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Understanding Business Models in the Context of Irish Credit Union Transformation

Nick Money, Olive McCarthy, Paul A. Jones, and Noreen Byrne

Credit unions in the Republic of Ireland (Ireland) are important community institutions. Over the last decade, however, Irish regulators and government have commented on a strategically critical financial problem for the sector and called for a change to the business model, but there is no statement of what this business model means. This paper understands a business model as the way an organisation creates and delivers value for its customers and itself, so whether articulated or not, it is plainly vital to organisational success. This paper reviews credit union financial performance, engages with the literature on business models, conceptually and as applied to banking, co-operatives, and credit unions. It then considers how it could support the transformation needed for the sector's successful development. The paper connects the credit unions' enduring financial performance problem with the problem of value creation for their members, concluding that there are business model frameworks that could help credit unions restate their proposition, while incorporating their social purpose. However, there is no consensus among academics or practitioners about what the Irish credit union business model is and therefore what should change. A further knowledge gap is identified in relation to credit unions' own perspectives on the relevance of business models and change.

Introduction

Credit unions are member-owned co-operatives, traditionally offering simple savings and loan products, although some have a wider range of services. Introduced into Ireland in the late 1950s by indigenous co-operators (Culloty, 1990; McCarthy et al., 2016; Quinn, 1999) as a community response to market failure (McCarthy et al., 2016), there are now 205 credit unions with 3.5 million members and €20.3 billion of assets (Central Bank of Ireland [CBI], 2023b; World Council of Credit Unions [WOCCU], 2022). With a defined field of membership serving a geographical area or industrial sector, and with a social purpose beyond profit generation, credit unions have established themselves as important community institutions. This paper reviews the concept of a business model in the context of Irish credit unions and reflects on its significance relating to credit union strategic and planning needs. A business model is understood as focusing on "the identification and capture of value, with an emphasis on understanding the value from the customer's perspective" (Mazzarol et al., 2018, p. 557).

The period since 2008 has been challenging for Irish credit unions. The impact of the global financial crisis in Ireland included a contraction in the ability of some members to repay loans and in the demand for new borrowing. Although few credit unions were forced to close, and credit unions proved resilient to crisis in a way that private banks did not, the economic sustainability of credit unions was threatened. By 2011, the cost-to-income ratio of Irish credit unions, which indicates the ability to cover costs, had grown to 88.7%, from an aggregate 49.5% in 2006. Moreover, the important loans-to-assets ratio (LTA), which measures the percentage of assets out on loan to members, had fallen to 40.8% (Commission on Credit Unions [Commission], 2012, p. 25). Sector stakeholders called for changes to the credit union business model in order to re-establish profitability and sound development (Commission, 2012; Houses of the Oireachtas, 2017). In 2011, as part of a series of actions to stabilise the Irish financial services sector, the Irish government established a Commission on Credit Unions "to review the future of the credit union movement [sector]" (Commission, 2012, p. iv). The resulting report was the first major attempt to reference and stress the business model concept in relation to Irish credit union performance. It suggested that a majority of credit unions would experience decline due to insufficient income under increasing pressure.

By 2016, calls for credit unions to prioritise a review of their business models had amplified. Analysis from policy-makers (Credit Union Advisory Committee [CUAC], 2016c; Houses of the Oireachtas, 2017), Irish and international regulators (CBI, 2013, 2014; Hobbs, 2017; International Credit Union Regulators' Network, 2015, 2019), and researchers (Jones et al., 2017; McKillop & Quinn, 2017) noted persistently low levels of lending by credit unions and promoted business model change as a necessary response. Finally, the Oireachtas concluded that developing business models was a critical next step for the credit union movement (Houses of the Oireachtas, 2017).

This paper explores the meaning and significance of the business model — which is about the identification of value — and how it has been applied to banks, co-operatives, and credit unions. Using publicly available data, the paper analyses how past and present credit union business models are connected to significant under-performance. For, whether consciously or not, all credit unions operate to a model of business that determines their target market, their products and services, resources, and costs. The paper then considers which business model approaches might be relevant as a tool for transformation, as suggested by stakeholder commentary.

This discussion concludes by suggesting that there is currently no agreed statement as to what the Irish credit union business model does or should include, so effective use of the idea is not visible in the literature or among practitioners. Some business model frameworks offer a tool to help credit unions work out how they create, deliver, and capture value for and with members, and therefore could perform a vital role in building economic sustainability. It is necessary to understand credit union perspectives on business models to test this thesis, and this is a gap in the literature that future research could address.

What is a Business Model?

The term business model became prevalent in the late 1990s, driven by the dot.com boom (Magretta, 2002; Osterwalder et al., 2005). By 2010, Baden-Fuller and Morgan (2010) claimed it was the most popular term in the strategy literature. More recently, Prescott and Filatotchev (2021) suggest it remains influential, despite its questionable theoretical foundations. Magretta (2002) proposes that a good business model must answer questions about the customer, what the customer values, and how to make money from the business. More specifically, Baden-Fuller and Morgan (2010, p. 157) suggest that a critical objective of a business model should be "to provide a set of generic level descriptors of how a firm organises itself to create and distribute value in a profitable manner".

There are some conceptualisations that are broad. Zott et al. (2011), for example, suggest that the business model is centred on a specific organisation, but with boundaries wider than those of that organisation, where the activities of the specific organisation and its partners play an important role. Casadesus-Masanell and Ricart (2010) propose a narrower definition focused on choices in delivery: policy choices (e.g. where to locate plant), asset choices (e.g. what physical assets are invested in), and governance choices (e.g. who makes decisions). Niles (2008) tightens this even further by focusing on the transactions between a business and its customers.

Looking to the manifestation of the business model idea, some authors propose something like Zott et al.'s (2011) conceptual tool or model, structural template, method, or framework. One of the best-known frameworks is the Business Model Canvas (BMC). This approach is aimed squarely at practitioners, and captures nine business model building blocks as a "shared language for describing, visualising, assessing and changing business models" (Osterwalder & Pigneur, 2010, p. 44). Central to this are value propositions, namely, the value for the customer.

The analysis by Mazzarol et al. (2018) covers the BMC and other approaches to elicit four common pillars: purpose, profit formula, key processes, and key resources. These pillars are relevant to credit unions, but Mazzarol et al. (2018) note that they, and much of the literature

on business models, are orientated towards investor-owned firms, and not co-operatives or other not-for-profit organisations. This would explain why social purpose is not explicitly addressed. Byrne et al. (2012) argue for the importance of the member relationship in the credit union business model and development. Indeed social purpose, as a fundamental defining characteristic of credit unions, is an inherent aspect of any credit union business model.

There are discussions of co-operative business models that position the co-operative organisational form generically as a business model in itself, differentiated from investor-owned firms by ownership structure and the distribution of rewards between owners and customers (see, for example, Birchall, 2013; Birchall & Hammond Ketilson, 2009). Mazzarol et al. (2018) have adapted the pillar-based approaches to address the co-operative social objectives and ownership in a Co-operative and Mutual Enterprise Business Model diagram (CMEBM). This adds further building blocks to the BMC template, with descriptors of purpose, governance, membership, and share structure (voting rights and dividend distribution).

Yunus et al. (2010) develop a business model from studying social enterprises connected with Grameen Bank. Despite defining the primary purpose of a social business as “to serve society” (Yunus et al., 2010, p. 4), the business model presented is a profit-orientated one, based on a simple circular flow of value proposition, value constellation (value chain), and profit equation. The lack of an explicit social or co-operative dimension to this framework is a critical drawback in application to credit unions.

In addition to these generic approaches to business models, there are areas within the literature that focus on specific industrial or business sectors. The sector most aligned to credit unions is retail banking, which includes offering savings, secured and unsecured credit facilities, and other financial services such as general insurance, to individuals and businesses. In contrast to the building blocks and pillars of the generic models discussed above, the banking research is marked by its focus on commercial indicators, such as profitability (Messer, 2014), balance sheet characteristics (Roengpitya et al., 2017), and banking activity as expressed in lending and income sources (De Meo et al., 2017). Ayadi et al. (2017, p. 7), writing about banks and credit unions, describe business models as “groups or clusters that are identified by a model-free, data-driven clustering methodology”. Similarly, De Meo et al. (2017) suggest that the existing banking literature identifies business models using statistical learning techniques.

Several recent studies of banking business models assume they can be categorised by lending activity and income sources. Ayadi et al. (2020; 2021) and Krasnova et al. (2022) describe banking business models as variations on De Meo et al.’s (2017) retail, investment, and diversified. Ayadi et al. (2020, p. 1) see “a rich strand of the literature [investigating] the relationship between banks’ business models and financial institutions’ characteristics”. For example, in the case of the retail model, which has direct relevance to credit unions, there is considerable and statistical evaluation of performance (e.g. Ayadi et al., 2021; De Meo et al., 2017; Krasnova et al., 2022) orientated to lending behaviour, interest versus non-interest income, and risk. They do not give much attention to, for example, customer type, proposition, or resources, as the generic business model frameworks tend to. In a short report on the proceedings of a meeting of regulators and community banks in the USA, the practitioners repeatedly comment on issues of proposition (e.g. relationship-banking), while the regulator community discusses business models in the financial terms outlined above (CBI, 2013, 2014).

A very small corner of the literature has considered business models directly in relation to credit unions, predominantly in Ireland and USA. These studies can be grouped under three categories: generic narrative descriptors, building-block based, and financial performance. The academic literature is generally orientated to the banking business model approaches discussed above. McKillop and Quinn (2017, p. 233), evaluating approaches to regulation in light of credit union business models, propose that “capital adequacy, loan book as a proportion of the asset base, and the Return on Assets (ROA)” are the characteristics which “capture the essence of a credit union’s [business model]”, and they undertake detailed modelling of these and other financial dimensions. Similarly, although focusing on the United States, Stowe and Stowe

(2018) analyse common size balance sheet and income statement variables to assess business models. Finally, a series on the sustainability of the credit union business model focuses on financial performance metrics (Lass, 2011a, 2011b, 2011c).

Nelms and Rea's (2018) discussion of the future development of credit unions in the United States is weighted to member needs, technology, and proposition. It views the current business model in terms of financial characteristics: "debt-interest margin, living off of what you make in loans, and what you have to pay out in operating expenses" (Nelms & Rea, 2018, p. 50). Interestingly, in the same report, a national representative for credit union professionals (i.e. a practitioner) states that a consumer should have the right to choose which business model to do business with. So here, the ownership structure or the credit union proposition (how it does its business relative to a bank) is seen to be a distinctive feature of business models. This is an understanding closer to the building block approach (Nelms & Rea, 2018).

Hobbs (2018) and the Central Bank of Ireland (CBI, 2019a) offered specific guidance to credit unions in Ireland on business models. Hobbs (2018) suggests that a business model can help credit unions achieve a shared understanding of how they create and capture value, and offers worked examples of the BMC for credit unions. The CBI (2019a) provides a Business Model Risk Assessment Framework, which references and builds on the BMC. In 2018, the CBI initiated the CEO Forum on Business Model Development to encourage collaboration on business model change. The Forum has since produced several papers addressing change enablers such as regulatory capital (see https://cuceoforum.ie), without defining the current or target business model in narrative or framework terms. Jones et al. (2017) offer a definition based on principles derived from Osterwalder and Pigneur (2010), covering product, operational, and other criteria. They present discursive conclusions, but not a framework.

To summarise, there are generic frameworks that appear to address the propositional and member relationship considerations that credit unions need to grapple with, but only BMC has been applied — as far as public literature makes visible — to credit unions in Ireland (CBI, 2019a; Hobbs, 2018). There are also banking business models which focus on interpreting commercial outcomes, lending in particular, to derive the orientations and emphases of a business.

Method

This paper addresses three broad questions through an examination of secondary sources. Firstly, what is a business model and has it been defined for Irish credit unions? Secondly, why has it been proposed that Irish credit unions need to change their business models? Thirdly, does the business model concept have any utility or relevance to credit unions seeking to address their financial performance challenges?

A review of academic literature provided extensive source material to explore business model concepts and theory, as well as the application of business model thinking to three categories of organisation: banking (a sector aligned to credit unions in terms of its products and services); co-operatives; and credit unions. It was not intended to undertake an exhaustive review of the business model literature, but to identify the differing conceptual approaches. The modest body of academic work on credit unions was augmented by business literature. For Irish credit unions, the analysis also included stakeholder reports. A thematic analysis of these reports is presented in the Findings section of this paper as they align to the performance analysis, drawing out explicit and implicit references to business models, co-operative values, and value proposition.

Credit union sectoral financial performance is recapitulated through simple spreadsheet modelling, to bring up to date the assessments of performance issues and explain their nature in relation to business model concepts. This work is based primarily on public reports by the

Central Bank of Ireland (CBI), with gaps filled by Irish League of Credit Unions data. There is some contextual information on the economy from CBI and relevant literature.

The usefulness of business models as a concept, or tool, for addressing the change for credit unions, in particular for practitioners, is analysed by applying the findings from the evaluation of business model literature and the stakeholder reports to the underlying issues identified in the performance analysis. The secondary sources do not include the views and knowledge of practitioners in relation to business models, since no evidence could be found on this. The paper draws attention to this lack of evidence, which requires primary research to address the gap.

Findings and Discussion

In the initial 40 years of development, Irish credit unions experienced strong organisational growth and surpluses by offering accessible and affordable credit to people who were not easily able to do so, funded and secured by simple savings facilities. There was no non-interest (fee) income for the credit unions from, for example, transaction accounts or insurances, as might be found in the movements in North America or Australia (MacPherson, 1999; McKillop et al., 2006). The value proposition for members might be considered a mix of patronage rewards (dividend, loan rates) and a sense of affective relationship (Byrne & McCarthy, 2014).

By 2000, however, the critical relationship between savings and loans started to change. That was the last year in which credit union loans grew faster than savings (20.4% and 17.4% respectively (Irish League of Credit Unions, 2002)). From 2004, the sector's LTA declined below 50% (derived from CBI, 2014, Appendix II). Jones et al. (2017) describe credit unions from that point as savings unions.

The global financial crisis drove a rapid rise in impairments and provisions, in part due to tightened regulatory accounting requirements, and in 2012, the Commission noted that the crisis had acted as "an additional brake on credit union development" (Commission, 2012, p. iv), concluding that some credit unions were no longer viable and should be wound up or amalgamated.

Unlike the major banks, credit unions showed resilience by surviving the global financial crisis without the need for nationalisation or (enormous) public financial support (Donovan & Murphy, 2013), but lending continued to trail savings. As shown in Table 1 below, between 2011 and 2016, borrowing from credit unions reduced from €5.7 billion to €4.1 billion (CAGR [Compound Annual Growth Rate] -6.4%) (CBI, 2017). This mirrored the total market (€17.1 billion to €12 billion), a CAGR of -6.9% (CBI, 2023a). While credit unions held a consistent market share of approximately 34% (CBI, 2017), this implied a significantly reduced income stream, with LTA declining to 25.7% by 2016. Despite the economic context, savings continued to rise, from €12 billion to €13.3 billion (CAGR 2.1%).

Table 1: Personal lending (credit union and total market) and savings (credit unions), 2011-2016 (derived from CBI 2019b, 2023a)

	2011	2016	Compound Annual Growth Rate (CAGR) %
Personal loans — all providers (€bn)	17.1	12.0	-6.9
Total loans — credit unions (€bn)*	5.7	4.1	-6.4
Credit union market share (%)	33.1	34.2	-
Arrears (greater than 9 weeks, %)	18.2	9.7	-
Loan-to-Assets ratio — credit unions (%)	40.8	25.7	-
Savings (€bn)	12.0	13.3	2.1

*includes personal mortgage, business and community loans

In response to these sustained adverse trends, reports from regulators, policy-makers, and researchers raised the need for change to the business model. The 2012 Commission report was the first to suggest publicly that business models were a solution to the credit unions' challenges, using the phrase 29 times throughout the text (Commission, 2012). Although the Commission was the first to introduce business models to Irish credit union discourse, the report did not define what it meant by business model, and nor did the reports that followed from the CBI (until 2018), the Credit Union Advisory Committee (CUAC), and the Oireachtas.

The Commission's discussion clearly linked business models to breadth of products and services on a spectrum of complexity to administer, and the paragraph on value proposition (Commission, 2012, p. 81) is equally orientated to product recommendations. The report presents a typology of regulatory tiering of three types of credit unions based on asset size, as a proxy for appetite, and capacity for extending the breadth and sophistication of the retail offer. There is an indirect mention of meeting the needs of the members, but no data is offered in relation to what the needs of members and potential members might be. Co-operative values are discussed in the context of member perceptions, but not in relation to proposition or business model. In its 2013 consultation paper on tiered regulation, CP76, the CBI follows the Commission's lead in its 15 references to business models, implicitly aligned to tiering and product complexity (CBI, 2013).

In 2016, reviewing the progress of change since the Commission report, the CUAC made even more references to business models (150), stating that business model development was its dominant concern (CUAC, 2016c). However, what business models look like, or comprise, is not delineated. CUAC notes that "there are many aspects to [business model] development", including "a one-stop-shop suite of services, community banking, Information and Communications Technology services", and a vision to attract younger members (CUAC, 2016c, p. 58). More specifically, and consistent with the Commission and the CBI, CUAC suggested that a new business model would be structured around larger value, longer duration lending (CUAC, 2016c). Furthermore, it saw the lack of progress on tiered regulation as a constraint on this shift. The paper recommends that "credit unions prioritise [business model] development and consider investing significantly in the development of their [business models] either individually or collectively" (2016c, p. 85). Significantly, the proposition and value are not discussed in terms of co-operative principles.

An earlier 2016 report from CUAC, on credit union viability, mentions business models 10 times, again in relation to complexity. The suggestion that Return on Assets "encapsulates [the business model's] efficiency and effectiveness" (CUAC 2016a, p. 21) indicates a financial focus and does not obviously include community and mission-based values. Fair value to members is mentioned once, although this could be focused on pricing. In contrast, the CUAC (2016b) survey of credit unions, published in the same year and summarising 109 responses, has just three references to business model, all of which link to extension of products, services, and complexity, but suggesting that, at this time, the business model concept was not a priority for credit unions themselves. Again, the value proposition is not cited.

The Oireachtas report (Houses of the Oireachtas, 2017) has 29 references to business models. It recapitulates the link to scale, plus "simple" and "more sophisticated" business models, with greater or lesser complexity (Houses of the Oireachtas, 2017). Overall, stakeholder commentaries use similar language in relation to product and service offer, and complexity. They do not define the credit union business model in direct terms. Neither do they address value to members, proposition, or co-operation as a driver of value or differentiation.

Jones et al. (2017) offered more specifics in their evaluation of the Irish credit union business model, which also concluded that a new model was required. Drawing on Osterwalder and Pigneur (2010), they offer a conceptual definition of business models: "the rationale of how an organisation creates, delivers and captures value" (Jones et al., 2017, p. 6). They then present three variations on the business model for Irish credit unions that were based on specified products. Drawing on the experience of large credit union movements in other

developed economies, Jones et al. (2017) offer detailed conclusions for future business model development. The recommendations ask credit unions to create value by meeting a wider range of member needs. This goes further than previous reports in proposing collaborative action between credit unions to deliver that value. Although Jones et al. (2017) provided a clearer narrative in relation to business models, they do not present a generic framework of value drivers.

Since these reports were produced, there has been an expansion of the product offering by some credit unions, to include current accounts, general insurance referrals, and mortgages. The collaboration recommended by Jones et al. (2017) has also emerged. For example, CUSOP (Payments) DAC and Payac CLG offer current accounts, and both Solution Centre and Metamo DAC are offering a range of operational services. These initiatives are funded in whole or in part by credit unions. Metamo, for example, is a collaboration with the private company Fexco Ltd. Given these developments, it is necessary to bring the analysis of business performance up to date, to examine whether the challenges identified are still relevant.

As Table 2 illustrates, from 2016-2022 credit unions actually managed to grow their personal lending to €5.2 billion (CAGR 3.8%) (CBI, 2023b), while the Irish market declined (hit by COVID-19 lockdowns) from €12bn to €11.8bn (CBI, 2023a). Thus, the movement's market share grew to 43.4% (derived from CBI, 2023b), despite lending remaining below its 2011 level.

Table 2: Personal lending (credit union and total market) and savings (credit unions), 2016-2022 (derived from CBI 2023a, 2023b)

	2016	2022	Compound Annual Growth Rate %
Personal loans — all providers (€bn)	12.0	11.5	-0.4
Total loans — credit unions (€bn)*	4.1	5.2	4.2
Credit union market share (%)	32.8	42.1	-
Loan-to-Assets ratio — credit unions (%)	25.7	26.0	-
Savings (€bn)	13.3	16.8	5.0

*2016 includes personal mortgage, business and community loans; 2022 includes only personal loans.

The future growth trajectory of personal loans in Ireland is likely to be muted in the near term due to the inflation-led cost-of-living crisis and uncertainties arising from war in Ukraine (CBI, 2022). In the absence of an unprecedented expansion in the market for unsecured credit in Ireland, a significant uplift for credit unions would imply further growth in their market share. However, credit unions may have reached their natural share of a slow growth market.

The situation has significant implications for the primary income source for credit unions. As desired by several of the stakeholder commentaries (such as CUAC, 2016c; Houses of the Oireachtas, 2017), a number of credit unions are offering or exploring a mortgage product, either individually or collectively, but this will not have a short-term substantive impact on balance sheets and income because of current regulatory limits.

Savings in credit unions have grown from €13.3 billion in 2016, to €16.8 billion in 2022. This is a higher rate than loans (CAGR 5.0%) and from a much higher base (CBI, 2023b). In isolation, this is a continuation of the success credit unions have as trusted repositories of funds for Irish citizens. Irish credit unions are, however, restricted in where they can invest members' savings: apart from in-house lending, regulation essentially limits them to cash deposits or low risk banking products (CBI, 2021). Post financial crisis, the European Central Bank (ECB) and CBI policy drove a sustained low interest rate environment through to 2022 (Ertürk, 2022), meaning that returns on many deposits have been negligible and, in some cases, banks have charged negative interest rates, while the terms of more rewarding longer-term investments have ended (Jones & Money, 2021; Murray et al., 2021). From July 2022, the ECB changed tack, raising interest rates rapidly in an attempt to counter inflation. This led to modest improvements to returns on bank deposits and therefore to credit unions, but the long-term interest rate trajectory

is yet to become clear. Growing savings has not contributed significantly positively to the sector's financial bottom line.

Between savings and loans growth paths, the sector's LTA remained in the range of 26-28% between 2016 and 2022 (CBI, 2017, 2023b), well below the international best practice guideline of 70% (WOCCU, 2023). The strategic challenge arising from this level of LTA, at a time of low returns on un-lent savings, is that the credit unions cannot make sufficient surplus or capture sufficient value to deliver returns on shares to members and make the investments necessary to keep pace with the evolution of the competitor offer and consumer demand.

The pressure on the Capital-to-Assets Ratio (CAR) is also a significant issue. Irish credit union regulation requires 10% capital allocation against assets, and there is no distinction between the respective risks associated with holding loan assets and savings as there is in banking regulation (Jones & Money, 2021; Murray et al. 2021): the growth in savings therefore drives up assets at a faster rate than surplus is generated, so that maintaining the regulatory CAR further checks the ability of credit unions to invest in value creation and delivery in their businesses (Ertürk, 2022; Jones & Money, 2021; Murray et al. 2021). As a result, some credit unions imposed savings restrictions on members (Jones & Money, 2021).

It is clear that the financial performance issue observed from the 2000s to 2016, centred on the LTA and leading to calls for business model change in the latter years of that period, have persisted to the current time. Members' trading with their credit union is weighted in the direction of savings, which are relatively unremunerative for the credit union, but are a key part of the social mission. The trading is insufficiently weighted in the direction of borrowing, the only area which delivers substantive revenue to the credit union, and which was for many years, and is still for some members, a critical part of the value offered. Few credit unions have paid anything more than a nominal dividend in recent years. Given the credit unions' purpose, and their importance as vehicles for financial wellbeing and inclusion in Ireland, putting constraints on savings balances, as some have done, cannot be the long-term solution (Jones & Money, 2021).

The strategic issue is mutually beneficial value creation: what the credit unions can offer, or how they offer it, such that members enjoy services which carry economic benefit to them and to the credit union. Credit unions are values-based, co-operative businesses, and simply maximising financial return for their members is not their objective (see, for example, Byrne & McCarthy, 2005; Culloty, 1990; Kusuma et al., 2022). Their common purpose is to improve the financial wellbeing of their members and of the communities in which their members live and work. Indeed, this involves helping members to grow savings while containing debt at prudent levels. Key credit union objectives are to provide financial products and services at fair rates and to as many members of the community as possible, and to generate surpluses for dividends, donations, sponsorships, and other forms of social impact. To achieve these outcomes, it is necessary for credit unions to meet members' needs, expressed in part or in whole through mutually valuable trade. Credit unions remain extremely popular, as evidenced by achieving first place in rankings for customer experience from 2015-2022 (The CX Company, 2022). The implication of the financial trends of the last two decades is, however, an erosion of the economic resilience of the credit union movement that could stymie its development and potential for positive social impact.

Where business models are important in this discussion is to focus attention on where the value is, for members and credit union, to enable clarity on what the member proposition is and inform decisions. These could be, for example, which products to offer and which partners to collaborate with. The business model would need to encompass the social dimension of the credit union mission that a debate restricted to financials lacks. No data is available on what tools, models, or concepts, if any, are used by credit union leaders contemplating strategic change in their organisations. The quantitative business models derived from evaluation of bank and credit union financial outcomes (e.g. Ayadi et al., 2017; McKillop & Quinn, 2017) offer important and robust insights into the balance sheet performance and risk of the organisations

under examination. This method seems less directly engaged with the particular questions facing credit unions in Ireland. It is also more difficult for credit union personnel to utilise as a tool for generating insight into the proposition for, and the drivers of, value exchange with members. It also does not capture any advantage from the co-operative form (Birchall, 2013). As McKillop et al. (2020, p. 8) conclude, after using the banking business model approach to consider, inter alia, credit unions, what is still needed is “a more nuanced understanding of [business models] in terms of product and process innovation, finding and reaching customers and the design of new products for as yet unmet needs”.

Based on the evaluation in this paper, the more visual, potentially simpler, framewrks such as the BMC or the CMEBM, might provide the templates to meet this need. They offer a way for credit unions to articulate how value is generated, in particular through their proposition, both for the current and a future target state, thereby enabling the change journey between them to be mapped. BMC does not explicitly address the co-operative and credit union values and mission, but perhaps it could. CMEBM includes such pillars, but they add further complexity to the framework. Osterwalder and Pigneur (2010, p. 15) suggest that the business model concept “must be simple, relevant and intuitively understandable, while not oversimplifying the complexities of how enterprises function”. Research with credit unions is required to test the usefulness of these concepts with practitioners and adapt them if necessary.

Conclusions

This paper has explained that in response to enduring financial performance issues visible in the credit union movement in the 2010s, sector stakeholders advocated urgent change to the credit union business model. This paper has brought together the academic and grey literature on business models, credit union performance, and stakeholder commentary to analyse whether the business model concept could be of vital assistance to credit unions in getting to the heart of how they meet their members’ needs.

Business models are intended as a way of articulating value creation and delivery. The prevalent way of evaluating banking business models is through deriving financial metrics from statistical modelling. This is not optimal for credit union practitioners, as it is hard to deploy, does not easily draw out the social value generated alongside the financial performance, and does not focus on value proposition or delivery. Other discussions of co-operative and credit union business models either operate at a very high level (e.g. co-operative business as a business model in itself) or do not provide a framework that credit unions can adapt to their own circumstances. There are, however, generic business model visual frameworks or templates, such as BMC and CMEBM, that capture in a simple fashion the key features of value and which could be adopted for and by credit unions.

This paper’s evaluation of financial performance of credit unions centres on the weak LTA, concluding that this is fundamentally a problem with the value relationship between members and credit unions. A business model, to be of use, will need to enable credit unions to address this. A business model tool is only of assistance to credit unions if a) it brings something to their organisational development that they do not already have through their existing strategy, planning, and management processes, and b) practitioners understand and want it.

The development and statement of a business model must be an enabler of a transformation to find more, or better, ways of delivering value to members, consistent with the values and purpose of the credit union. If the definition and development of existing and future business models can assist Irish credit unions to build a renewed (social and financial) value exchange between member and credit union, it will perform a vital role in building the sustainability of these organisations and their ongoing contribution to the wellbeing of their communities. Further research is needed to close the evidence gap on which business models should be applied, as well as how to gain practitioner support for the concept.

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