Transfers of Engagements: A ‘Learning’ Model

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Executive Summary

In this discussion paper we seek to provide a unique insight to the lessons that emerge during the transfer of engagements process from the perspective of the three key stakeholder groups, namely the 'Board of Directors & CEO', 'Regulator' and 'Members', in a manner that improves the effectiveness of the process when they repeat it in subsequent transfers of engagements. These insights are gathered from the authors' experiences and prior research and their conversations with CEOs who have participated in multiple transfers of engagements.

Section 2 offers a range of insights from academic research on Credit Union transfer of engagements behaviours. Arguably the most important is that past experience of transfers of engagements confers advantages. 'Learning-by-doing' is found to spread the overhead cost of successive transfers, and minimises the loss of focus on management's primary objective of serving members.

Section 3 emphasises the historic importance of the Credit Union Restructuring Board (ReBo) as a catalyst for changing Credit Unions' attitude to transfers of engagements. ReBo destigmatised and demystified the process and repositioned transfers as a progressive strategic option that Boards of Directors and CEOs should consider in their strategic planning. In this section of the discussion document the authors also look forward and suggest that future sectoral consolidation is likely to take place between Credit Unions of larger scale. Such transfers of engagements will place greater opportunity costs upon management teams involved in the process and may be subject to greater actual financial costs as the Central Bank requests greater levels of due diligence.

Section 4 details 26 transfer of engagements lessons. A majority of these lessons were acquired by the 'Board of Directors and the CEO' (*described in the*

discussion document as the 'Governance Team'), next by the 'Regulator' and last by 'Members'. This is reflective of the effort contributed by the respective parties and the proportionality of responsibility they have in the transfer of engagements process. The transfer of engagements process intertwines the regulated entity and the Regulator. The unassailable relationship over the duration of the transfer process saw both parties develop more sophisticated understanding and approaches to transfers of engagements with lessons gained in the initial transfer inculcated in ensuing transfers.

Section 5 commences by stating that in the absence of meaningful collaboration, a new wave of transfers is inevitable to better place Credit Unions with sufficient scale to meaningfully improve cost-to-income ratios and enhance the value proposition for members. In this section a 'learning model' is constructed to guide the creation of 'strategic' transfers of engagements. The imperative that emerges is that the Board of Directors and CEO (of transferee Credit Unions) have a vision and purpose of what they seek to achieve from a transfer of engagements for their members. Critical to this is an understanding of what members really value. Such understanding provides clarity for management & staff to function and dictates how financial and non-financial outcomes are monitored. Step growth arising from transfers also requires different structure, roles and responsibilities to both strengthen the Credit Union's organisational capabilities and enact its chosen business model.

Section 6 sets out five aspects of the transfer process that might arguably benefit from change. First, the transfer process implemented by the Central Bank is extremely costly. Conversations by the authors with Credit Union CEOs suggest the transfer of engagements of even a small Credit Union can cost as much as €300,000 (without factoring in opportunity costs). CEOs question whether potential future benefits compensate such a cost outlay. A more streamlined and less costly process should be put in place by the Regulator (Central Bank), particularly where the transferor is small in asset size and the transferee has a breadth of transfer experience. Second, a significant

exposure for a transferee Credit Union exists during the period from completion of the due diligence to the completion of the legal and regulatory process. The authors suggest that a solution could be the implementation of a process whereby the transferee Credit Union has approval input in situations where such exposures could potentially occur, for example via a Heads of Agreement mechanism. Third, if the Central Bank were to introduce a risk categorisation of Credit Unions similar to a CAMEL grading mechanism this would create a greater understanding of each Credit Union's strengths and weaknesses at the outset of transfer of engagements discussions. Fourth, placing Member Resolution for the transfer of engagements not at the end of the process but rather prior to the onset of Phase 2 (see figure 1), would allow merging Credit Unions seek a mandate from their respective members before embarking on the lengthy and costly due diligence, business planning and integration planning phases of the transfer process. Fifth, the Regulator should commence a review of loan category limits. Future transfers are likely to create Credit Unions of significant scale whose business model could be hampered by existing lending limits.

1. Introduction[1]

Credit Unions are member-owned not-for-profit financial intermediaries. Their institutional structure, legal and regulatory status, product offerings and business models vary across countries, and especially between advanced and emerging countries (Cuevas and Buchenau, 2018). In Ireland, there are currently 229 Credit Unions with assets of €19.42 billion, (€5.1 billion in loans and €14.32 billion in deposits and investments), (Central Bank of Ireland, 2020).

Over the last decade, due primarily to transfers of engagements, there has been a 43% decline in Credit Union numbers (2011, 403; 2015, 342; 2020, 229) with this resulting in a 149% increase in the average asset size of Credit Unions (2011, €34.2 million; 2015, €43.74 million; 2020, €85.16 million).[2] Most of the reduction in Credit Union numbers occurred between 2013 and 2017, coinciding with the facilitation process on offer from the Credit Union Restructuring Board [ReBo]. However, evidence is now emerging of a new groundswell in demand for transfers of engagements, partly driven by the financial challenges faced by some Credit Unions (sluggish loan book growth leading to falling surpluses and strong savings growth leading to capital pressures) but also by the desire by some Credit Unions to enter into a strategic transfer of engagements as part of their forward-looking strategies (the impact of the COVID-19 Pandemic has encouraged some Credit Unions, previously averse to the idea to now be open to this possibility, seeing it as an opportunity to capture scale and scope economies). That said, future transfers will take place without the orderly approach and technical and financial support provided by ReBo. The lack of financial support is particularly unfortunate given the decline in surpluses experienced by many Credit Unions. Furthermore,

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[1] Throughout this discussion paper we standardise on the following terminology (i) **transfer of engagements** (rather than merger or amalgamation), (ii) **transferee Credit Union** (rather than acquiring Credit Union) and (iii) **transferor Credit Union** (rather than acquired Credit Union).

[2] The number of credit unions with assets of at least €100 million has increased from 29 Credit Unions (representing 41 per cent of total sector assets) in 2011 to 62 Credit Unions(representing 64 per cent of total sector assets) in 2020. The number of Credit Unions with assets of less than €40 million has fallen from 295 (representing 33 per cent of total sector assets) in 2011 to 88 (representing 10 per cent of total sector assets).

transfers of engagements between Credit Unions of larger scale are likely to place greater opportunity costs upon the management teams involved in the process and perhaps somewhat ironically may be subject to greater actual financial costs as the Central Bank requests greater levels of due diligence.

Given that a significant number of Irish Credit Unions have now participated in a transfer of engagements, the authors of this discussion paper have sought to document the lessons that have been learnt by stakeholders in the process and where Credit Unions have engaged in further transfers of engagements whether the lessons learnt helped accomplish subsequent transfers more effectively. This information has been gathered by way of structured conversations with a selection of Credit Union CEOs who have participated in transfers of engagements during recent times. An important finding from the analysis is that each of the three main stakeholder groups {(i) 'Board of Directors and CEO' (*which at times, while cognisant of their respective legislative responsibilities for convenience purposes, are described collectively in the discussion document as the 'Governance Team'*), (ii) 'Regulator' and (iii) 'Members'} do learn lessons from their experience of a transfer of engagements process and these lessons in turn influence their decision making in subsequent transfers and related matters.

The structure of the discussion paper is as follows: Section 2 is a 'Selection of Insights' from economic and finance research on transfer of engagements activity in Credit Unions and other types of financial cooperatives. A number of insights emerge but perhaps the most important, from the perspective of the focus of the discussion paper, is that past experience of a transfer of engagements confers advantages. In particular, 'learning-by-doing' spreads the overhead cost of successive transfers, and minimizes the loss of focus on managements' primary objective of serving members.

Section 3 emphasises the important role played by the Credit Union Restructuring Board (ReBo) which proved to be a catalyst for changing Credit

Unions' attitude to transfers. Section 3 also charts sectoral consolidation over the period 2007 to 2020 and speculates that going forward further sectoral consolidation is likely to take the form of 'transfers of engagements of equals'.

Section 4 documents and comments upon the lessons emanating from transfers that have occurred since 2013. These lessons are categorised in terms of their importance for (i) 'Board of Directors and CEO' (ii) 'Regulator' and (iii) 'Members'. Evidence emerged that lessons learnt in initial transfers were harvested during subsequent transfers but also that subsequent transfers gave rise to further lessons.

Section 5 develops a model which attempts to encapsulate the lessons holistically. It depicts how the Board of Directors and the CEO determine the vision and purpose of the Credit Union within the boundaries set by policy makers, the critical role of understanding what members really value, the policies and procedures to support management and staff to function and how outcomes are monitored.

Section 6 highlights aspects of the transfer process that would benefit from change. First, a significant exposure for a transferee Credit Union exists during the period from completion of the due diligence to completion of the legal and regulatory process. We suggest that a solution could be the implementation of a process whereby the transferee Credit Union has approval input in situations where such exposures could potentially occur. This could be captured in a Heads of Agreement at the outset of the transfer process. This would include the use of a fact-find and compatibility exercise. Second, if the Regulator were to introduce a risk categorisation of Credit Unions similar to the CAMEL grading mechanism this would create a greater understanding of each Credit Union's strengths and weaknesses at the outset of transfer discussions. Third, placing Member Resolution for the transfer of engagements not at the end of the process but rather prior to the onset of Phase 2 (see figure 1), would allow merging Credit Unions seek a mandate from

their respective members before embarking on the lengthy and costly due diligence, business planning and integration planning phases of the transfer. Fourth, the Regulator should commence a review of loan category limits. Future transfers of engagements are likely to create Credit Unions of significant scale whose business model may be hampered by existing lending limits.

2. Transfers of Engagements: Insights from Academic Research

In this section we commence by reviewing studies which consider transfer of engagements outcomes in Credit Unions. The analysis then considers transfer of engagements outcomes in financial cooperatives, sister organisations to Credit Unions. A summary overview of all studies considered is detailed in Appendix 1. This summary describes, for each study, the empirical methodology utilised, the time period under consideration, the country (or countries) considered and the main findings that emerge.

Analysis of Credit Union transfers have concentrated on the US (Fried et al., 1999; Goddard et al., 2009, 2014; Bauer et al., 2009; Bauer 2010; Wilcox and Dopico, 2011; Jackson 2017; Peng et al., 2021); Australia (Ralston et al., 2001; Worthington, 2004); New Zealand (McAlevey et al., 2010); UK (Goth et al., 2006); Ireland, (Central Bank, 2019) .

A number of these studies conclude that members of a transferor Credit Union experience an immediate improvement in product cost, service provision and financial stability after the transfer of engagements. In part this may be due to the fact that in a majority of cases the transferor Credit Union tends to be much smaller that the transferee Credit Union and has faced difficulties prior to the transfer. Jackson (2017) notes that in the US while a transfer of engagements can drive measurable benefits for Credit Unions and their members (loan benefits, and deposit benefits) the benefits are greatest for small and medium-sized Credit Unions when they transfer engagements to a large Credit Union. Small Credit Unions create over three times the financial benefits for their members when they transfer engagements to a large Credit Union rather than another small Credit Union, and twice the financial benefits over transferring to a medium-sized Credit Union. However, Jackson (2017) also cautions that size alone is not enough to overcome a transfer of engagements that is a bad fit in other critical ways.

Peng et al., (2021) detail the reasons given by transferor Credit Unions in the US for entering into a transfer of engagements. Over the period 1994 to 2017 they found that in the US there were 6,515 transfers of engagements. In 20.2% (1,319) of cases the reasons given for the transfer by the transferor Credit Union was 'financial or managerial difficulties'. In 30.4% (1,981) of cases the reason given was 'to enable expansion of services'. In the remainder 49.4% (3,215) of cases the reason given was 'restructuring or reorganisation' and involved a change in status for the transferor Credit Union from federally chartered to state chartered or vice versa. More generally, it is observed that a well-constructed transfer of engagements can help Credit Unions tackle not one issue but a range of issues, including succession planning, increasing competition, the inability to afford critical technology, and unforeseen marketplace changes.

Less evidence, however, is found of enhanced benefits accruing to members of the transferee Credit Union at least when the transferor Credit Union is small. Indeed, Ralston et al. (2001) suggest that transfers do not generate efficiency gains greater than those that non-merging Credit Unions are able to achieve through internal growth. While benefits to the members of the transferee Credit Union are not immediately apparent, Jackson (2017) contends that large Credit Unions can still see benefits. These include membership and asset growth, access to established branch offices, and the opportunity to tap into a different group of members. Central Bank (2019) in its review of the restructuring of Irish Credit Unions found that transfers as well as giving transferee Credit Unions a larger base of income generating assets, in the form of transferred loans and investments, such inorganic growth also led to faster organic growth in investments and loans. Additionally, the restructuring review found transferee Credit Unions appeared to outperform the rest of the sector. Goth et al. (2006), for UK Credit Unions, find some contradictory evidence. The authors conclude that a transfer of engagements may have negative consequences for the 'healthier' transferee Credit Union, manifesting in a dilution in membership focus, increasing loan arrears, and reduced dividends.

In part, this finding may be reflective of the generally under-developed nature on the UK Credit Union movement in 2006.

Analysis of cooperative bank transfers of engagements has focused primarily on Europe. Lang and Welzel (1999) consider transfers in German (Bavarian) cooperative banks and concludes that the primary motive is not the improvement of operational efficiency but rather regulatory pressure. Koetter (2008) considers savings and cooperative bank transfers in Germany and concludes that only one in two transfers of engagements prove a success. Coccorese et al. (2020) find that transfers in Italian cooperative banks improve cost efficiency but only after the cooperative bank in question has entered into at least three consecutive transfers of engagements. This finding is important as it suggests that 'learning-by-doing' spreads the overhead cost of successive transfers, and minimizes the loss of focus on managements' primary objective of serving members.[3] Jones and Kalmi (2012) suggest that network arrangements confer on European cooperative banks many efficiency advantages that may be gained by way of transfers of engagements. Harada and Kitamura (2016) investigate consolidation in Japanese cooperative banks (Shinkin banks). They conclude that much of the activity is driven by the regulatory authority's desire for banking stability. They find that large, but unhealthy and inefficient banks merge with small and inefficient banks in order to survive and benefit from a subsidised deposit rate.

2.1 'Learning by Doing': A Vignette of US Credit Unions

Perhaps one of the more important finding from the aforementioned literature review is that 'learning by doing' occurs. To conclude this aspect of the discussion we present an analysis of transfer behaviours of US Credit Unions (1994 to 2017). This information is drawn from Peng et al. 2021.[4] Table 1 profiles

[3] DeLong and DeYoung (2007) advanced the "learning by observing" hypothesis which argues that bank mergers in the mid or late 1990s would have been more likely to create value than the mergers in the 1980s because bank management would have benefited from observing prior mergers.

[4] Qiao Peng is a PhD Student at Queen's University Belfast. Qiao Peng's PhD is structured around modelling the merger behaviour of US Credit Unions.

US Credit Unions that have acquired other Credit Unions in terms of levels of acquisition experience.

Table 1: US Credit Unions Acquisition Experience (1994 to 2017)

Acquisition Experience (1)	No. of Credit Unions (2)	Average time (years) (3)	Average Age (years) (4)	Median Asset Size ($m) (5)	ROA (%) (6)	Capital Adequacy (%) (7)
1	3130	——	68.19	44.659	0.46	12.01
2	414	4.51	70.16	79.862	0.57	11.59
3	211	6.68	70.58	119.286	0.63	11.32
4	79	8.43	69.90	153.362	0.69	11.20
5	66	9.29	73.50	194.469	0.72	10.66
6	36	9.63	70.74	251.508	0.69	11.39
≥7	69	11.07	71.65	321.336	0.73	10.51

Column 1 categorises US Credit Unions in terms of the number of acquisitions they have undertaken over the 1994 to 2017 period (ranging from one acquisition to more than seven acquisitions). From column 2 it can be seen that the majority of Credit Unions (3,130) have undertaken only one acquisition. At the other extreme 69 Credit Unions have undertaken seven or more acquisitions. Column 3 sets out the average length of time between acquisitions, for example for Credit Unions which have acquired two Credit Unions the average period of time between the first and second acquisition is 4.51 years while for Credit Unions that have acquired three Credit Unions the average period of time between the first and third acquisition is 6.68 years. The data in column 3 highlights that as the number of acquisitions increase the intervening length of time between additional acquisitions decreases. Column 4 summarizes the average age of the acquirers. Column 5 details the median asset size, clearly demonstrating that larger Credit Unions undertake more acquisitions. Column 6 profiles the ROA and highlights that in general Credit Unions that undertake larger numbers of acquisitions tend to be better performers. This, arguably, reinforces the 'learning by doing' message. Column 7 highlights that Credit Unions which undertake more acquisitions have lower levels of capital (although all groups are well capitalised).

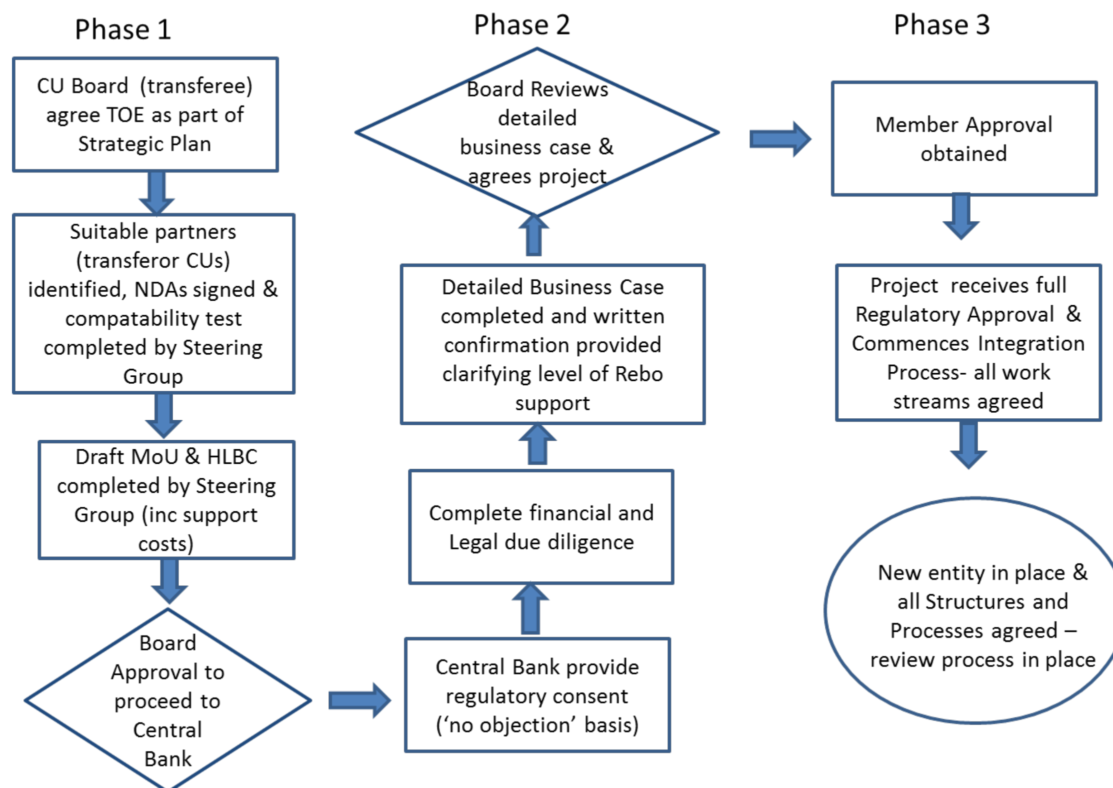
3. Transfers of Engagements in Ireland (2007 - 2020)

3.1 Importance of the Credit Union Restructuring Board (ReBo)

To underpin the stability and long-term viability of the Credit Union sector the Commission on Credit Unions (2012) recommended the establishment of the Credit Union Restructuring Board (ReBo). This was implemented by Government as part of the Credit Union and Cooperation with Overseas Regulators Act (CUCORA) 2012. On 1st January 2013, the Minister for Finance commenced ReBo. As the ReBo Executive gained experience, from working with early adopter Credit Unions, it developed a transfer of engagements process. This had three distinct phases, the first being the initial engagement and agreement to approach the Central Bank, the second involved completion by external parties of legal, financial and asset due diligence on both Credit Unions in accordance with terms of reference provided by the Central Bank, and the third phase was approval by the members of both Credit Unions and then final sign-off by the Central Bank.[5] An overview of the recommended process is set out in Figure 1.

[5] It was anticipated by ReBo that the members, as owners, would have to approve the transfer of engagements transaction.

Figure 1: Credit Union Restructuring Board [ReBo]: Recommended Process



The restructuring activity facilitated by ReBo occurred throughout almost all counties in Ireland, albeit at varying levels. When ReBo concluded its term at 31 March 2017, it had supported 82 transfers involving 156 Credit Unions and at that juncture there remained 291 Credit Unions with 48 holding assets greater than €100m (ReBo Final Report, 2017).

ReBo had two very significant successes. Firstly, it proved to be a catalyst for changing the attitude of Credit Unions to a transfer of engagements. It destigmatised and demystified the process and repositioned transfers as a progressive strategic option that Boards of Directors and CEOs should consider in their strategic planning. Secondly, ReBo encouraged and supported Credit Unions that had completed a transfer to embark on further transfers. In general, transfers of engagements were concluded between financially strong and weaker Credit Unions who from a financial and governance perspective were "at the margin". The stronger Credit Unions sought opportunities to build scale and maximise growth prospects. Furthermore, for those Credit Unions

who engaged in the process, valuable learnings were gained by Boards of Directors and Management (whether or not a transfer of engagements was actually concluded through the process) due to their involvement in the due diligence process and the transfer of engagements proposal development process.

ReBo, on conclusion of its work, shared discoveries from their experience that identified the importance of internal capability at all levels within the Credit Union to determine appropriate strategies to take advantage of the scale being created. There were also various myths dispelled by the 82 completed transfers of engagements, such as the misperception of importance attached to geographic or industrial common bond or representative body affiliation. ReBo also recommended that future transfers will continue to require Credit Unions to make hard decisions concerning areas such as human resources, distribution, replication of costs as part of robust strategic plans guided by their fiduciary duty to do what is in the best interest of the credit union.

As ReBo wound up its operations, the Central Bank issued a letter to all Credit Unions (27th May 2016) encouraging Credit Unions considering restructuring to contact them, and informed Credit Unions that guidance on the transfer process was published in the Credit Union Handbook. This was the same process as had been implemented by ReBo. They committed to continue to support restructuring as an important contributing factor to putting Credit Unions on a sounder footing and contributing to the maintenance of financial stability and well-being of Credit Unions generally. The Central Bank also identified the challenge for post-transfer Credit Unions to leverage their increased scale to achieve greater operational efficiencies and provide a broader range of products and services to meet members' needs and expectations. The communication referenced the need for investment in new systems and products, building reserves and cautious dividend policy, and went on to state there was evidence of some cost efficiencies being realised, however, more needed to be done.

3.2 Sectoral Consolidation

Table 2 demonstrates the steady increase in sectoral concentration from the period immediately prior to the financial crisis to today. Table 2 details the number of Credit Unions in each of three asset size categories (€100m or Greater; €40m to €100m; and Less than €40m) and the overall share of sectoral assets attributed to each size category. A number of points are noteworthy. First, Credit Union numbers have continually fallen with the speed of decline most pronounced between 2011 and 2017 which for the most part coincided with the operation of ReBo. Second, between 2007 and 2020 there was an almost 50% decline in Credit Union numbers. Third, Credit Unions with assets of €100m or Greater controlled 64% of the sector's total assets in 2020 compared to 59% the year previous and 33% in 2007. Fourth, there was a pronounced reduction in the number of Credit Unions with assets of Less than €40m with these Credit Unions in 2020 having a 10% share of sectoral assets compared to 32% in 2007.

Table 2: Sectoral Composition

Range	Number of Credit Unions	Assets € Million	Category Assets / Total Assets of the Sector (%)
2020			
€100m or Greater	62	12,450.0	64.1
€40m to €100m	78	4,980.0	25.6
Less than €40m	88	1,990.0	10.3
Total	**228**	**19,420.0**	**100**
2019			
€100m or Greater	55	10,739.9	59
€40m to €100m	83	5,365.1	29
Less than €40m	103	2,222.7	12
Total	**241**	**18,327.7**	**100**
2017			
€100m or Greater	53	9,170.0	55
€40m to €100m	78	4,810.0	29
Less than €40m	142	2,800.0	16
Total	**273**	**16,780.0**	**100**
2015			
€100m or Greater	37	6,111.9	41
€40m to €100m	78	4,930.0	33
Less than €40m	227	3,920.0	26
Total	**342**	**14,961.9**	**100**
2011			
€100m or Greater	30	4,700.0	34
€40m to €100m	79	4,680.0	34
Less than €40m	297	4,580.0	32
Total	**392**	**13,960.0**	**100**
2007			
€100m or Greater	29	4,749.1	33
€40m to €100m	82	5,055.0	35
Less than €40m	309	4,551.6	32
Total	**420**	**14,355.7**	**100**

For most of the period under consideration, a majority of transfers of engagements were concluded between financially strong and weaker Credit Unions. Looking forward, further sectoral consolidation is now more likely to occur as a 'transfer of engagements of equals' with both parties anticipating that they will be 'much better off' as a combined organisation. That said, future transfers will occur without the technical support and financial subvention provided by ReBo. The lack of financial support is particularly unfortunate given the decline in surpluses experienced by many Credit Unions. The lack of technical support is also unfortunate, a transfer of engagements between Credit Unions of larger scale places greater opportunity costs upon the management teams involved in the transfer process and perhaps somewhat

ironically may also be subject to greater due diligence requests from the Central Bank (resulting in added financial costs). These factors may therefore temper transfer of engagements propensity. In particular, they are likely to significantly curtail transfers of small (and perhaps weak) Credit Unions to larger and stronger counterparts. Conversations by the authors with Credit Union CEOs suggest that the transfer process can cost €300,000 even where a small credit union is involved (without factoring in opportunity costs) and it is debatable whether potential future benefits to the transferee justify such a cost outlay. To prudently reduce this cost it is suggested that greater use of existing reports be made in the due diligence process. These existing reports would be based on the three lines of defence and should identify key risks and concerns.[6] If these are not deemed suitable then the worth of these reports should be questioned.

[6] The 'three lines of defence' are, (1) Management / internal controls; (2) Risk Manager / Compliance Officer / Money Laundering Reporting Officer (MLRO) / Data Protection Officer (DPO); and (3) Internal Audit.

4. Lessons Learnt from Transfers of Engagements

4.1 Extent of Lessons (Insights) Reflects Stakeholder Involvement

Little is known of the emotional, functional or rational behaviour of participants in the Credit Union transfer of engagements process. As illustrated in Section 2 existing research has been conducted predominantly from quantitative analysis of the tangible outcomes, in particular the financial results.

In this discussion paper we now seek to provide a unique insight to the lessons that emerge during the transfer of engagements process from the perspective of the three key stakeholder groups, (i) 'Board of Directors and CEO' (*which for convenience purposes we describe as the 'Governance Team'*), (ii) 'Regulator' and (iii) 'Members', in a manner that improves the effectiveness of the process when they repeat it in subsequent transfers.

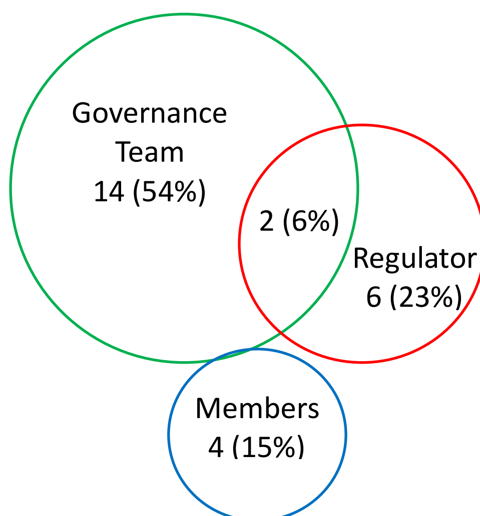


Figure 2 Analysis of lessons by key stakeholder

A total of 26 lessons (insights) emerge (14 in the first transfer of engagements undertaken and a further 12 lessons in subsequent transfers). Figure 2 details the number (and percentage) of lessons attributed to each stakeholder over all transfers undertaken. A majority of lessons were learnt by the 'Governance Team', next by the 'Regulator' and last by 'Members'. This is reflective of the effort contributed by each and the proportionality of responsibility they have in the transfer of engagements process. As will be demonstrated in the ensuing discussion the ability of the 'Governance Team', and the Regulator, to continuously improve was evident through new lessons arising on each transfer of engagements occasion. Evidence was also apparent of lessons gained in the initial transfer being inculcated in ensuing transfers. However, there was only limited evidence that

the three stakeholders collaborated to drive synergies from their transfer experiences.

4.2 Lessons from the Initial Transfer of Engagements Experience

4.2.1 Governance Team (Board of Directors and CEO)

The leading stakeholder is the Board of Directors and the CEO, i.e. the Credit Union Governance Team. Primary lessons in their original transfer of engagements projects included:

1. The Governance Teams of merging Credit Unions realised the economic challenges their Credit Unions faced, however, initially most did not have a clear vision for the merged Credit Union making it difficult to craft an appropriate business plan to address the economic challenges faced. Governance Teams did nevertheless accept that Credit Unions were better together than separate.
2. Where the participating Credit Unions had different problems, this enhanced their prospect for achieving good outcomes from the transfer of engagements. This should, however, not be confused with the participating Credit Unions seeking the same goals. For example, one Credit Union might have a succession challenge while the other might face historical asset impairment, while they both had the goal of growing lending. A transfer of engagements in this instance might offer the appropriate synergy by combining their businesses.
3. Lack of experience of transfer of engagements logically resulted in shortcomings in Governance Teams and initially this was not clearly understood. However, as the first wave of transfers progressed a number of Credit Unions did realise the importance of having a strategically competent Credit Union experienced person lead the project who was also capable of leading the participating Boards of Directors. (Equally important in such circumstances was ensuring that deferring leadership was not an abdication of responsibility.) Similarly, it was quickly realised by transferee

Credit Unions that it was important to have a competent Credit Union experienced person lead the management and staff through the actions and timeline contained in the integration phase.

4. There was a desire to take over others and not be perceived as being taken over. This was consistent with the research carried out by the Commission on Credit Unions (Credit Unions Commission, 2012). To initiate and maintain meaningful discussion, irrespective of asset or membership scale, it was quickly realised there was a requirement for behaving and treating counterparts as equals. (This did not require equality of outcome rather the avoidance of a perception of superiority.)
5. Directors are volunteers who provide a professional service pro bono. Directors' functions are specified in Section 55 Credit Union Act '97 [as amended]. During the initial transfer of engagements phase, there was little evidence of Credit Unions systematically investing in director development to ensure that the Board of Directors contained the required competencies to achieve the higher governance standards and greater business model complexity expected of a larger Credit Union.
6. Not all directors possessed the relevant business acumen for the enhanced nature, scale and complexity of the merged Credit Union. Others, for personal reasons, chose not to put themselves forward for the new Board of Directors. Irrespective, there was widespread recognition of the wealth of talent such directors brought to their Credit Union and the Credit Union Movement. To ensure that this was not lost to the merged entity they were (in many instances) encouraged to contribute in other ways. This included sitting on local boards or community committees promoting engagement with the Credit Union in its enlarged common bond.
7. At the outset of the transfer process, Governance Teams faced challenges in dealing with third party suppliers. In part this was due to limited understanding of what they should expect and require from external third party providers. For example, the transfer process requires that due diligence

is undertaken on each participating Credit Union to ensure there is awareness and transparency on key risks, assets and liabilities. The Regulator requests this to be provided by way of independent appraisal thereby adding to the cost of the transfer of engagements. Through proactive engagement with the Regulator this became less of a problem over time (see also 4.2.2 lesson 2).

8. To ensure that the transfer progressed smoothly it was quickly recognised by participating Credit Unions that it was essential to develop and implement a comprehensive communications plan to include members, management and staff, suppliers and other relevant third parties.

   In particular, effective and timely communications with members was quickly realised as an imperative (see also 4.2.3 lessons 1 and 2). This could only be realised when management and staff were engaged with at appropriate times during the process, allowing them digest the objectives and implications, thereby facilitating expression of their views and/or fears. Honesty and clarity are essential as this is an important contributor to driving out 'red-line' issues early in the process.

4.2.2 Regulator

The next most involved stakeholder, when measured by lessons emerging, was the Regulator, who must authorise any such transaction (in accordance with Section 131, Credit Union Act 1997 [as amended]), and the insights that emerged included:

1. As transfers were not prevalent in the sector, the Regulator initially appeared cautious in the implementation of requirements under Section 129, Credit Union Act 1997 [as amended] showing preference for a resolution of the Board of Directors over a special resolution of members. (This was particularly true in those situations where a transfer of engagements was perceived as the only solution to prevent failure of the transferor Credit Union.) Preference by the Regulator for a resolution by the Board of

Directors, (at least initially) may have reflected limited confidence by the Regulator in the ability of each participating Credit Union in the transfer process to communicate with members sufficiently to garner support for the transfer.

As the Regulator became more confident in the transfer process, and possibly apprehensive of the prospect of a legal challenge to transfers done by Board resolution, it became a more accepted practice that transfers should proceed on the basis of member resolution. However, in accordance with legislation where the Regulator "considered it expedient" to allow a transfer occur by Board resolution very specific circumstances needed to exist, e.g. potential resolution or serious governance failings that were required to be addressed to a strict timeline. Concurrently, there was encouragement that Credit Unions should communicate key matters to members, including, for example, the financial and non-financial benefits for the Credit Unions of merging and the risks of completing (and not completing) the transfer.

2. As the transfer process continued there emerged greater clarity of requirements for regulatory approval of a transfer and this tended to improve the calibre of resultant reports (due diligence reports and business plans). The iterative questions posed by the Regulator regarding due diligence reports and business plans also tended to reduce significantly, (see also 4.2.1 lesson 7).

3. The requirements necessary to achieve regulatory approval resulted in the transfer of engagements process being expensive for Credit Unions both in terms of actual costs and opportunity costs. In the initial phase, actual costs were not a major deterrent to those entering a transfer of engagements project as a portion of the costs were reimbursed by ReBo. Opportunity costs (for example, time spent by both directors and management on the transfer) were, however, considerable.

4. When the initial wave of transfers commenced, there was an absence of regulatory prudential rules to incentivise transfers, such as, enhanced lending flexibility for larger credit unions. While the prevailing regulations permitted some long term lending [based on a percentage of loan book] it was argued that the level allowed was not conducive to investing in the infrastructure to support implementing such loan products. As there was no recognition by the Regulator for scale, this increased the challenge to merging Credit Unions to provide business cases that would enhance the ability to generate income.[7]

4.2.3 Members

Members play a surprisingly minimal role in the transfer of engagements transaction that ultimately brings to an end the transferor Credit Union, and potentially dilutes the individual member equity value of those in the transferee Credit Union. The reality that emerged revealed that the overwhelming majority of members do not participate in the democratic process of exercising their ownership right via voting, which questions the real ownership of Credit Unions – an interesting matter for further consideration in another discussion paper. However, some key learnings emerged in the initial transfer of engagements regarding members:

1. It was evidenced how essential it was to be precise with the timing and content of communications with members [the cost of which can be minimised where the Credit Unions have members consent to communicate digitally]. The objective being to achieve the balance between ensuring 'no surprises' generated by communicating late in the process versus the risk of alarming members by engaging too early in the process.

   Those that approached the transfer of engagements with a '*need to win the member vote*' invested significant effort ensuring effective

[7] Some of the transferor Credit Unions carried regulatory restrictions, and/or capabilities reflective of their scale. This presented an immediate business opportunity as the restrictions (for example) would not be transferred to the transferee Credit Union.

communication with members, ensuring the member decision factors in rational business needs rather than emotion (see also 4.2.1 lesson 8).

2. Timely communication proved critical throughout the journey for all stakeholders, most important was gaining the support of staff, and through their experience they reassured (or discouraged) members. Direct involvement of members likely to carry influence at the General Meetings was also encouraged. This for some Credit Unions included founding members, past Board members and representatives from community groups (see also 4.2.1 lesson 8).

4.3 Harvesting Initial Lessons

Evidence emerged that the lessons learnt in the initial transfer of engagements experience were harvested during subsequent transfers. This evidence is as follows,

- The operational integration experience gained by the Governance Teams in the initial transfer was evident in follow up projects, as subsequent transfers of engagements were approached with confidence and in a methodical manner that, relative to original projects, were delivered more efficiently and at a lower cost, particularly in terms of the opportunity costs experienced by Governance Teams. Furthermore, Governance Teams and the Regulator were becoming more confident with the process and each other.
- For Boards of Directors subsequent transfer of engagements were less momentous events and most Boards were content to allow a Steering Committee progress the project. In the context of project leadership some deferred to the CEO, minimising key person exposure by appointing a deputy CEO, while others outsourced the project leadership role.
- The Regulator published a consultation paper (November 2019) proposing new lending term categories based on percentage of assets

(including home mortgage and business lending) for larger better capitalised Credit Unions and consequently an incentive for transfers of engagements. These new lending rules came into force on the 1st January 2020.[8]

4.4 Further Lessons from the Experience of Subsequent Transfer of Engagements

Now we consider the additional lessons that emerged from the experiences of Credit Unions in subsequent transfers, for each of the three stakeholder groups.

4.4.1 Governance Team (Board of Directors and CEO)

1. Credit Unions with transfer experience now had a confidence which manifested in more active engagement with other Credit Unions. Such engagements were occurring with support by ReBo, by the Regulator, or through collaborative determinations by CEOs. It was also increasingly recognised how important it was that the people who lead out on such engagements could communicate effectively and empathically. This was best illustrated by those who could demonstrate strategies aligned with members' needs and also solutions to the increasing regulatory and competitive demands on Credit Unions.
2. As Credit Unions grew in scale and complexity (due to the step change brought about through transfers) HR structure, roles and responsibilities required attention. There was a recognition by Governance Teams that such changes should form part of the business case and be planned for.
3. With the benefit of experience, it emerged that many issues were not tackled, primarily as they were not disclosed or uncovered by the due diligence process. This included emotive issues concerning future roles and responsibilities, as well as inherent risks that emerged post transfer. There was a recognition that time afforded to detailed planning pre-transfer was

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

rewarded post-transfer. A detailed strategic plan with realistic objectives, actions and specified measurable outcomes was considered particularly important in situations where the transfer of engagements involved two large credit unions. In such situations, the transferee Credit Union could not simply consume the acquired into its plan, policies and procedures, as might be the case when the transferor Credit Union was much smaller in asset size.

4. Experienced transferee Credit Unions developed an additional due diligence process (not specified in the Central Bank's requirements), namely a 'culture and operational' review. It was used to identify and assess gaps between existing and required capabilities and behaviours. It helped determine issues that required addressing pre-transfer, it shaped aspects of the operational integration while also helping staff understand what would be required of them.
5. Credit Unions were increasingly demonstrating reliance on a transfer of engagements process rather than key individuals, albeit while also recognising that some people are better at certain functions than others.
6. There was an increasing recognition of the importance of ensuring the transfer of engagements was grounded in commercial sustainability to ensure the Credit Union developed and prospered. Credit Unions demonstrated benefit from developing a set of principles based on an authentic understanding of what members consider valuable. Quality research served to remedy any divergence between what the Governance Team perceived as being valued by members and what the different member segments actually valued. These member research insights then underpinned the Board approved strategy and polices, which in turn guided management and staff practices.

4.4.2 Governance & Regulator

There were two lessons that emerged that span both the Governance Team and Regulator. These are depicted as overlap areas in Figure 2. These lessons were:

1. A potentially significant exposure for the transferee Credit Union exists during the period from completion of the due diligence process to the completion of the legal and regulatory process. This can range from the potential for issuance of poor quality loans to possible inappropriate contractual commitments. A solution to this could be the implementation of a process whereby the transferee Credit Union has involvement / approval input in situations where such exposures could potentially occur.

2. Due diligence (while costly) is a critical component of the transfer process. However, when due diligence findings emerge the transfer process is well underway. Additionally, the findings from due diligence may give rise to further costs being incurred to resolve or confirm resolution of a matter. It is questionable why issues arise at this stage when the three lines of defence are operating and regularly supervised.[9] Furthermore, the quality of IT due diligence on transferors appears to be insufficiently detailed in terms of both infrastructure and data management. Frustratingly for transferees, they become responsible immediately for inherited data and some sections of the Regulator do not permit appropriate time for this to be rectified.

   The authors of the discussion paper believe there is opportunity for some improvement in the transfer process based on a recommendation originally made by the Commission on Credit Unions (CCU), 2012. That is the introduction of a risk categorisation of Credit Unions by the Central Bank, similar to the US Credit Union System grading mechanism.[10] Such a system could reduce the due diligence process and create a greater understanding of each Credit Union's strengths and weaknesses at the

[9] As noted earlier (footnote 6) the 'three lines of defence' are, (1) Management / internal controls; (2) Risk Manager / Compliance Officer / Money Laundering Reporting Officer (MLRO) / Data Protection Officer (DPO); and (3) Internal Audit.

[10] The National Credit Union Administration [NCUA] use a system known as the 'CAMEL rating system' this has five critical elements 1. Capital adequacy 2. Asset quality 3. Management 4. Earnings and 5. Asset/Liability management. This system was adopted by the NCUA in October of 1987.

outset of transfer discussions and thus provide a much clearer understanding of the challenges and opportunities for an enlarged merged entity.

Arguably, the absence of such a rating system necessitates a high level of external 'experts' being required by the Regulator. This adds to the cost of the transfer process and potentially acts as a deterrent to a transfer.

4.4.3 Regulator

1. The Regulator had previously acknowledged that transfers of engagements had to a large extent been driven by push factors, with the members of transferor Credit Unions deriving the benefits from a strong partner that resolved their challenges (Central Bank of Ireland, 2019).

   The Regulator subsequently nuanced their viewpoint stating "*Whilst most transfers continue to see weaker, smaller credit unions being absorbed by stronger, larger peers, restructuring proposals are under consideration at all levels across the sector*" (Central Bank of Ireland, 2021). This nuanced view would suggest that the Regulator is now prepared for a greater number of 'transfers of engagements of equals'. The creation of much larger entities being viewed as a means of facilitating business model development and thus enabling the product range and distribution channels (particularly digital channels) which are now a membership requirement. Of course, 'transfers of engagements of equals' might also be considered as a means of 'weathering' reducing earnings. The practice of transferors having to address matters in pre-transfer Risk Management Plans, where these matters would be resolved in the transfer, drives up the overall cost of the process, and should be reviewed. It would also be beneficial for the Regulator to update their guidance on transfer of engagements to include their expectation of what is required in the High Level Business Case [HLBC] as practice has shown over time that more information is requested.

2. After the significant wave of transfer of engagements that have completed, a learning that emerged was the benefit that could be derived from a reorganisation of the transfer of engagement process to place the passing of a Special Resolution to an early stage in the process.

   The merging credit unions should be permitted to seek a mandate from their respective members prior to embarking on the lengthy and costly due diligence, business planning and integration planning phases of the transfer of engagements process. This recommendation respects the principle that members should vote on such a material matter. Notwithstanding a positive endorsement by members, the Regulator continues to retain final approval should any pertinent matter arise during the due diligence process.

4.4.3 Members

Members have the opportunity to raise concerns or questions to their Credit Unions, or more formally to the Registrar within 21 days of the transfer of engagements notification. This was very rarely exercised re-enforcing the earlier insight that members appear more focused on their consumer role rather than their ownership role.

1. As Credit Unions merged, membership numbers increased substantially and the transferee Credit Unions' common bond now stretched beyond the traditional geography they were familiar with. To develop an effective strategy for the enlarged Credit Union greater understanding of, and insight to, their membership needs was essential. Credit Unions commissioned member research which provided insights that served to inform the governance of the Credit Union. Strategy became based on a real understanding of what the various segments of their membership valued, in particular the younger borrowing cohort rather than the previously held internal Board perceptions of what might be valued. This in turn drove the Governance Team to take steps to strengthen their capabilities to serve these valued dimensions.

2. Research also identified that original members, who initially joined to satisfy a credit need, had matured into more financially independent people with little or no need for credit with many also having a healthy savings nest-egg. New younger borrowing members were also not being recruited at a level to utilise the funds available from savings growth. Membership cohort mix may consequently be a further influence upon transfer of engagements partners.

5. Transfer of Engagements: A 'Learning' Model

5.1 What Needs to Happen in a 'Strategic' Transfer of Engagements?

Through our observations of, and interviews with, participants of multiple transfers of engagements it has become evident that experiential learning emerges. This is similar to Mintzberg (1994) findings on business strategy and the importance of emergent strategy which arises informally at any level in an organisation, as a substitute or to enhance deliberate strategy, summarised by his quote "*Leadership, like swimming, cannot be learned by reading about it*".

The experience of the transfer of engagements process can have a profound impact on the ability to enhance the sustainability of the transferee Credit Union as participants demonstrate a maturity gained from the experience. We witnessed examples where this has driven improved professionalisation of governance within the Credit Union, increased use of central services from both Credit Union owned organisations and from commercial providers, and encouraged a greater diversification of products and services for the growing membership. There were also examples of Credit Unions engaging in transfer of engagements which chose to continue with their existing strategy. Going forward these Credit Unions may need to realign their strategy suitable to the increased scale of the Credit Union.

Many transfers of engagements during the period under review happened because at least one of the participating Credit Unions was experiencing a decline in viability and/or sustainability; ageing Board and CEO; declining loan portfolio; compliance challenges or pressure from the Regulator [for many of the aforementioned reasons]. Many of these challenges continue to emerge in Irish Credit Unions today. While it can be argued that similar gains to those achieved from transfers can be captured by collaboration through Credit Union Service Organisations for operations sharing, in the absence of meaningful collaboration, a new wave of transfers is inevitable to better place Credit Unions with sufficient scale to meaningfully improve cost-to-income ratios and enhance the value proposition for members.

However, Credit Unions will need to satisfy themselves that a strategic transfer will address the full extent of the issues facing their Credit Union and therefore merits the investment in completing it. This may include demonstrable evidence of [some examples only]:

- that the right partner is identified, culture must trump ego issues, essential to have the right people with the right attitude;
- the ability to undertake developments without dependency on other Credit Unions and/or centralised or shared services or other third parties;
- the ability to appoint a full range of management functions;
- the ability to develop a wider range of products and services on an economical basis e.g. member financial planning, contact centre.

In the remainder of this discussion document we construct a framework which may aid Credit Unions seeking to pursue transfers more strategic in form. This framework is based on the experiential learnings of Credit Unions who have developed a more efficient and a more effective approach to the transfer process. The framework accommodates (and accepts) that all of these Credit Unions have not implemented their experiential learnings in the same manner. The framework seeks to improve the ability of Credit Unions to prepare for dealing with transfers of engagements, and also gives them a clear decision making process to handle the difficult business decisions that arise.

The starting point for any Credit Union is consideration of inorganic growth in its strategic development plan process. Where the Board of Directors is favourably disposed to transfers, it should be set as an objective in the plan, accompanied with a set of principles, e.g. to proactively seek or to react only when approached. An element of an inorganic strategy might include a 'Health Check' on preparedness to partake in a transfer. Evidence of such readiness should support minimising due diligence as areas covered could include Governance, Strategy & Structure, Resources, Financial & Accounting, IT, Products and Banking Process, Policies & Procedures, Risk & Compliance.

Credit Unions having a specific inorganic strategy will aid the identification of a potential partner. Once a potential partner is identified the project is initiated with a competent person leading the project and a steering committee of representatives from each Credit Union, who have a clear mandate from their respective Boards, and an ability to work collaboratively with counterparts. Where the project leader is an incumbent CEO, support should be provided to ensure the business as usual does not suffer. An early task for the leader is to determine the issues which if not solved early the successful completion of the transfer cannot be guaranteed, these will normally be HR related, see 'who does what' section 5.4 below.

5.2 Achieving Clarity of Purpose

The analysis has suggested that members appear more focused on their consumer role rather than their ownership role. Irrespective of this, the rationale for a transfer of engagements must be explained to members and that their collective interests are served by the transfer proposal. The driver for any transfer must be what is in the best interest of current and future members of the Credit Union concerned, recognising that legislation ensures the ultimate decision on a transfer is the responsibility of the Registrar. Clearly transfer of engagements which are not in the best of interest of members should (and indeed have been) rejected.

The boundaries within which Credit Unions operate, their objects, their governance functions, their permissible business are all determined in Credit Union specific legislation and related regulations. These boundaries were extended as the prudential rules determining lending limits were revised in 2020 generally permitting more for larger scale and should now form a key part of the transfer of engagements business case considerations.[11] The imperative that emerges is for merging Credit Unions to determine the vision and purpose for their Credit Union (within the boundaries set by policy makers). Robust existing strategic plans can accelerate this determination. Figure 3 illustrates how bringing in the 'voice of members' into this process enables a real understanding of what members value, as opposed to one based upon Governance Team perception. From this insight it becomes clear what products and services are required to meet the segmented needs of the expanding membership base as well as how these products and services should be delivered. Such understanding deepens the relationship of the Credit union with its expanding membership base. In short, the merged Credit Union can ensure they are a unique, differentiated customer-membership organisation rather than another distributor of generic banking services. Such a grounded plan will provide stakeholders with confidence through evidence, demonstrating and substantiating a 'reality check' for the business plan.

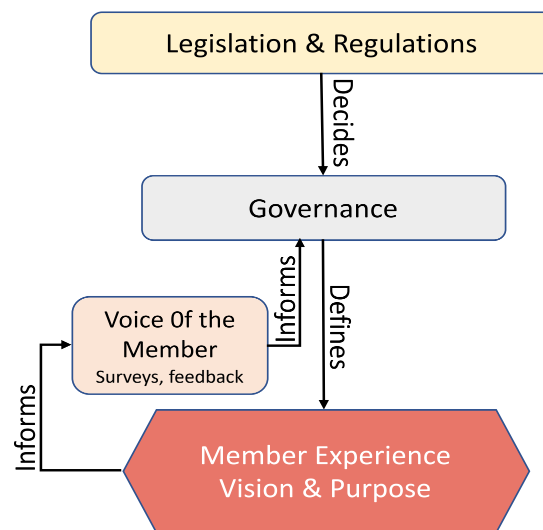


Figure 3 Attaining Clarity of Purpose

11 S.I. No. 642/2019 - Credit Union Act 1997 (Regulatory Requirements) (Amendment) Regulations 2019

5.3 What Needs to be Done

While member research identifies insight to what members value, it also provides insight to how Credit Unions can build sustainable competitiveness. Irrespective of whether it is a community Credit Union operating with a branch (and digital channels), or an industrial Credit Union connected primarily via digital channels, the trust members place in their Credit Union is unique and best suited to differentiation on a relationship basis. Figure 4 depicts the manner in which a Credit Union might be expected to differ from other retail financial providers

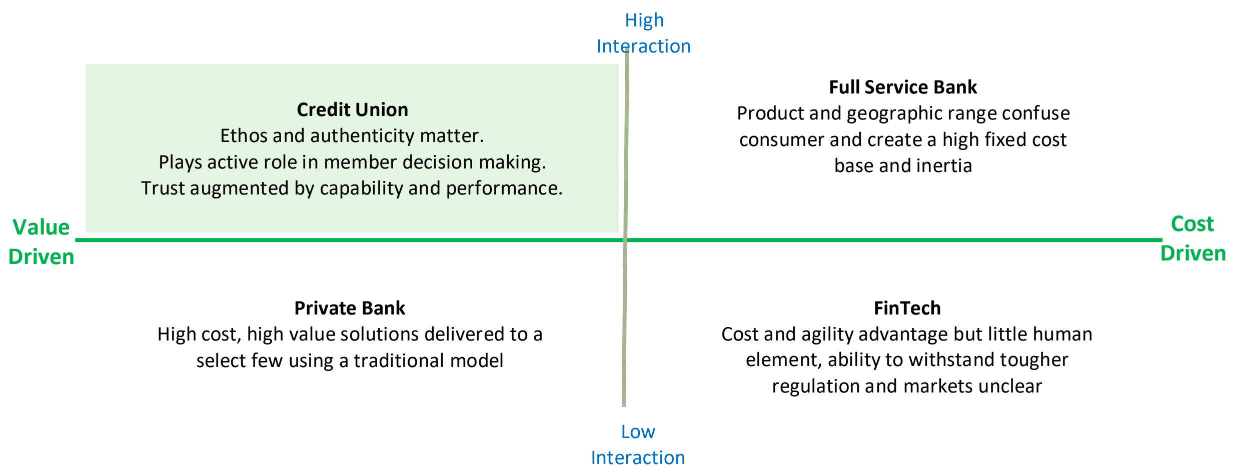


Figure 4 Competitive Difference

The authors recognise that this insight may not appear to be directly correlated to the transfer of engagements process, however, we take the opportunity to stress that this is critical to any Credit Union's strategic planning. Such informed Credit Union strategic plans, supplemented with transfer of engagements intent, will improve the development of a detailed business case for the transfer of engagements, and

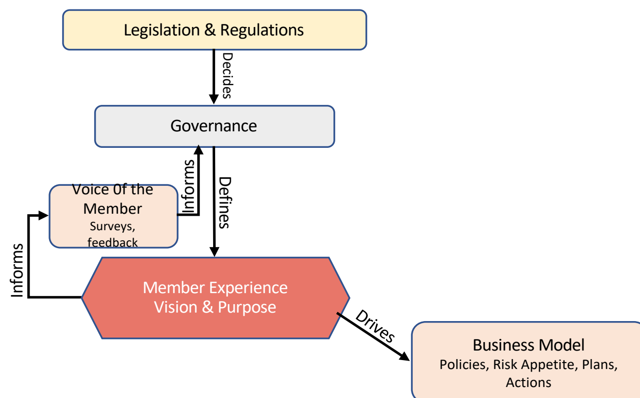


Figure 5 Defining the Business Model for the Enlarged Credit Union

contribute to informing participating Credit Unions of each other's business model. Driven by greater clarity on the purpose for the enlarged Credit Union and the high level member experience that this entails the participating Credit Unions then proceeds to explore the appropriate business model for the transferee Credit Union, see figure 5. This is where the critical matters such as the risk appetite, the key policies, standards and procedures, HR and training & development plans, and relevant capability projects that will guide the business are considered. This ensures the transfer of engagement is grounded in commercial sustainability in a manner that creates the best opportunity for the Credit Union to develop and prosper. Once again, the insights from research with members (and prospective members) serves to identify the key attributes that members value, such as product features, service and delivery features, relationship related and brand affinity.

5.4 *Business Model Informs the 'Who does What'*

The potential risk caused by conflicting culture and/or operational differences between merging Credit Unions can be addressed by the completion of an internal due diligence. The cultural comparison identifies gaps between what currently happens and what is required of the member experience targeted for delivery to an enlarged membership base. Figure 6 illustrates how the planned business model informs the skills required internally and those to be sourced externally through suppliers or shared services. This part of the model recognises that the step growth arising from the transfer is likely to require different structure, roles and responsibilities to strengthen the Credit union's capabilities and enact the business model. The first component of the enhanced

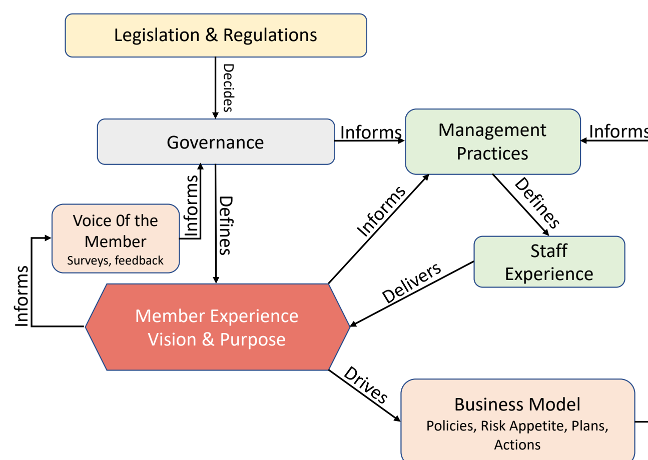


Figure 6 Identification of resources, structure and skills required internal and outsourced

structure is the Board, which tends to be drawn from the pool of existing directors on a ratio reflecting the asset sizes of the participants to the transfer. While this is understandable it is important that the nomination process is based on the Fitness & Probity regime, the overarching goal is to ensure that the nominated directors are best placed to provide the governance and strategic direction required to ensure the success of the new combined entity. As there will inevitably be an increase in the nature, scale and complexity of the enlarged Credit Union the business plan should include investment in director development for the new Board. Similarly, the Board should apply similar standards when considering the needs at CEO level.

Aligned with this, the management structure, roles and responsibilities also need attention, particularly as the business model increases in complexity. The previously mentioned cultural review is a key input to determining if there exists a gap between current management practices and those required, and if so what it will take to bridge the gap. Structures and role descriptions need to be aligned to the required policies and procedures. These, together with associated HR benefits, require clarity and agreement between the participating credit unions pre-transfer.

A further challenge arises in seeking a workable solution to the high value placed on local community presence while members move to digitally enabled services. There may be tough decisions to be made concerning management, staff and branch network.[12] Once again, if the bridging of gaps proves unrealistic the project should end.

Another critical component is the communication with members. As with most parts of the member experience, it is the staff who deliver it. Therefore, it is imperative that staff are properly briefed and made aware of the rationale for the transfer of engagements, the member value proposition together with the potential implications of not doing the transfer. It is also important to manage

[12] This may include consideration of future branch locations where the transferor Credit Union is not adjacent to their common bond, as not to do so could potentially store up future strategic issues.

the public relations aspects of the project, ensuring the correct message is communicated to all stakeholders.

5.5 Monitoring the Performance

Throughout the transfer of engagements project it is essential to track actions in the plan to ensure it completes successfully and compliantly. Our observations demonstrate that the benefits promised in the transfer of engagements business case are best achieved where the transferee Credit Union implements a thorough monitoring and reporting means.

Figure 7, which completes the 'learning model' identifies that it is essential to track not only the financial results, as these reflect historical activities, but also the progress of actions that will be contained in the business plan. This allows the Board to ensure that the enablers of future financial results are being implemented as planned. These will include the correct resources being deployed and with the identified capabilities, such as technological, data management and analysis tools. This serves to contain operational costs and grow traditional and additional income streams, and that they are coming on stream as planned. Any deviations can then be addressed early, similarly successes can be explored to see if it is possible to further improve. The transferee Credit Union should prepare for coping with imbalanced success. A 'lessons learnt' document at the end of each transfer of engagements should also be completed, ideally by all stakeholders, as this helps inform the risk register for future projects.

In turn the Board of Directors can gain assurance that their approved policies and standards are being adhered to, and proudly present their members with what was promised from the transfer of engagements.

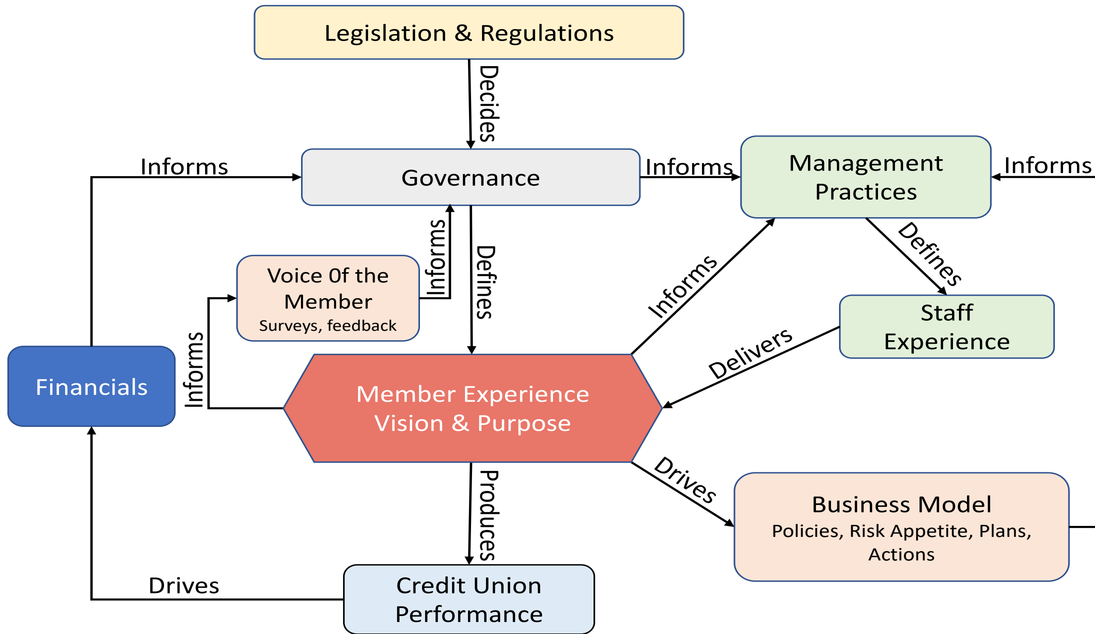


Figure 7 Learning Model in Full

6. Concluding Comments

In this discussion paper we detail a selection of lessons (insights) that emerge during the transfer of engagements process from the perspective of three key stakeholder groups, namely the 'Board of Directors & CEO, 'Regulator' and 'Members'. A total of 26 lessons are detailed. We chose to compartmentalise these lessons into those determined from the initial transfer entered into by a Credit Union and those which emerged during subsequent transfers of engagements. The initial lessons could be viewed as relatively simplistic in form but nevertheless should prove useful for Credit Unions embarking upon a transfer of engagements for the first time. The subsequent set of lessons are more intricate in form and only made possible by the depth of knowledge (and learning) gained by Credit Union CEOs who had been through the transfer process on a number of occasions. These latter lessons may prove particularly important as Credit Unions seek to engage in 'transfers of engagements of equals' where both parties are large in scale in contrast to previously where the transfer of engagements was usually a transfer of a small Credit Union to a larger entity. In 'transfers of engagements of equals' *mistakes* are not an option.

As our conversations with CEOs evolved we became aware of aspects of the transfer process that might arguably benefit from change, although this was neither an objective nor an expected outcome from the study. First, the transfer process as established by ReBo and now implemented by the Central Bank is extremely costly and may curtail future transfers. Conversations by the authors with Credit Union CEOs suggest the transfer of engagements of even a small Credit Union can cost as much as €300,000 (without factoring in opportunity costs). CEOs question whether potential future benefits compensate such a cost outlay. A more streamlined and less costly process should be put in place by the Central Bank, particularly where the transferor is small in asset size and the transferee has a breadth of transfer experience. Second, a significant exposure for a transferee Credit Union exists during the

period from completion of the due diligence to the completion of the legal and regulatory process. This can range from the potential for issuance of poor quality loans to possible inappropriate contractual commitments. We suggest that a solution could be the implementation of a process whereby the transferee Credit Union has approval input in situations where such exposures could potentially occur. Third, if the Regulator were to introduce a risk categorisation of Credit Unions similar to the US Credit Union CAMEL grading mechanism this would create a greater understanding of each Credit Union's strengths and weaknesses at the outset of transfer discussions. This form of earned flexibility should translate into a reduction in due diligence requirements as well as provide a much clearer understanding of the challenges and opportunities for the merged entity. Fourth, placing Member Resolution for the transfer not at the end of the process but rather prior to the onset of Phase 2 (see figure 1), would allow merging credit unions seek a mandate from their respective members before embarking on the lengthy and costly due diligence, business planning and integration planning phases of the transfer. Notwithstanding a positive endorsement by members, the Regulator would continue to retain final approval should any pertinent matter arise during the due diligence process. Fifth, the Regulator should now commence a review of loan category limits. Future transfers are likely to occur between Credit Unions that are larger in asset size than was previously the case. It would be unfortunate if the business models of the resultant Credit Unions were hampered by existing lending limits.

The discussion paper concluded with the construction of a learning model. The objective being to create a framework within which a proposed '*transfer of engagements of equals*' should be considered. The framework emphasises the centrality of members in the decision to merge. Given that members are more focused on their consumer role rather than their ownership role, a transfer should only go forward if there are clear and unambiguous benefits to members (and indeed prospective members). This requires the Credit Unions involved having a clear and informed understanding of the products, services

and delivery mechanisms that members (across all cohorts) want and be assured that the proposed transfer will aid the achievement of the informed understanding of membership needs. With this clarity of purpose, the framework suggests the merging entities proceeds along two critical tracks. The first is the identification and mitigation of the risks caused by conflicting culture and/or related operational differences between the merging Credit Unions. The second is ensuring the transfer is grounded in commercial sustainability. The next element of the framework emphasises that step growth arising from the transfer of engagements will most likely require different structures, roles and responsibilities to strengthen the Credit Union's governance capabilities and enact the business model. This must be more than bolting together the 'best' of the merging Credit Unions. The final element of the framework stresses that throughout the transfer project it is essential to track actions in the plan to ensure it completes successfully and compliantly. This should also extend post-transfer of engagements with the benefits promised in the transfer business case benchmarked against realised outcomes.

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Appendix (Literature Review)

Paper	Methodology	Type	Countries	Time period	Main results
Fried et al. (1999)	Empirical exercise based on a two-stage model	Credit Unions	US	1988 to 1995	The service terms of membership of the transferor Credit Union are improved after the M&A, but the members of the acquirer Credit Union don't benefit. The characteristics of relatively successful and relatively unsuccessful mergers are identified across three different perspectives.
Lang et al. (1999)	Sto0ichastic frontier analysis	Cooperative banks	Germany	1989 to 1997	Mergers in Bavarian cooperative banks do not have as their primary motive the improvement of operational efficiency but rather they occur due to regulatory pressure .
Garden et al. (1999)	Multiple regression	Credit Unions	Australia	1992 to 1997	On average, an M&A does not lead to an increase in overall allocative and technical efficiency compared to Credit Unions that have not participated in a M&A.
Worthington (2001)	Data envelopment analysis and tobit model	Credit Unions	Australia	1993 to 1997	The results indicate that loan portfolio diversification, management ability, earnings and asset size are a significant influence on the probability of acquisition, though the primary determinant of being acquired is smaller asset size. Mergers appear to have improved both pure technical efficiency and scale efficiency in the Credit Union industry.
Ralston et al. (2001)	Data envelopment analysis	Credit Unions	Australia	1993 to 1995	The efficiency generated by way of acquisitions is minimal in comparison to that achieved from internally generated growth.
Leggett et al. (2002)	Linear regression	Credit Unions	US	1982 to 1998	As Credit Unions add unrelated groups and expand, the prospects for separation between ownership and control increases, creating potential agency control problems. If a Credit Union takes on more than one membership group, and as membership increases, management is apparently able to channel residual earnings away from members (in the form of higher net interest margins) toward itself (higher salaries and operating expenses).
Worthington (2004)	Data envelopment analysis and multiple logit model	Credit Unions	Australia	1992 to 1995	Asset size and quality, revenue and liquidity, and management capabilities all influence the occurrence of a M&A. Perceived compatibility in joint bonds and membership are also non-negligible factors.
Goth et al. (2006)	Interviews / case studies	Credit Unions	UK	1997 to 2004	In the majority of cases transfer of engagements were reactive, dealing with the problems encountered by small community Credit Unions. In some cases, the performance of the transferee Credit Union was adversely affected by the transfer of engagement, but this was recovered in the longer term. In each instance the transfer of engagement was 'unique' and the product of particular circumstances.
Koetter (2008)	Profit and cost efficiency analysis	Cooperative banks	Germany	1995 to 2005	Every second merger is a success in terms of either cost efficiency (CE) or profit efficiency (PE). The margin of success in terms of CE is narrow, as efficiency differentials between merging and non-merging banks are around 1 and 2 percentage points. PE performance is slightly larger. More importantly, mergers boost in particular the change in PE, thus indicating persistent improvements of merging banks to improve the ability to generate profits.
Goddard et al. (2009)	Hazard function estimation	Credit Unions	US	2001 to 2006	The hazard of acquisition is inversely related to both asset size and profitability, and positively related to liquidity. Growth-constrained Credit Unions are less attractive acquisition targets. Institutions with low capitalization and those with small loans portfolios relative to total assets are susceptible to acquisition. The investigation presents unique empirical evidence of a link between technological capability and the hazard of acquisition. Credit Unions without websites have a greater probability of being acquired.

Bauer et al. (2009)	Event study	Credit Unions	US	1994 to 2004	Gains accrue to the owners/members of the target Credit Union and to the regulators but not to the acquiring firm. Authors suggest that the transferee Credit Unions may encounter regulatory pressure to merge. In addition, the owners/members of the acquiring firm may avoid potential disutility in the cooperative insurance environment were the target firm allowed to fail.
McAlevey et al. (2010)	Data envelopment analysis	Credit Unions	New Zealand	1996 to 2001	The major driver for mergers was not the usual reason of attempting to increase efficiency for competitive purposes but rather enforced government action. Overall, Credit Unions have become more efficient over the period, most notably those that undertook mergers.
Wilcox et al. (2011)	Statistical analysis	Credit Unions	US	1984 to 2009	Mergers tend to improve Credit Union cost efficiency. When the acquirer is much larger than the target Credit Union, target members benefit in terms of lower loan rates and higher deposit rates, while acquirer members see little change. When merger partners are more equal in size, these benefits are shared more evenly. Over time, Credit Union mergers have shifted from, on average, only benefiting targets to also benefiting acquirers to some extent.
Jones et al. (2012)	Review article	Cooperative banks	Europe	-	Network arrangements confer on European cooperative banks many efficiency advantages that may be gained by way of merger and acquisitions.
Goddard et al. (2014)	Hazard function estimation, cross-sectional growth regression, time series	Credit Unions	US	1995 to 2010	Consolidation through M&A was the principal cause of a reduction in the number of Credit Unions, but impact on concentration was small. Divergence between the average internally generated growth of smaller and larger Credit Unions was the principal driver of the rise in concentration.
Harada et al. (2016)	difference-in-difference method and panel estimation.	Cooperative banks	Japan	1994 to 2003	They investigate consolidation in Japanese cooperative banks (Shinkin banks) and find that much of the activity is driven by the regulatory authority's desire for banking stability. Large, but unhealthy and inefficient banks merge with small and inefficient banks in order to survive.
Jackson III (2017).	Call Report data analysis by asset size categories	Credit Unions	US	1979 to 2017	Calculates the benefits of Credit Union mergers for members and for the Credit Union itself. Talks in general terms about the advantages and disadvantages of mergers. Argues that similar gains to those achieved from mergers can be captured by collaboration through Credit Union service organizations and operations sharing or operations networking.
Coccorese et al. (2020)	Stochastic frontier approach, Tobit estimation, logistic regression	Cooperative banks	Italy	1993 to 2013	Mergers increase mutual banks' cost efficiency only after a bank has merged at least three successive times with other banks.