THE IMPACT OF REGULATION ON CREDIT UNIONS IN IRELAND

<u>The Impact of Regulation on Credit Unions in Ireland</u>

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I agree that this research project may be used by Letterkenny Institute of Technology for teaching on future Masters Programmes.

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Abbreviations

ABCUL	**-**	Association of British Credit Unions
CUAC	**-**	Credit Union Advisory Committee
CUDA	**-**	Credit Union Development Association
FSA	**-**	Financial Services Authority
FSMA	**-**	Financial Services and Markets Act 2000
IFSRA	**-**	Irish Financial Services Regulatory Authority
ILCU	**-**	Irish League of Credit Unions
NCUA	**-**	National Credit Union Administration
WOCCU	**-**	World Council of Credit Unions

Abstract

This research paper presents results on the impact of regulation on credit unions in Ireland. The researcher seeks to answer following research question. How are credit unions in Ireland regulated and what is the impact of this regulation. To help answer this question it was necessary to simplify the research question further into research objectives.

A critical review of the literature identified the answer to the first part of the question. The Financial regulator now regulates credit unions and the main piece of legislation is the Credit Union Act 1997. Following a review of the possible methods of primary research, it was decided that a questionnaire would be circulated to credit unions in order to determine the answer to the second part of the research question. Based on an analysis of 42 questionnaire replies, the findings of this research indicate that credit unions believe that a change in the credit union movement is required and that regulation is both necessary and important. Credit unions also believe that regulation needs to be independent of the credit union movement. The findings of the research also indicate that credit unions feel particular areas within the movement are too restrictive. In particular the areas of investments and lending were evident.

When size is the focus for analysis, the evidence provides that large credit unions are more aware of change and that they are more willing to change. This is evident from the fact that so many large credit unions have implemented new policies, procedures and controls. This suggests that large credit unions are more pro-active than small credit unions.

Chapter One

INTRODUCTION

This research paper investigates the impact of the Financial Regulator on credit unions in Ireland. In order to understand the subject matter, it is important to define a credit union, outline the key operating principles that underpins a credit union as a financial co-operative and briefly discuss the historical development of the credit union movement.

Prior to this research, no major examination of the impact of regulation on credit unions in Ireland had been conducted.

Credit unions have been operating in Ireland since the late 1950's. Since then, there has been a steady growth in the credit union movement. Credit unions now appear in most small rural villages. Over recent years there has been a move away for the notion of self-regulation to that of a more independent visible regulatory framework. This is also evident in all areas of the financial services sector.

1.1 What are credit unions

A "credit institution" was first defined in the First Banking Directive as

> "An undertaking, other than a credit union or friendly society, whose business it is to receive deposits or other repayable funds from the public and to grant credit on its own account"

(Directive 77/780, (1977) OJ L32/30 as cited by Donnelly 2000)

The World Council of Credit Unions (WOCCU) defines a credit union as:

… a unique member-driven, self-help financial institution. It is organised by and comprised of members of a particular group or organisation, who agree to save money together and to make loans to each other at reasonable rates of interest **…** a co-operative financial organisation owned and operated by and for its members, according to democratic principles, for the purpose of encouraging savings, using pooled funds to make loans to members at reasonable rates of interest, and providing related financial services to enable members to improve their economic and social condition. (WOCCU, 2003)

Berthoud and Hinton (1989) define a credit union "as a society offering its members loans out of a pool of savings built up by the members themselves".

On their website The Irish League of Credit Unions (ILCU) describe a credit union as "a group of people who save together and lend to each other at a fair and reasonable rate of interest". (w-creditunion1)

Credit unions offer members the chance to have control over their own finances by making their own savings work for them. Regular savings form a common pool of money, which in turn provides many benefits for members.

In order to understand the uniqueness of the credit union movement it is important to take a closer look at their operating principles as adopted by The General Assembly of WOCCU, July 2005 (WOCCU 2005). Appendix one has a more detailed insight into each of the operating principles.

The Credit Union Operating Principles are founded in the philosophy of co-operation and its central values of equality, equity and mutual self-help. At the heart of these principles is the concept of human development expressed through people working together to achieve a better life for themselves and their children. They include:

- Open and voluntary membership.
- Democratic control.
- Non -discrimination in race, religion and politics.
- Distribution to members.
- Building financial stability.
- Services to members.
- On-going education.
- Co-operation among co-operatives.
- Social responsibility.

1.2 History of credit unions

Credit unions originated in the 19th century, when the concepts and ideas central to credit unions were developed in countries such as the UK by Robert Owen, in Germany by Herman Schulze-Delitzsh and in North America by Alphonse Desjardin. The credit union movement grew quickly throughout America and Canada and paved the way for the rest of the world to follow. (w-cuda1)

In Ireland the first credit union was founded in 1958, by a schoolteacher named Nora Herlihy and her colleagues on Dunmore Avenue in Dublin. Since then the credit union philosophy of mutual self-help has proved very popular. (Culloty 1989)

According to the WOCCU, they now have more than 40,000 member credit unions in over 84 countries, serving over 123 million people worldwide. Their mission is to be the worlds leading advocate, platform for innovation and development organisation for credit unions. (WOCCU, 2005)

According to the ILCU, in Ireland, both north and south there are 532 credit unions affiliated to the ILCU with over three million people members of a credit union with savings nearly €12.6 billion with their credit unions. Of these 532 credit unions 428 are in the south (Figures at December 2005, w-creditunion1) and in 2006, the Credit Union Development Association (CUDA) had 16 member credit unions. (McKillop et al 2006)

Throughout the world experience has shown in order to maintain sustainable progress you need a sound operating financial system. An element of a sound financial system for developed and developing countries is the presence of a strong financial co-operative and credit union sector. Creating enabling legislation and supervision is the first step to establishing sound financial co-operatives and credit unions.

Since 2000, 12 countries throughout the world, representing one-fifth of the national credit unions affiliated to the WOCCU, have introduced new legislation for credit unions. These changes have generally sought to establish a body of law for credit unions that recognises their uniqueness within the financial services industry. (WOCCU 2005)

According to the WOCCU

- 54% of the countries in the summary have insufficient credit union legislation

- 41% of countries also lack sufficient credit union supervision.

(WOCCU, 2005)

Ferguson and McKillop (1997) would assert that the Irish credit union movement has now evolved to a greater extent than that of Central or Eastern Europe but is less evolved than the movements in Canada or the United States.

1.3 Regulatory framework of credit unions

A critical element in the successful development and good functioning of a credit union movement is that it has appropriate regulatory and supervisory infrastructures in place. The correct regulatory and supervisory framework helps speed the development of a credit union movement. In contrast, an environment that is too strict risks curtailing development, while one that is too relaxed may lead to credit union failures.

In May 2003, the Irish Financial Services Regulatory Authority (IFSRA) was set-up as the sole regulatory authority for all financial service providers in the Republic of Ireland (ROI). The statutory position of the Registrar of credit unions was established within the framework of IFSRA in December 2003. The registrar carries out his functions under the Credit Union Act 1997. Section 84 of the Credit Union Act 1997 specifies that the registrar shall administer the system of regulating and supervising credit unions in order to protect members' funds and maintain financial stability and well-being of credit unions generally. (Ryder 2005)

According to Ralston (2001), "regulation imposes a number of restrictions on the portfolios of financial institutions including controls on capital, liquidity and asset composition. These controls are aimed at containing the rate of institutional failure and inspiring confidence in a stable financial system. At the same time, however, these restrictions should not impede the efficiency of financial institutions, as the ideal regulatory system requires a balance between preventing market failure and allowing financial markets to perform efficiently.”

1.4 Research aims and objectives

The rationale for this research paper is that credit unions have been making headlines over the last number of years in relation to regulation and the financial regulators understanding of credit unions. This has lead to a greater awareness of credit unions in the public domain. This in turn has lead the researcher to ask the question,

How are credit unions in Ireland regulated? and
What is the impact of this regulation on credit unions?

To help answer this question, the researcher has broken it down into achievable research objectives. These are as follows:

- To identify who regulates credit unions in Ireland.
- To identify what legislation credit unions need to abide by.
- To find out what are the most important areas within credit unions that are regulated.
- To find out how credit unions feel about regulation.
- To investigate whether credit unions have the required expertise to cope with the requirements of the regulatory framework.
- To investigate why there was a need for change in the regulation of credit unions in Ireland.

In the next chapter, the researcher will review the available literature focusing on the regulation of credit unions. Chapter three will focus on the methodological approach to collect data for this research paper. Chapter four will describe among other things, how credit unions deal with regulation and why credit unions think there is a need for change. This will be investigated by conducting a questionnaire. In concluding this paper, the researcher will outline the areas of importance when it comes to regulation and on further areas that can be researched in the future to give a deeper understanding of the impact of regulation on credit unions in Ireland.

Chapter Two

LITERATURE REVIEW

As outlined in the previous chapter the researcher will now investigate what literature currently exists in relation to the research topic. The researcher will firstly start by looking at the background to regulation along with not-for-profit organisations and credit union regulation in other countries before reviewing the literature available in relation to how regulation has impacted on credit unions in Ireland.

2.1 Background to regulation

The Central Bank plays a fundamental role in the regulation of credit institutions. The Central Bank was established by the Central Bank Act 1942. The bank is now the primary licensing and supervisory authority for all credit institutions and credit unions in Ireland.

As stated by Donnelly (2000), the supervision of banks is a major function undertaken by the Central Bank in its role as regulator of banks. The Central Banks powers have increased with the introduction of each new piece of legislation. These powers can be broken down into a number of categories. The first category is that of information gathering powers, which is essential for effective supervision. The second of these categories is supervisory powers concerned with business operations including supervision of financial status, supervision of charges and supervision of advertising. The third category of powers relate to the ownership of banks and the banks maintenance of some level of control over who runs and dominates banking business within Ireland and finally there is a range of powers which arise when the licence-holder encounters financial and other difficulties.

2.1.1 Overview of not-for-profit organisations

Olson et al (2005) suggests that the term not-for profit may bring to mind an idea of an organisation that serves society. The reality is that the not-for-profit organisation is far more complex, that is responsible to different groups of stakeholders. Unlike profit making organisations, not-for-profit organisations usually have to focus on many and often conflicting goals in relation to fulfilling their mission while also trying to generate enough revenue to maintain their operating structures.

One of the key elements among all of the not-for-profit organisations regardless of their size and complexity is their mission. Quarter and Richmond (2001) comment, “nonprofits are organised around a social mission, which some would argue is their defining criterion”. The mission is the reason for the existence of the not-for-profit organisation both from a social and a legal point of view. This is usually the main differentiation from the profit-making organisation, whose main and basic motive is economic. The mission statement from Midleton Credit Union Limited (a common mission statement among credit unions) is

“Not for profit, not for charity, but for service”

Credit union’s fall under the umbrella of a not-for-profit organisation. A credit union is an organisation owned and organised by its members that provides an “ethical and local alternative choice to mainstream financial service providers” (Association of British Credit Unions (ABCUL), 2002, p.1.)

According to Buckmaster (2002), Non-profit organisations have feminine goals. Yet policy and regulation are requiring inappropriate masculine accountability that emphatically entrenches measurement. The traditional goal of a not-for-profit organisation is something other than earning a profit.

2.2 Regulation of credit unions in other countries

In the United States, credit unions are subject to the Federal Credit Union Act, revised 1998 and a code of Federal Regulations. The National Credit Union Administration (NCUA) is an independent agency charged, under the management of the three-person National Credit Administration board appointed by the president of the United States. Federal credit unions are under the supervision of the NCUA board and make financial reports to it. Each federal credit union is subject to inspection by, and have to make its books are records available to any person designated by the board of NCUA. (WOCCU 2005)

In the United Kingdom, the main act of parliament, which governs how credit unions operate, is the Credit Unions Act 1979. Since July 2002, the Financial Services

Authority (FSA) has regulated credit unions, as are banks and building societies. The performance of each credit union is monitored by the FSA and staff and volunteers involved in the running of the credit union must be approved by the FSA.

The FSA is an independent non-governmental body given statutory powers by the Financial Services and Markets Act 2000, (FSMA). In 1997, the newly elected Labour Government decided to make the Bank of England independent and establish a single regulator for the entire financial services industry. Following consultation with the credit union movement in a paper named "Proposed amendments to the Credit Unions Act 1979 - A consultation Document by HM Treasury, November 1998"; the British Government announced in November 1999 that credit unions would also be regulated by the new regulatory organisation.
(Association of British Credit Unions 2003)

Prior to the enactment of the Credit Unions Act 1979 (CUA 1979), credit unions were regulated under the Companies Act 1948 or the Industrial and Provident Societies Act 1965, both of which were deemed inappropriate for credit unions. Under the CUA 1979, credit unions were regulated by the Registry of Friendly Societies, which proved to be an ineffective agency. On 1st December 2001, the FSA took over from the Registrar of Friendly Societies, the Registrar's regulatory responsibility for credit unions. (McKilliop et al 2002)

Organisations such as credit unions have some distinctly different regulatory needs that are not applicable to other firms such as liquidity, capital and accepting deposits. These specific requirements are contained in a number of separate Specialist Sourcebooks. As well as containing specific requirements relating to only that sector, a sourcebook also contains references to the relevant parts of the FSA Handbook, that a firm may also need to familiarise itself with on occasion such as if a credit union has breached a rule and the FSA was considering enforcement action. The Specialist Sourcebook for credit unions is referred to by the abbreviation CRED. (w-fsa1)

According to Jones (1999), 76% of British credit unions are aiming to provide, as have their Irish counterparts, a much more professional service.

2.3 Regulation of credit unions in Ireland

In Ireland the primary legislation which credit unions are governed under is the Credit Union Act 1997. (w-ifsra1)

In 1966 the Credit Union Act was passed providing for the statutory recognition of co-operative concepts including the mutuality of members in the ownership and organisation of their societies. Under the Credit Union Act, 1966, the Registrar of Friendly Societies, subsequently located within the Department of Enterprise, Trade and Employment was designated as the regulatory authority for credit unions. The Credit Union Act, 1997 replaced the 1966 Act.

Since May 2003, credit unions have been regulated by the Irish Financial Services Regulatory Authority (IFSRA) subsequently known as the Financial Regulator, under the Registrar of credit unions. Most credit unions in Ireland are affiliated to the ILCU and adopt the same set of operating principles with core values of equality, equity and mutual self-help. There is another credit union representative body, the Credit Union Development Association (CUDA). There has also being disagreement within the ILCU in relation to the way in which a project to have an integrated standard information system for all affiliated credit unions known as ILCUTech was handled resulting in a number of credit unions leaving the ILCU and setting up their own body known as CUDA. In 2006, CUDA had 16 member credit unions. (McKillop et al 2006)

The registrar provides a service, which involves the registration, regulation and supervision of credit unions and the maintenance of a public file on each credit union. The registrar has the authority to inspect any credit union. According to the Credit Union Act (1997) these inspections are generally carried out under section 90. Investigations may also be carried out under section 92 of the act.

The registrar has the power to regulate and supervise credit unions in order to protect members' funds and maintain the financial stability and the well being of the credit unions in general. The registrar may consult the Credit Union Advisory Committee (CUAC) and any other bodies, which appear to be expert or knowledgeable in matters relating to credit unions. Neither the state nor the Registrar shall be liable for any losses incurred through the insolvency or default of a society, which is registered.

The ILCU was set up by a small group of credit unions in 1960 to represent and provide a service to affiliated credit unions on the island of Ireland. The ILCU now represents the interests of over 530 credit unions both in the Republic of Ireland and in Northern Ireland. Membership is open to every credit union in Ireland. The ILCU promotes the credit union idea and ethos, represents affiliated credit unions with Government, the EU and other agencies and provides central services to credit unions. (w-creditunion1)

In Ireland, under the Credit Union Act 1997, the Registrar already has an extensive range of powers. Shifts are however currently occurring in the regulation and supervision of credit unions. The supervisory team responsible for credit union with the Financial Regulators office has been significantly expanded. Since 2005, credit unions have been required to complete a quarterly prudential report. (A prudential report consists of a number of key ratios that credit unions must complete and measure their results against that of the industry standard).

In Ireland, this seems to be moving towards strengthening the supervisory controls exercised by the Registrar, with an implied downgrading of the self-regulatory role undertaken by the ILCU. Unlike the ILCU, CUDA wants a greater emphasis on monitoring and supervision by the Financial Regulator. CUDA argue that the self-regulatory monitoring function carried out by the ILCU is no longer appropriate given the scale of the Irish credit union movement as well as the belief that self-regulation gives rise to a clear conflict of interest. (McKillop et al 2006)

2.3.1 Credit union views on regulation

On the issue of how credit unions feel about regulation, there was a survey and research carried out on behalf of the Financial Services Consultative Industry Panel by Millward Brown IMS. The results of this survey were published on the 11th July 2006. This survey was completed by entities in the financial service industry and contained a number of questions relating specifically to credit unions.

The research was carried out to assess financial services industry views of regulation in Ireland and of the role and performance of the Financial Regulator.

- 49% of those surveyed said that the current regulatory system places too much of a burden on financial services.

- 67% of those surveyed disagreed with the statement the Financial Regulator "recognises the impact of regulation on smaller firms/credit unions and seeks to accommodate them appropriately".

- 63% disagreed with the statement that the Financial Regulator "shows understanding of smaller firms/credit unions in the development of regulatory policy and operation"

On page 35 of this report one comment made by a credit union was "…it will take a considerable amount of time for them" (the Financial Regulator) "to become familiar as they would need to become with how credit unions do their business"

2.3.2 Expertise of credit unions

In determining whether credit unions have the required expertise, Pierse (2005) suggests that there are two opposite ends to a scale.

At one end there are the credit unions that are large in size. They would usually have paid full-time staffs that are qualified in their field; they would also have a good professional management structure in place. This management structure then commands performance from the board of directors in matters relating to governance issues while resisting interference in what seems to be the day-to-day management issues. There would also be a push towards the development of credit union services. Topical services that credit unions are developing are the implementation of Automatic Teller Machines (ATM) and the introduction of on-line services through credit union websites.

At the other end of the scale, Pierse (2005) suggests that there are credit unions, which are small in size that find it extremely difficult to meet the regulatory requirements. Many of these small credit unions are located in rural areas around Ireland. They may only be open for a few hours a week and are staffed by volunteers.

In recent years, many credit unions have been implementing new policies and procedures bringing them right up to date for today's environment. Many credit unions are also recruiting managers in order to put in place a good management structure so that there are clear links upwards to the board of directors and downwards to credit union personnel.

In order for credit unions to have the required expertise, they have to have appropriate qualified staff; in addition they will also need a board of directors with the right skills and qualifications. According to McKillop et al (2007), small credit unions have much more difficulty than larger credit unions in recruiting directors to their boards.

McKillop et al (2006) also states that the credit union board in the early days could be considered as having the following characteristics

- The board's focus is on day-to-day operational issues with limited emphases placed on strategic and long term planning.

- All authority is vested in the board.

- The board makes all decisions with little or no delegation of authority.

- The board is more reactive than proactive.

As credit unions have expanded, it has proved necessary to recruit outside professional people to full management positions in order to replace the volunteers managing the day-to-day operations of the credit union. McKillop et al (2006) now suggests that the characteristics of the board can be considered to be the following:

- The board's focus has moved from the day-to-day operations towards strategic planning.

- There is an emphasis on long them planning.

- There is a high degree of delegation of authority to selected staff.

- There is extensive recourse to policies, procedures, budgets and targets.

- The board is now more proactive than reactive.

2.4 The need for regulation and change

According to McCarthy (2000), the credit union movement is at a crossroads in its development. As also highlighted by McCarthy (2000), there are a number of issues that need to be addressed to ensure the future development and sustainability of credit unions. One of these issues is the need for regulatory and legislative changes.

Ryder (2005), states that a legislative framework for credit unions is crucial for its development. Ryder (2002) explains that credit unions have grown since the creation of the first co-operative and there are a number of factors towards this success. The WOCCU (2002) argues that an appropriate credit union statutory framework is an essential factor. Legislative deficiencies jeopardise the safety and soundness of credit unions by restricting their ability to meet their member's needs. Jurisdictions lacking an adequate statutory framework, have therefore, hampered the development of credit unions. To overcome this problem, the WOCCU have created a model law that is designed to ensure the continued success and growth of credit unions around the globe. Baker (2003) took the view that the Model Law will improve prudential management and contribute to protecting member's interest.

He also argues that supervision is critical in establishing sound financial credit unions. Therefore it is essential that members of credit unions feel that their savings are safe.

If credit unions are to achieve this aim they must be supervised by a regulatory agency specialising in financial institutions. The Model Law outlines the considerations required for supervising credit unions. This law states that the regulatory body should have extensive enforcement powers and the ability to place a credit union under administration.

According to the recommendations made in a report published by CUDA (2006), amendments are required to the Credit Union Act (1997), in particular to sections 27 relating to deposit limits, section 35 relating to lending limits, sections 48 to 50 in relation to the introduction of new services. These deny credit unions the ability to respond quickly in meeting new member needs.

Progressive credit unions now accept that the level of supervision is the role of the Government through the Financial Regulator. The reality in today's environment is that self-regulation of financial services is no longer suitable in a modern economy.

According to the ILCU in a report published in 2007, they too believe that there is necessary legislative and regulatory change required.

Both of these bodies state in their respective reports that a new Credit Union Act is required.

In its Strategic plan (2006), the Financial Regulator states that it wants to promote a financially stable credit union sector that operates in a transparent and fair manner and safeguards its member's funds. The Regulator hopes to achieve this by

- Continuing to enhance its supervisory capacity by more focused off-site analysis and on-site inspections
- Issuing guidance notes to ensure full compliance by all credit unions with their legal and regulatory obligations
- To participate in the modernisation of the organisational structures and technology of credit unions.
- Facilitate, where appropriate the expansion of the range of services provided by credit unions.

Among the most important areas that need to be properly regulated within credit unions are issues relating to lending, bad debts and investments and the need to have up to date and relevant polices in relation to these. With many credit unions having a significant surplus of members' shares over members' loans, this has lead to a massive increase in the amount that credit unions are placing in investments. This had lead to the Financial Regulator to issue a guidance note to credit unions. In this guidance note the Registrar of Credit Unions states that the underlying principal for investments made by credit unions is that "Investments by credit union must not involve undue risk to members savings". (Financial Regulator 2006)

Over the last few years, there have been a few high profile news articles, which have increased the need for a more independent approach to regulation. One of the most recent of these is the case of Monaghan Credit Union where a bad debt write-off of €11.9 million lead to a loss of €3.8 million for the year 2005. It was clear that Monaghan Credit Union had not the proper policies and procedures in place in order to monitor the situation. It also was using a loophole in the calculation of a bad debts provision. (Sunday Business Post 30/04/2006)

Another negative article published in the Sunday Business Post on 21st April 2002 was the massive failure of a project to introduce a computer system that all credit unions in Ireland could use instead of credit unions having to use stand-alone computer systems. This then lead to a motion that calls on the ILCU board to request the Minister for Enterprise to establish a public inquiry into the failure of this project. The board's leadership is also questioned with a call for a confidence vote.

Again in the Sunday Business Post dated 16th February 2003, the high profile case of an unfair dismissal in Gurranabraher Credit Union, Cork of the manager and deputy manager.

All of these articles bring negative publicity on the credit union movement and most will associate bad publicity with all credit unions not with just those involved. Therefore this is why there is a need for more stringent regulation in the credit union movement in trying to prevent these types of situations from happening again.

Hyndman et al (2004), states that it is inevitable that the development of credit unions does not conform to a single universal blueprint. In the context of a worldwide movement, there are major differences in the development of particular credit union industries.

In concluding this chapter, the researcher would state that there has been a limited amount of research done into credit unions and in particular into this topic as this is a relatively new area in which the Financial Regulator has now taken over. The researcher would like to see emerge from this research a clear understanding of how credit unions feel and how credit unions adapt to the Financial Regulator and the regulation that they must adhere too.

The next chapter will focus on the methodologies available and chosen in order to gather the data required for this research project.

Chapter Three

METHODOLOGY

This chapter will identify the various types of research that can be carried out. The researcher will also identify the principal advantages and disadvantages of the different various types of research methods.

The researcher will then refer to the research process used to complete this research project with valid reasons for choosing the specific approach.

Firstly, the researcher used secondary research. This involved reviewing literature from the available sources such as books, journals, publications and reports. This research was exploratory in nature, which in turn gave the researcher the main objectives for the primary research.

Secondly, the researcher carried out an informal discussion with a manager of a credit union in order to determine what areas are considered to be the most important in need of regulation and why there is a need for change within the credit union movement. This discussion was descriptive in nature. Based on the results of the informal discussion, a questionnaire was compiled and circulated to 100 credit unions. Finally, the researcher undertook data collection and analysis, which in turn led to the main findings.

3.1 Definition of research

Hussey & Hussey (1997), state that although research is central to both business and academic activities, there is no consensus in the literature on how it should be defined. One reason for this is that research means different things to different people. However, from many different definitions offered there appears to be an agreement that:

- Research is a process of enquiry and investigation.
- It is systematic and methodological.
- Research increases knowledge.

Kumar (1999), states that research implies that the following process is applied:

- Undertaken within a framework of a set of philosophies.
- Uses procedures, methods and techniques that have been tested for their validity and reliability.
- It is designed to be unbiased and objective.

Burns (2000) defines research as “a systematic investigation to find answers to a problem”.

3.2 Research aims and objectives

In relation to Irish credit unions, the aims of this dissertation are to:

1. Examine how credit unions in Ireland are regulated.
2. Determine the impact of this regulation on credit unions.

The objectives to this question can be grouped and related as follows:

Regulation of credit unions

- Identify who regulates credit unions in Ireland
- Summarise what legislation credit unions need to abide by

Impact of regulation

- Identify the most important areas within credit unions that need to be regulated
- Assess how credit unions feel about regulation and how they feel towards the financial regulator
- Assess whether credit unions have the required expertise to cope with the requirements of the regulatory framework
- Investigate why there was a need for change in the regulation of credit unions in Ireland.
- Outline the future directions.

3.3 Research choice

The first step in designing the research is to identify the most suitable research paradigm to pursue in terms of designing and gathering the research.

Hussey and Hussey (1997), states that the term paradigm refers to the progress of scientific practice based on peoples philosophies and assumptions about the world and the nature of knowledge; in this context, how research should be conducted.

Two paradigms exist within research, positivism and phenomenology. Each will now be discussed.

3.3.1 Positivism

Positivism is a structured approach to data gathering and is analysed and interpreted in both a factual and statistical manner. One of the distinctions in determining positivistic research is in the role of the researcher who remains independent of the study sample (Saunders et al, 2003)

Gill and Johnson (1997) state that the positivist approach has a number of distinguishing features:

- It is deductive
- Seeks to explain relationships between variables
- Generally uses quantitative data
- Uses controls to test a hypothesis
- It is a highly structured methodology to allow repetition

This research underlines the fact that other research studies following a similar view should be comparable and reach the same results. Researchers develop structured questions and answers for simplification of quantitative data processing analysis. According to Gummesson (1991), researchers obtain security in testing hypotheses by means of statistical and mathematical formulas.

Easterby-Smith et al (1991) stat the advantages and disadvantages of the positivist approach as follows:

3.3.1.1 Advantages of positivist approach

- Positivist research is developed to achieve defined theoretical objectives.
- Positivist research is economical both in terms of time and for sampling large numbers.
- Positivist research is easily analysed and clearly demonstrates existing or emerging patterns and trends.
- Positivist research gives the researcher control in measurement using validity and reliability testing.

3.3.1.2 Disadvantages of positivist approach

- Positive research is rigid and inflexible and once data gathering has commenced it is difficult to change.
- Positive research is vague, in terms of understanding the social processes behind the data.
- Positive research while useful in assisting decision making, it is not holistic enough to interpret social actions and therefore is limiting when used in policy-making.

3.3.2 Phenomenology

Phenomenology is a flexible approach to data gathering and focuses on the meanings behind the research. The research in this case is exploratory and strives to provide rich descriptions beyond more facts.

This approach assumes that the social world is continually changing and that the research and researchers are part of this. (Hussey and Hussey 1997)

Creswell (1998), states that researchers search for the essential, invariant structure or the central underlying meaning of the experience and emphasis outward appearance and inward consciousness based on memory, image and meaning.

Remenyi et al as cited by Saunders (2003), characterises the phenomenology researcher as adopting an approach that seeks beyond the facts into the details of the situation to understand the reality working behind them. These researchers are directly involved with and can be integrated within the study group or area.

Easterby-Smith et al (1991) state the advantages and disadvantages of the phenomenological research as follows:

3.3.2.1 Advantages of phenomenological research

- Phenomenological research delves beyond the quest for objective facts to understand the reasons both how and why they exist.
- Phenomenological research is flexible and can change direction even though the process has commenced.
- Phenomenological research is concerned with interpreting social actions and processes.

3.3.2.2 Disadvantages of phenomenological research

- Phenomenological research is consuming both in terms of time and resources.
- Phenomenological research is sometimes difficult to reach an end conclusion and therefore patterns and trends may not emerge.
- Phenomenological research may not be adopted by policy-makers and is therefore perceived to be less credible.

3.3.3 Similarities and contrasts between the two research paradigms

The quest for qualitative versus quantitative research depends on the desired outcome required from the study. In reality both types of research can be used within each of the research paradigms.

Easterby-Smith et al (1991) used the following table to show the main features of the two research paradigms.

	Positivist Paradigm	**Phenomenological Paradigm**
Basic Belief	• The world is external and objective • Observer is independent • Science is value –free	• The world is socially conducted and subjective • Observer is part of what is observed • Science is driven by human interest
Researcher Should	• Focus in facts • Looks for causality and fundamental laws • Reduce phenomena to simplest elements • Formulate hypotheses and then test them	• Focus on meanings • Try to understand what is happening • Look at the totality of each situation • Develop ideas through induction from data
Preferred Methods include	• Operationalising concepts so that they can be measured • Taking large samples	• Using multiple methods to establish Different views of phenomena • Small samples investigated in depth or over time

Table 3.1 – Main features of the positivist paradigm and the phenomenological paradigm

3.3.4 The mixed approach

Remenyi et al (1998), argues that positivism and phenomenology are not totally different in terms of their impact on research, and in the generalisation of findings. Both approaches need a convincing argument that the findings are valid before these findings are accepted as a valuable addition to the body of knowledge. Ultimately, it is more useful to see these two approaches as complementary rather than as two opposite extremes.

This mixed approach allows for both open and closed ended questions, which the researcher adopted in the questionnaire.

The researcher selected the qualitative approach in this research. This took the form of a discussion with a credit union manager. This then led to a survey, which contained both open and closed ended questions. The rationale for undertaking this approach is due to the aims and objectives of the research where those involved in the survey have different views on the topic.

3.4 Data collection methods

There are many different ways of collecting data. The most appropriate method or combination of methods that should be applied will depend upon the research topic. As stated by Saunders et al (2003), these methods include:

- Surveys
- Experiment
- Case Study
- Grounded Theory
- Exploratory, Descriptive and Explanatory Studies
- Cross Sectional and Longitudinal Studies
- Actions Research
- Ethnography

3.4.1 Survey Research

As outline by Adam and Healy (2000), surveys remain one of the most accessible means of acquiring large volumes of data. Once robust questionnaires have been designed and a suitable sample has been identified, data should start flowing in and description and analysis are comparatively easy.

As stated by Burgess (2001), the basic process of survey research can be outlined as follows:

1. Define your research aims.
2. Identify your population and sample.
3. Decide how to collect replies.
4. Design your questionnaire.
5. Run a pilot survey.
6. Carry out the main survey.
7. Analyse the data.

Adam and Healy (2000) outline the following advantages and disadvantages of surveys.

3.4.1.1 Advantages of surveys

- Allows the researcher to focus on a small number of parameters specifically relevant to the study.
- If well designed, surveys should serve the researcher equally well in the organisation and analysis of the data gathered.
- Allows for large sample size.
- Tends to deal with phenomenon already "institutionalised" in organisations.

3.4.1.2 Disadvantages include:

- The realism of the research result is sacrificed to the focus on many cases but few variables.
- To an extent, the respondents will be self-selecting, and the researcher has little effective control in this regard.
- Gives little insight into causes behind the phenomenon being studied.

This study uses a combination of postal and electronic questionnaires. The researcher decided to send the majority of questionnaires via e-mail as this reduced the cost of paper and postage. For those credit unions that the researcher selected that did not have an e-mail address, it was decided to post a questionnaire addressed to manager of that credit union.

The rationale for selecting questionnaires was that it was the most cost effective way in which to conduct the research. Secondly, with a sample size of 100 credit unions, telephone interviews were ruled out on a time basis. Face-to face interviews were also ruled out because of the time constraints of the project. A complete survey of the population was also ruled out because of the size of the population, a total of 445 credit unions in Ireland. The researcher felt that with a mail survey, this would have the advantage that it would allow the respondents to have plenty of time to read the questions and to think about the answers.

3.5 Questionnaire Design

When designing questions, Saunders et al (2003), states that questions can come in the form of three sources, which are either

1. Adopt questions used in other questionnaires.
2. Adapt questions used in other questionnaires.
3. Develop own questions.

The researcher designed all the questions for the questionnaire. These questions were relevant to the literature reviewed and to the research aims and objectives. Each question was carefully designed making sure they were clear and unambiguous.

3.5.1 Research Population

Once the researcher decided to use questionnaires as a tool to collect data, a sampling frame needed to be decided. Due to time and financial constraints it was decided to select a sampling frame of 100 credit unions out of a population of 445 credit unions (22.5 per cent of the population). Random sampling was used by the researcher in order for 100 credit unions to be selected. The researcher received a list of all credit unions. This list was then given to an independent person to randomly select 100 credit unions from it. The purpose of this was that it allowed the researcher to avoid bias in the research.

3.5.2 Pilot testing

Once the questionnaire was designed, it needed to be tested. It was decided firstly to test the questionnaire on a small group of individuals in order to detect any flaws in the questions and on spelling and grammar. Once this was complete, the researcher tested the questionnaire on two managers of credit unions. This enabled the researcher to test the time taken to fill in the questionnaire and also to test the questions for mistakes and to take into account any recommendations put forward by those testing the questionnaire. Once these amendments were in place, the questionnaire was then sent out to those credit unions in the sampling frame. The questionnaire that was sent to credit unions is attached to this paper (appendix three) along with a copy of the cover letter (appendix two).

3.5.3 Administration of the survey

A number of issues arise in the data collection stage as outline by Smith (2003).

1. A relevant and up-to-date mailing list is required – A list containing postal and e-mail address were obtained from the ILCU and CUDA websites. Along with these lists, a manager of a credit union was able to supply a list of contact names for these credit unions.

2. The survey should target named individuals – As the researcher is an employee of a credit union, it proved much easier in obtaining contact names and personal e-mail addresses in order to send the questionnaires.

3. How to record the answers – Respondents who received their questionnaires by post, were able to send the response back in the stamped addressed envelope provided and those who received their questionnaire by e-mail were able to print out the questionnaire and return it by post.

4. Feedback on respondents – E-mail's were sent to those credit unions that have responded to the questionnaire thanking them for taking the time to reply.

5. Organisation – As responses were received they were analysed to develop common themes and phrases throughout the answers. The questionnaires were then filed.

6. Non-response problems – Two weeks following the initial posting and e-mail of questionnaires, a reminder e-mail was sent out in order to try and increase the response rate, these reminder e-mails increased the response rate from 26 percent to 35 percent. One week after this reminder e-mail was sent out, the researcher decided to contact some credit unions by telephone in order to try