024) suggest that the success of credit unions in the US was driven by baby boomers who used credit unions while they earned their peak assets. Baby boomers[2] are now retiring and taking their assets with them, and according to the McKinsey 2023 Consumer Financial Life Survey (McKinsey and Company 2024), younger generations are much less likely to save with credit unions. Instead, they use financial institutions that they view as offering better customer service, higher interest rates, and perceived community support. It is worth noting that the findings in the report are based on unpublished survey data.

McKinsey and Company (2024) provide six suggestions for improving credit union visibility and desirability among Gen Z. First, by utilising the credit union history of social impact and community inclusivity which chimes with Gen Z and millennial[3] principles. This links to work by Myers and others (2012) who suggested for some higher-earning credit union users, the decision to save with a credit union is based on ethical principles primarily. Second, by marketing to younger consumers digitally through financial influencers on social media platforms such as TikTok. Thirdly, investing more in digital banking and a personalised experience which has become the norm for many traditional financial institutions. The final three suggestions relate to upgrading technology to allow for digitally-focused marketing strategies, including the use of AI in services, and future-proofing credit union business models through partnerships. This final point is also supported in a UK context by Edmonds (2015) who suggested that partnerships between banks and credit unions could be a driver of increasing credit union market penetration, with a complementary rather than competitive relationship. For example, ABCUL established a partnership with the cooperative bank to use their digital mainframe to allow the credit union to develop a debit and credit service in exchange for paying rent (Edmonds, 2015). Furthermore, Tischer and others (2015) suggest banks should be pressured to share lending data to allow credit unions to identify communities with an unmet need from banks and tailor their service in response.

Evans (2015) made several suggestions in his evaluation of credit unions in Oxford for how to improve growth and awareness based on international best practice. These included advertising in local news sources, engaging in community events, disseminating credit union literature including posters, leaflets, and banners, and a social media strategy. Moreover, credit unions could engage with existing campaigns that share common goals, such as those focused on debt awareness and support.

### 3.4.3. Community outreach

Increasing community-level awareness raising campaigns and schemes may also aid credit union membership. Scott Cato and others (2009) and Power and O'Connor (2012) have

[1] People born between 1997 and 2012.
[2] People born between 1946 and 1964.
[3] People born between 1981 and 1996.

suggested that visibility can be built through school partnerships, which they suggest have the potential to both increase credit union awareness, build financial literacy, and increase the number of junior saver accounts. Scott Cato and others (2009) reference a Welsh Government-funded initiative which facilitated a collaboration between a school and a credit union in Neath Port Talbot that provided the school with online learning resources on credit unions. Credit union approaches in schools are still used by Welsh credit unions today, for example, through financial educational programmes and school saving schemes (CUW, 2020). However, there has not been an evaluation of how effective this approach has been.

Power and O'Connor (2012), in their study of social responsibility among credit unions in Ireland, also suggest that partnerships between schools and other community institutions can be mutually beneficial. They suggest that for schools there are material benefits through credit union donations, and socially through the combined organisation of events like sports days. The credit union benefits by raising awareness among potential future members and volunteers – therefore they invest both in their community and their sustainability. However, this paper focuses on the primarily social benefits of credit unions in aiding their immediate communities as opposed to working towards credit union sustainability and growth.

In her thesis on the characteristics of organisational effectiveness in Irish credit unions, McCarthy (2005) used open questionnaires, workshops, and discussions to gather qualitative insights from directors, managers, and volunteers. She discovered that growth was facilitated in one instance by volunteers who went door-to-door in a new housing estate to raise awareness of their credit union. Similarly, Scott Cato and others (2009) suggested housing as a medium for gaining membership; housing associations may serve as a key partner for credit unions due to their commitment to supporting their tenants, many of whom may be financially excluded. McCarthy (2005) also noted a credit union offering 'New Born Accounts' where new parents can open a credit union account for their baby and are incentivised with the offer of having €20 deposited into the account for their child. These community-level approaches supported the credit union to achieve almost full penetration of the Irish credit union common bond (McCarthy, 2005). Atkinson and others (2023) also recommend increased community activity, suggesting that credit unions should have more of a focus on identifying vulnerable individuals that may also be borrowing from loan sharks at a local level. The credit union can then provide support themselves or signpost vulnerable individuals to support.

### 3.4.4. Leadership

A few sources also suggest that growth might be achieved through charismatic leadership within the credit union sector. Ryder (2005), in his evaluation of credit union sectors, discusses the Irish credit union sector and how early pioneers helped build the movement. Speeches and rallies against the backdrop of poor economic conditions and intensifying labour relations in the early 19th century helped build a strong base and culture of cooperativism. Whilst this is not a lesson that can be directly acted on today, the movement may benefit from its own pioneers to help spearhead development (Ryder, 2005; Iddrisu 2021). This is corroborated empirically by Jones (2004) who found that where "instrumental and charismatic leadership are present, growth happens in a credit union" (Jones, 2004, p.14). However, it is worth noting that this finding was made in relation to management and leadership, rather than directly to awareness-raising.

## 3.5. Theme 4: legislative environment

The legislative environment that credit unions operate in is vital for growth as it dictates aspects of credit union business such as size of the common bond and limits on interest charged, as well as opportunities for tax exemptions.

In terms of legal frameworks, Ryder (2005) considered the UK's legal framework a barrier to growth due to its restrictions and compares it to the comparatively flexible and accommodating legislative framework in Ireland. Sibbald and others (2002) state that a strong indicator of credit union success in Ireland was the Credit Union Act 1997, which follows the legal framework for credit unions adopted by Ireland in 1966. In comparison, the UK's relatively late adoption of tailored credit union legislation may have presented a barrier to credit union momentum that Ireland did not have (Ryder, 2005). McKillop (2017) suggests that, similarly to Ireland, more nascent countries could gain advantages by abandoning a uniform regulatory framework. Instead, they should develop tailored regulations that consider the variety of credit union business models, ensuring these regulations are more supportive than restrictive.

In the US, early credit union growth was driven by disastrous economic conditions following the Great Depression at the end of the 1920s (Ryder, 2005). Prior to this, credit unions had very low assets equal to 0.16% of total funds held by intermediaries. The closure of banks, loss of jobs, and distrust of traditional financial institutions pushed people towards using credit unions, and as a result, the USA adopted the Federal Credit Union Act 1934 (Ryder, 2005). The association between crisis and credit union development is commented on by Ward and McKillop (2005) who believe that the UK's credit union history is one of missed opportunities, where credit unions failed to capitalise on these economic pinch-points.

Credit union growth in the USA was then further aided, arguably, by a lack of legislative support. Lack of funding for credit unions meant that a 'survival of the fittest' effect took place (Ryder, 2005). This has helped the sector become one of the most developed in the world, with sustainable credit unions, limited government intervention, and a market penetration of 57% (Ryder, 2005). However, funding does have benefits for credit union development, as discussed in the next section.

## 3.6. Theme 5: external funding

The level of importance attributed to credit union sustainability, and the role of government in enabling growth and avoiding dependency, is discussed frequently in the literature.

### 3.6.1. Sustainability

Looking at McKillop's (McKillop and Ferguson 1997, in Iddrisu 2021) framework, mature credit union sectors are characterised by their sustainability outside of government support and Edmonds (2015) argues that an inability to meet sustainability goals risks building a culture of dependency. For example, McGrath (2019) explores the credit union sector in

Scotland in the wake of the 2008 financial crisis and points out that credit unions were more likely to suffer when reliant on external funding. Her interviews also yielded findings that in some credit unions, grants were used flippantly or taken for granted without considering what would happen in the following years if funding ran out. Consequently, more time was spent by credit unions pursuing grants which could have been spent on providing service. This funding can also be viewed as harmful as it undermines democratic principles of credit unions being member-led; by relying on conditional grants, credit unions may have had a shift in focus away from growth and towards unrealistic policy expectations (McGrath, 2019). As Thomas and others (2008) argues, successful credit unions in the Irish and Scottish sectors do not view themselves as the 'panacea for local problems'; benefits in tackling financial exclusion are a bonus rather than the aim.

### 3.6.2. Targeted funding

The approach to government support via more strictly targeted interventions in Scotland helped generate growth in their credit union sector (Scott Cato and others, 2009; McGrath, 2019). The Scottish Credit Union Assistance Fund provided 53 grants totalling £940,000 for the purchase of property, upgrading IT systems, and training members of staff and volunteers. The Scottish Executive also provided £400,000 a year for credit unions under the Service of General Economic Interest Approval Scheme for Credit Unions. This scheme allowed credit unions to apply for funding if they offered services which were aimed at aiding financial inclusion (McKillop and Wilson, 2008). As a result, credit union membership rose from 189,317 to 250,000 by 2006. Between 2006 and 2009, 8 credit unions benefited from the fund, receiving just over £3.6 million (Scott Cato and others, 2009).

The Irish Government has also made use of credit union funding, such as the €250 million contributed in 2012 to assist with credit union merger projects. Whilst many credit unions did not take up the fund due to prescriptive conditions, the fund ultimately supported 117 merger projects between both small and large credit unions (ReBo, 2017). The benefits of mergers for credit union growth are discussed further in this report.

Moreover, a report by Scottish Affairs Committee (2009) on the development of credit unions said there needed to be more advancements in product offering and that key to the sustainability of Scottish credit unions was the recruitment of more affluent members. Funding was seen as a primary mechanism for achieving this, with the recommendation that specific funding should be allocated to promote credit unions to higher-income earners who would not typically consider using them (Scottish Affairs Committee, 2009).

Atkinson and others (2023) also recommend targeted funding, but towards financially excluded individuals. The paper suggested that credit unions would benefit from external support to "promote their work more widely and increase their reach, lend to higher risk borrowers, and test their internal risk assessment models" (Atkinson and others, 2023, p.19). Stakeholders in the study pointed to a successful Welsh Government (2023) pilot which saw an additional £600,000 funding allocated to credit unions for inclusive lending. The fund was aimed at enabling financially vulnerable individuals, particularly with lower credit scores, to access fair credit by guaranteeing loan repayment to credit unions without borrower knowledge. The scheme resulted in fewer loan defaults while increasing credit union service access and dropping overall credit union lending criteria (Atkinson and others, 2023).

Moreover, Bryer (2014) evaluated Welsh Government and EU funding which had the goal of establishing ‘an accessible, affordable and comparable, high quality financial service’. The project started in April 2009 and saw £1.9 million made available to credit unions with the aim of aiding sustainability and expansion among Welsh credit unions. The evaluation was based on a robust analysis of administrative data, stakeholder consultation, credit union visits and interviews, and comparison with control credit unions not involved in the project. The evaluation found that following funding, credit unions were still weak, holding high assets relative to what they were loaning, and many had become reliant on Welsh Government funding. The evaluation made several recommendations: Welsh Government should review how credit unions utilise funding to ensure value for money, and that funding could be made available on a competitive basis. Service providers should be encouraged to report on the number of financially excluded individuals supported to calculate value for money. Funding awardees should have a minimum operating criteria to be met once funding is received, setting conditions such as longer operating hours or development of online platforms. Further funding should be awarded with a view to achieving sustainability and be contingent on robust business strategies outlining how the credit union will work towards sustainable practices. Funding could also be tapered over time to avoid dependence (Bryer, 2014). These were also recommendations put forward by the Scottish Affairs Committee (2009) on conditions for credit union funding. These recommendations broadly align with principles of credit union good management utilised in PEARLS analysis which is discussed in the next section (Jones, 2004).

## 3.7. Theme 6: management and professionalisation

Much of the literature on credit unions focuses on how they are managed; what management works well and what serves as a barrier to growth. The literature primarily suggests that the most successful credit unions in terms of market penetration and growth are more professionalised.

### 3.7.1. Improving professionalism

Countries with mature credit union sectors and higher market penetration tend to be managed more professionally (Iddrisu, 2021). This means moving away from being volunteer-led and towards being run by a majority paid workforce and board members (Jones, 2001). Jones (1999, in Ward and McKillop, 2005) suggested that small community and socially-centred credit unions were often run by overworked volunteers who were encouraged by fear of inaction rather than providing quality service. Moreover, Ward and McKillop (2005) suggest that credit unions in deprived areas may draw on volunteers lacking the necessary skills and experience to make the credit union desirable. This makes the credit union less attractive to more affluent members of the common bond, limiting growth to poorer sections of the community. In Jones and Money’s (2017) exploration of international credit union good practice, they identified credit union success in Canada, USA, and Australia was partly the result of being maintained as highly efficient, professionally managed trade bodies with specialist skills and resources. This allowed credit unions to better advocate to 'public opinion leaders, lawmakers, and regulators' to help improve services.

Jones (1999, in Ward and McKillop, 2005) found that credit unions which considered themselves businesses first and foremost typically grew more quickly and were more likely to become sustainable. Jones (2001) suggests that pursuing economic goals first allows credit unions to achieve wider social goals. His research investigated the US credit unions which are, from the outset, professional institutions. These credit unions recruit 500 to 1,000 members who each sign pledges of membership before the credit union even opens for business, allowing them to become viable very quickly (Jones, 2001). He also noted that successful US credit unions have a clearer vision of themselves as businesses, and that this core directive was lacking in British credit unions.

The importance of being business-driven is also championed by the Irish League of Credit Unions, who state that credit unions should be primarily for service above profit or charity, with social benefits naturally following on from this (McDonnell, 1996 in Ward and McKillop, 2005). Evans (2015) also supports this notion, suggesting that for credit unions to grow and become financially sustainable, they need direction from strong leadership and senior management, and a more professionalised and specialist board.

### 3.7.2. PEARLS analysis

PEARLS is a financial monitoring system for evaluating the performance and management of credit unions. It assesses credit unions in relation to standards relating to loan loss provisions, the balance of financial structures, loan delinquency, profitability, liquidity, and growth rates. These metrics ensure credit unions are protected, efficient, and growing sustainably (Jones, 2004). Jones (2005) found that credit unions are more likely to grow when they make decisions based on quantifiable data and evidence, which can be produced through PEARLS. Scott Cato and others (2009) applied PEARLS analysis to credit unions in Wales to identify several areas where financial management could be improved. Alongside input from stakeholder focus groups, one of the primary characteristics of successful credit unions for growth was that they were goal-oriented with clear business objectives and managers expressed entrepreneurial attitudes to credit union management.

It's important to note that this analysis was conducted prior to the 2008 global financial crisis. At the time, researchers identified significant gaps in the data collected on credit union performance, which formed the basis of the PEARLS analysis (Scott Cato and others, 2009). As such, the 'health check' presented here may not provide a fully robust or current snapshot of the status of Welsh credit unions today. Nonetheless, it contributes to the broader evidence base highlighting the link between growth and professionalised management (Jones, 2001; Jones, 2004).

### 3.7.3. Limits of professionalisation

The extent to which credit unions should pursue professionalism, and a more traditional banking model is more contentious in the literature. For example, whilst McGrath (2019) supports expansion, she argues credit unions should not abandon their unique public role as an alternative financial service. This is particularly pertinent as UK financial services are leaving the high street and moving into digital spaces. Credit unions may have a unique advantage here by plugging the gap left by banks and leaning into their community-focused role. Moreover, Anderson and others (2015, in McGrath, 2019) suggest that deprivation is bound up with digital exclusion, and therefore the physical presence of credit unions will become increasingly important in deprived areas as banks continue to digitise (McGrath, 2019). This is supported by Malone (2023), who agrees that while digitalisation offers more opportunities, credit unions should not be digital only, and their ‘omnichannel’ model keeps them ranking highly for corporate reputation in Ireland.

McGrath (2005) also suggests that credit union growth may depend on member involvement, and in cases where credit unions have not involved their members many have failed. She uses a case study of a local credit union’s board relying on their manager for decisions about a new computer system. When the system failed, the board blamed the manager, leading to her dismissal and the resignation of nearly half the board members. The remaining members then struggled with internal conflicts and system issues while trying to maintain daily operations. McGrath (2005) suggests this highlights the risks of prioritising professional management over member leadership.

## 3.8. Theme 7: expanding services and collaboration

Key traits of mature credit unions include providing a range of services and emphasising collaboration between other organisations (Iddrisu, 2021). This has led to a decrease in the number of credit unions in mature countries due to mergers, with more consolidated membership and greater product offers more consistent with those offered by banks.

### 3.8.1. Improving credit union portfolios

Jones and Money (2017) proposed suggestions for strengthening the Irish credit union sector which they viewed as being in decline. These suggestions were based on analysis of other countries with more mature credit union sectors such as the USA, Canada, and Australia. In the USA and Australia, credit unions have introduced a wider range of lending products instead of relying on short-term loans, which is the primary offer of UK credit unions. For example, in Australia and Canada, 93% and 58% of credit union loans are for mortgages respectively. Mature credit unions also offer credit cards, car loans, and current accounts. Jones and Money (2017) point out that it took a lot of time for credit unions to build this portfolio and is largely thanks to commercial collaboration allowing them to set up back office and commercial support organisations. Central finance organisations have allowed for the establishment of ‘credit unions for credit unions’ providing financial services at better rates than banks, and credit union-owned mutual insurance companies help to protect against losses and allow credit unions to provide riskier loans (Jones and Money, 2017). Evans’s (2015) evaluation of Oxford credit unions supports this. He suggests that a primary avenue for diversifying membership – particularly to middle-income people – is to expand services and delivery methods. This includes ensuring that credit union services are available at times which are convenient for members.

### 3.8.2. Collaboration

Evans (2015) evaluation of credit union services in Oxford suggests that greater collaboration is required to achieve economies of scale. Drawing on international evidence, he argues that developing credit unions in isolation is unproductive and is a barrier to growth, and that sustainability and growth has been achieved internationally through ‘collaborative back-office delivery’. Similar approaches in the UK may provide the opportunity to build scale, level the playing field between credit unions through information sharing, and maintain the socially driven ethos of traditional credit unions. As previously discussed, collaborations can also aid in extending credit union reach and visibility, through community partnerships. This is supported broadly by Edmonds (2015) who points out that in countries where partnerships – specifically between banks and credit unions – have occurred, such as New Zealand and Poland, credit unions have grown significantly. Within the UK, some credit union managers have reported being open to more collaboration, so long as it reduces costs and improves delivery. However, Jones (2012) argues that collective action from credit unions would be necessary for this to happen.

The Irish Government has promoted credit union mergers as a primary policy to address credit union membership decline after the 2008 global financial crisis. Funding was allocated to support these mergers based on success stories in other countries. For instance, in Canada, mergers have reduced the number of credit unions but helped consolidate shared services like IT systems and shared insurance (Credit Union Commission Report, 2018). Mergers in Ireland led to consolidation in the credit union sector, strengthening them and building trust among members (Iddrisu, 2021).

Evans (2015) suggests that collaboration alongside product diversification would help broaden membership to include middle-income individuals, which he argues will improve sustainability and credit union assets. By making greater use of digital channels and aspiring to offer similar products as banks, achievable through greater collaboration, credit unions can help build credibility with the public and attract higher earners. In the first instance, credit unions could look to develop payroll deduction arrangements with local authorities and raise productivity on the loan book by aiming to increase loan-to-share ratios (Evans, 2015).

Another way collaboration has supported development is via buddy schemes. These initiatives pair developing credit unions with counterparts in higher-usage countries, such as the USA or Canada. This enables the developing credit union to replicate successful organisational practices and receive financial assistance. This approach was adopted by some credit unions in the Balkans and was considered a key factor in their improvement. It was also explored by the Scottish Government as a potential strategy for enhancing credit union growth (McKillop and Wilson, 2008).

# 4. Conclusion

Returning to the research questions, there are several key factors influencing credit union success internationally. These include initial socioeconomic and historical conditions, the values that underpin credit union operations, the degree of professionalisation, sustainable business practices, and relationships with external support. Particularly important is the ability for credit unions to collaborate and form partnerships with other credit unions, banks, and other organisations.

There are various factors that drive high usage in other countries. Countries with high market penetration are those where credit unions are viewed as genuine alternatives to banks. This reputation is driven by the breadth of services and convenience offered by credit unions, much of which is a product of credit union collaboration and their business oriented strategic direction.

There are also factors that may pose barriers to success and growth. Credit unions tend to be limited by adherence to traditional social operational frameworks, reliance on some types of external support, and restrictive legislation. They may also be held back by not catering to new audiences which could be achieved through improved marketing and modernised services.

It is worth considering that these findings are based on literature that is often relatively dated, and the credit union sector in Wales has evolved since the publication of several sources. Moreover, many of the findings are based on qualitative insights or observation of what works in other countries rather than robust empirical evaluation.

The findings on barrier and enablers of credit union success are broken down into seven themes which are summarised below:

## 4.1. Credit union values

Adopting a mixture of new model and social model values may enable credit union growth. Credit unions that are more business-oriented are more likely to see better growth than credit unions with stronger social aims. However, credit unions should ensure that they do not abandon social goals entirely as this is a unique strength.

## 4.2. Common bonds

Looser common bonds can expand membership and drive growth, while tighter bonds enhance trust and operational efficiency.

Strategic relaxation of common bonds may enable credit union growth. By serving more diverse communities and broadening membership, credit unions can utilise social bonds to build trust and improve financial inclusion.

## 4.3. Credit union visibility

Improving credit union visibility is crucial for growth. Addressing perceptions of credit unions as ‘Britain's best kept secret’ or the ‘poor man's bank’ requires targeted marketing and community outreach to enhance awareness and appeal.

Developing partnerships and modern marketing strategies can boost credit union visibility. Collaborations with schools, housing associations, and digital influencers, as well as investing in technology, may help credit unions improve their market penetration.

## 4.4. Legislative environment

Tailored legislative frameworks can significantly impact credit union growth. Countries with flexible and supportive regulations, like Ireland, have seen higher credit union success compared to those with comparatively restrictive frameworks.

Historically, self-sustaining credit union sectors have been generated from poor economic conditions and distrust with banks. Credit unions may benefit from using their unique social position as an alternative to banks to attract members.

## 4.5. External funding

Sustainability is crucial for credit union success. Reliance on external funding can undermine credit union self-help principles and viability. Countries with self-sustaining credit union sectors see higher market penetration.

Targeted, conditional funding can support growth and inclusivity. This can be done through specific grants for IT upgrades and continuing to support inclusive lending or setting strategic conditions for grants.

## 4.6. Management and professionalism

Professionally managed credit unions achieve more growth and sustainability. This includes employing a more professional staff and board which prioritises strategic business direction. However, professionalism should be balanced with credit unions’ benefits as social institutions.

## 4.7. Expanding services and collaboration

Expanding credit union services and improving collaboration is essential for appealing to broader communities.

Supporting mergers and partnerships between credit unions can build economies of scale to improve service delivery and maintain a social ethos.

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