What is Holding Back the Development of Comprehensive Businesses Services in US Credit Unions?

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Abstract

The credit union movement has experienced rapid growth across the United States in recent years. After the financial crisis of 2007-2008, US credit unions emerged more resolutely as trusted financial partners, able to maintain lending during the credit crunch and offering better loan and deposit rates, greater investment security and superior customer service.[1,2,3] Credit unions are known for their focus on consumer banking. Yet this has obscured their changing relationship with businesses.

This paper seeks to discover the state of US credit union capabilities with respect to business banking services. After creating a classification for the level of US credit union business banking capabilities, we conducted informal, semi-structured interviews with a small sample of key stakeholders from the US credit union industry in order to provide insights into the nature of existing US credit union business banking capabilities.

Since US credit unions have been shown to provide direct economic benefits from consumer banking,[4] along with a positive track record for small businesses,[5] we are interested in credit unions' potential to serve larger businesses beyond the provision of loans. Given that businesses have higher average deposits than consumers,[6] there is potential for shifting significant resources from banks to credit unions.

Our findings suggest that while many US credit unions offer Basic Business Services, and some US credit unions offer Semi-comprehensive Business Services, no US credit union offers Comprehensive Business Services. We discovered three main factors holding back the development of these commercial capabilities: mission constraints; lack of apparent business demand; and lack of a strong business case according to a cost-benefit risk analysis. These factors appear to reinforce each other in a vicious cycle.

However, these factors may also present points of leverage for those seeking to expand business service capabilities within the US credit union system. For example, if weak business demand stems from an absence of targeted marketing to the private sector, a campaign to document pledged allegiance could reverse this phenomena. Indeed, we see strategic interventions at one of the three points offering the ability to shift the system from a vicious cycle to a virtuous one.

Introduction

The Rise of US Credit Union Consumer Services

Currently serving 56.5 percent of economically active US Citizens,[7] credit unions have become a major force in the nation's consumer banking sector. In reaction to the higher economic and social costs associated with large, for-profit banks, a growing number of people have turned to credit unions as a viable banking alternative. More than 20 million US citizens have registered new accounts with credit unions since the onset of the 2011 "Move Your Money" campaign - representing a shifting of more than $400 billion of consumer deposits from for-profit banks to the not-for-profit credit union system.[8] The

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rising popularity of credit unions is represented by aggregate asset growth rates in the national credit union system which have outpaced those of for-profit banks since the 1980's.[9]

Credit unions in the US now provide personal banking features that mirror those offered by large, for-profit banks. Emerging over the past decades, these features include comprehensive online banking services and ATM-sharing via the CO-OP Network, both of which have made credit unions highly attractive for people seeking a community-based financial institution for accessing credit or to deposit their money. Consistently providing outstanding customer service,[10] US credit unions provide communities with direct benefits given their profits are reinvested for member benefit. This ensures lower rates on lending and higher rates on member deposits,[11] as well as high levels of local philanthropic support,[12] cumulatively driving the multiplier effect and contributing to the stability and growth of small businesses.[13]

Regulatory easing within the sector has also improved access to US credit union services. Since 1998, multiple common bond membership has allowed US credit unions to accept customers outside of typically constrained membership categories (for example, residency- or employment-based), making it possible for membership fields to span much of entire states and in some cases, across state lines.[14,15] Moreover, the financial crisis of 2008 set off a wave of negative sentiment toward large, for-profit banks, leading to a widespread movement of money to credit unions (thanks, in part, to the thought leadership of various 'Move Your Money' campaigns). More recently, lending and membership reforms in 2016 and 2017 empowered credit unions to offer services for a wider range of customers, including significant expansion into areas with underbanked populations,[16] and provision for well-capitalized credit unions to have branches across multiple states.[17]

The Development of Credit Union Commercial Services

Primarily geared toward consumer banking, the US credit union industry has long treated business banking as secondary with respect to its overarching mission. That said, many US credit unions have always provided basic financial services and a source of reliable credit for businesses. Indeed, since the 1980s, US credit unions have seen significant increases in the size and number of loans made to member businesses,[18] largely due to more inclusive membership rules.[19] And, as lending portfolios increased, particularly during the 2008 credit crunch, US credit unions experienced pressure to become more responsive to the needs of small businesses. This has contributed to an unprecedented growth of business services in the industry.

Is an opportunity emerging for credit unions to play a more significant role in the US business banking sector? The literature on the US credit union industry has assessed the drivers of growth in business lending,[20] however, little has been written about the growth of business offerings beyond lending (such as cash-management services). In this light, a holistic assessment of credit union business banking capabilities remains incomplete, when compared to the existing market offerings by for-profit banks. The different levels of business banking services offered by US credit unions have not been classified in a way that allows an analysis of the overall state of play in the US credit union industry. And, without that data, it has been difficult to analyze what, if anything, has held back the development of business banking services in the US credit union industry.

Since the community economic benefit provided by credit unions via consumer banking has been clearly demonstrated,[21] and given the positive track record for credit unions with respect to small business services,[22] we are interested in credit unions' potential to serve larger businesses beyond the provision of loans. Given the documented commitment of credit unions to provide access to financial services for under-banked, rural, and at-risk communities,[23] the stability they offer to the overall economy,[24] and the sheer scope of what is at stake (given the US business banking sector holds over $16 trillion in assets[25]), understanding the state of credit union service capabilities will allow us to better assess their role in the US banking sector and, perhaps more importantly, consider how that role might change.

Method

Classifying US Credit Union Business Service Capabilities

To assess the state of US credit union business service capabilities, we created a classification scheme for business banking services based on analysis of existing for-profit services. Our classification distinguishes business services as either: 'Basic', 'Semi-comprehensive', or 'Comprehensive' (Figure 1).

Figure 1: Levels of Business Banking Services

	Basic Business Services	**Semi-comprehensive Business Services**	**Comprehensive Business Services**
Main Service Offerings	Business checking/savings accounts, business lending, business credit cards, basic online banking.	ACH payment processing, remote deposit capture, automated payroll and tax management, investment services, robust online banking.	Fraud and data management, automated account reconciliation, returned item management, zero-balance accounts, advanced online security and accounting features.

Basic Business Services are the standard, day-to-day financial services available for businesses. These include checking and saving accounts as well as business loans. At this level, service are supported by a basic online interface, allowing businesses to view and manage account information, download account statements, transfer money between accounts, and pay off bank loans.

Semi-comprehensive Business Services are a suite of products that assist businesses in managing their cash flow and daily operations. Combined, these are known as "treasury management" services, and range from ACH payment processing and automated payroll systems, to remote deposit capture and automated bill payment. Treasury management services cover many of the primary financial tasks within a business: managing expenses and liquidity and mitigating risk. Businesses often turn to financial institutions for these services, rather than running them "in-house", as this saves time and labor. This level of service is typically supported by a robust online interface that provides detailed account information including account spending analysis, accounting support, and extensive reporting.

Comprehensive Business Services are the highest level of available business service capability. In addition to services offered at the Basic and Semi-comprehensive levels, this suite includes high-level support offerings such as the ability to upload and automatically reconcile cleared payments into accounting software (automated account reconciliation), manage and reduce exposure to returned or "bad" checks (returned item services), and provide checking accounts with automated transfers such that the account balance is always zero at the end of the day (zero-balance/sweep accounts). Banks with Comprehensive Business Services typically provide support via a sophisticated online interface with extensive fraud management, account security, and reporting features. The businesses that require this level of support tend to be medium- and large-sized businesses with complex financial flows and management demands.

Understanding Levels of US Credit Union Business Service Capabilities

To shed preliminary light on the results emerging from our classification, we conducted ten, informal phone interviews with senior staff at US credit unions. The credit unions surveyed represented varying levels of capitalization, and covered the US states of Oregon and Washington. Interviewees were determined using a snowball technique.

Findings

The State of Business Banking Services Offered by US Credit Unions

After a general review of US credit unions, we found that many offer Basic Business Services, some offer Semi-comprehensive Business Services, but no US credit union offers a full suite of Comprehensive Business Services (Figure 2).

Figure 2: Business Banking in the US Credit Union Industry

Basic Business Services	**Semi-comprehensive Business Services**	**Comprehensive Business Services**
Offered by many US credit unions	Offered by some US credit unions	Not offered by any US credit union

Basic Business Services

In the credit union industry, Basic Business Services translates to the day-to-day services provided to businesses, including basic deposit accounts, savings assets, and a range of member-business loans. Member-business loans are equivalent to commercial loans found at banks, although they carry added restrictions. For example, US credit unions can only lend to businesses where the representative or owner is already an individual member, and credit unions are limited to lending no more than 12.25 percent of their total assets to businesses.[26]

Many US credit unions are able to offer Basic Business Services.[27] Among those that do engage in Basic Business Services, the range of services varies significantly. This appears to be based on level of market capitalization and the terms of a credit union’s charter. Larger credit unions tend to support a greater range of services and loans than smaller credit unions, in addition to the provision of specialized bank accounts (such as premium and analyzed business accounts). Moreover, credit unions with a community or multiple-common bond charter are naturally inclined to offer a higher range of business services as they tend to serve a larger field of membership than a single-charter credit union.

Semi-comprehensive Business Services

Within the US credit union industry, Semi-comprehensive Business Services equates to treasury management services; payment processing; automatic bill payment and tax management; automatic payroll; and remote check deposits. Some US credit unions also offer commercial insurance, portfolio analysis, and investment services.

The emergence of Semi-comprehensive Business Services among US credit unions appears to be relatively new, following the rapid growth of business lending after the 1998 membership reforms,[28] and the market restructuring that occurred in the aftermath of the 2008 financial crisis.[29] One reason for this is that the expansion of lending relationships with businesses have provided credit unions with the impetus to invest greater resources in business service departments.[30,31] This expansion has been seen primarily among large credit unions - an indicator that increasing returns to scale play an important role in lending growth.[32] Moreover, the growing availability of credit union service organizations (CUSOs) and third-party partnerships have provided credit unions with a way to outsource many of the internal requirements necessary for the provision of Semi-comprehensive Services.

There appears to be a general correlation between the level of market capitalization and the provision of Semi-comprehensive Services among US credit unions.[33] A 2017 report from the National Credit Union Administration shows that, at the highest levels of capitalization (over $500 million in total assets), the percentage of US credit unions providing ACH payment processing systems rises to 98 percent.[34] However, just as not all cases of a high level of market capitalization correlate with the provision of Semi-comprehensive Business Services, a smaller market capitalization does not necessarily equate to an absence of these services; a number of credit unions below the $500 million threshold have been able to host payment processing and other treasury management services.

Given this data, we estimate the current number of US credit unions providing Semi-comprehensive Services to be near five hundred.[35] Aside from market capitalization, we contend that the adoption of Semi-comprehensive Services relies on factors including: the relative proportion of business owners as members; the availability of senior staff with business services expertise; the availability of appropriate third-party service providers; and the extent to which individual credit unions seek to engage in banking innovation.

Comprehensive Business Services

To our knowledge, no US credit union currently offers Comprehensive Business Services. A small number of credit unions - Desert Financial FCU, Interra CU, and California CU, for example - offer one or two of the services included in the Comprehensive Business Services suite, such as sweep and zero-balance accounts. However, many of the core features, such as automated account reconciliation and returned item management, are not offered, nor are online account management features such as multi-level authentication and enhanced account reporting. The lack of Comprehensive Business Service capabilities among leading US credit unions means that, despite holding some term deposits with credit unions, medium- and large-sized businesses are forced to turn to for-profit banks for most of their business banking needs.

Indeed, despite the ability of credit unions to offer businesses services that could partially fulfil the banking needs of many medium to large businesses, these businesses tend to do all of their business banking with large, for-profit banks for matters of ease, efficiency, cost, and reputation. Economies of scale and longevity allow large, for-profit banks to provide larger loans, maintain branches across a wider geography, and offer a more comprehensive range of services.[36] Large, for-profit banks are backed by a reputation of efficiency and experience when it comes to matters of business banking,[37] more so than credit unions which are relatively new to business service markets. Altogether, these factors contribute to making large, for-profit banks a primary source of cash management services and liquidity for large businesses.[38,39]

What's Holding Back the Development of Comprehensive Business Services in US Credit Unions?
Our findings show three factors are considered to be holding back the development of Comprehensive Business Services in US credit unions: *mission constraints*; *lack of business demand*; and *lack of a business case*.

Mission Constraints
Interviewees expressed that a long-held orientation toward consumer-services, as defined by their corporate missions, constrains the focus of US credit unions. As a result, the consideration of the advancement of business services is not prioritized.

Lack of Business Demand
Interviewees disclosed that plans to offer a comprehensive line of business services had not been seriously considered, or were only tentatively planned in the long-term, as there was not enough expressed business demand to warrant such a costly investment. The absence of pressure for these services may be the result of larger businesses representing a negligible portion of standing credit union membership; thus these members contribute to a much smaller volume of cash management portfolios than with large, for-profit banks, which weakens credit unions' comparative ability to invest in upgrading business services.

Lack of a Business Case
Interviewees suggested that there is not yet a strong business case for the development of comprehensive-level services. The case for business service development is based on a cost-benefit-risk analysis which takes into account constraints on human and monetary resources, potentially expanded regulatory and risk-related burdens, and the apparent absence of business demand.

Discussion

The data provides a static snapshot of US credit union business banking capabilities. Perhaps more interesting is the underlying trends which have led to this point that also hint at the contours of future developments for the US credit union industry.

A Changing Landscape for Service Capabilities
Basic Business Services have long been available among many US credit unions. However, recent developments have contributed to a changing landscape for credit union commercial capabilities. Since the 1980's, member-business loans to small businesses have grown significantly as a percentage of overall assets, while for-profit banks have seen a net decrease in total loans to small businesses.[40] This overall trend was most evident during the post-2008 credit crunch in which many small businesses became credit union members thanks to their dedication to maintaining lines of credit for communities during the financial crisis.[41]

More broadly, while the market for business banking services has historically been the domain of large, for-profit banks, US credit unions have recently emerged as serious competitors.[42] Following the substantial growth of business lending relationships since the 1980s, hundreds of credit unions across the US have taken a more active role in catering to small businesses by providing treasury management and investment services, as well as increasing access to financial services via online banking, ATM-sharing, and increased branch locations. The emergence of Semi-comprehensive Business Services represents a movement in the US credit union industry towards revenue diversification outside the confines of traditional consumer-oriented behavior.[43] However, this shift is predominantly led by large well-capitalized credit unions as the fastest growing lenders in the industry,[44] and it remains rare to find this level of business service capacity among credit unions below $500 million in total assets.[45]

Multiple-common bond chartering and other membership reforms are connected to the growth of member-business lending as credit unions expanded their range of operation.[46] We contend that the growth of credit union membership, and particularly the growth of lending relationships with small businesses, has promoted the development of Semi-comprehensive Business Services among leading US credit unions. This ongoing shift illustrates the possibility for credit unions to make significant changes in their orientation as they face less restrictions on membership over time.

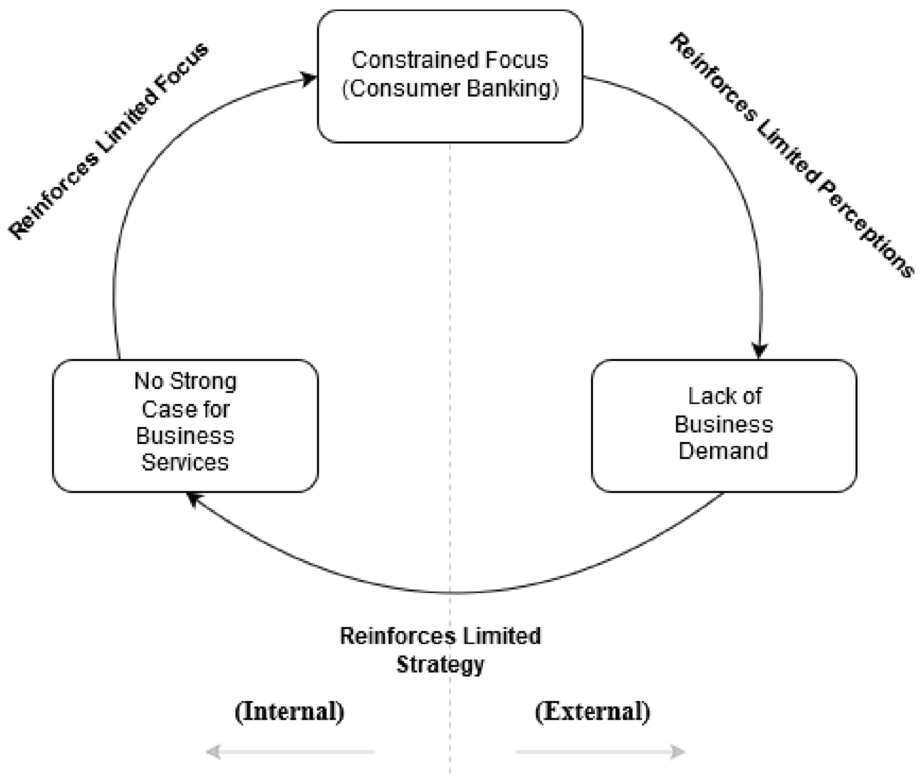
That we cannot find any US credit unions that provide Comprehensive Business Services is significant. Combined with the presence of industry-wide constraints on the overall development of Semi-comprehensive services, this suggests that the recent growth of commercial service capabilities in the US credit union industry could be approaching limits.

Can these limits be broken? To answer this question we must first understand the nature of the constraints, perceived or otherwise.

A Vicious Cycle Holding Back Credit Union Capabilities?

Our findings suggest that a vicious cycle holds back the advancement of Comprehensive Business Services with the US credit union industry. This cycle incorporates both the internal decision-making processes within credit unions, and the external attitudes and perceptions among credit union members and in the banking sector as a whole (see Figure 3).

Figure 3: A Vicious Cycle Holding Back the Development of Comprehensive Business Services within US Credit Unions?



A long-held consumer-service orientation remains entrenched in the minds of credit union executives and board members. This is reinforced by their regulators, who maintain restrictions that discourage commercial expansion. As a result, a majority of US credit unions have not made a significant pivot toward advanced business service development even though their potential membership fields have expanded significantly. The perception of credit unions as consumer-service oriented appears to adversely influence medium- and large-sized businesses in the external market. The absence of demand from these businesses reinforces the perception from credit unions that there is no strong case to be made for the development of advanced business services, which then reinforces the internal logic of the consumer-service orientation. In other words, a vicious cycle holds back the development of Comprehensive Business Services and constrains the overall development of treasury management and investment services according to three interrelated factors. The complexity of this interrelationship demands further explanation.

Reinforcing a Limited Focus

The US credit union industry has a traditional consumer-banking focus that appears to constrain the strategic vision and risk-taking behavior of credit unions with respect to the development of commercial services. The dominant strategic vision of the industry is based on the original mandate laid out in the 1934 Federal Credit Union Act which prescribed that credit union behavior focus on providing consumer services, and proscribed a certain membership. The Act mandated expanded access to consumer credit, along with the promotion of thrift, and laid out a set of restrictions that distinguished credit unions from "banks".[47] While many of these restrictions have been changed to allow more flexibility,[48] many of the Act's residual restrictions, along with recent additions, limit the behavior and range of US credit unions. These restrictions have long influenced dominant perceptions within and outside the industry of how credit unions are meant to operate.

The Act's original mandate has perpetuated a strategic myopia among credit union staff, as well as credit union members, based on the perception that credit unions have always, and always will be, consumer-oriented institutions. This myopia often extends to regulatory agencies and the US Congress – when it is considering regulatory reform - explaining why certain restrictions on business banking remain in place. For example, under the auspices of 'membership', certain regulations exclude businesses that operate in, but are not based in, a particular location from accessing credit union services.[49] More directly, a limit on business lending prevents the total value of credit union business loans from exceeding 12.25% of total assets.[50] This cap was imposed by Congress in 1998 with the intent of reducing financial risk among credit unions. However, critics contend that the current percentage is an arbitrarily low limit.[51] As a consequences of this cap, there has been a decrease in demand for business lending and a disincentive for investment into business service departments.[52] Should the cap be lifted, the Credit Union National Association predicts that US credit unions would be able to lend an additional $16 billion each year to businesses, creating nearly 150,000 new jobs.[53]

Decision-makers in the industry see consumer banking as their primary mission. Thus, there exists a focus on developing comparative advantages in consumer lending and services rather than business banking. This is demonstrated by the widespread lack of commitment to developing the human resources required to support the development of advanced business services.[54] Given the consumer focus, there is little incentive to invest in any activities that might dilute the central mission. The widespread development of comprehensive commercial capabilities would likely change the very nature of how credit unions operate, therefore it may be that this prospect is too radical for many credit union administrators to consider.

Reinforcing a Limited Perception

US credit unions have a popular image among the public as barebones, brick-and-mortar institutions offering only a traditional set of financial services with a focus on consumer services as well as a restricted capacity to serve a geographically mobile population.[55] The perception that credit unions are less sophisticated than for-profit banks has consequences for attracting new members.[56] This image is especially salient among medium- and large-sized businesses, which require a high level of support from financial institutions, due the complexity of their transactions. Large, for-profit banks continue to dominate business banking markets because they are perceived as highly efficient, 'one-stop shops', offering a wide range of financial products, advanced services, and specialized loans.[57] Credit unions, for their relatively small size, fail to achieve this level of expectation. As such, medium- and large-sized businesses have not made any public intention to switch to credit unions, en masse.

Credit unions are overtly guided by the changing needs of their members and the demands of potential members. This is evident by the adoption of online and mobile banking features among wide portions of the credit union industry, as individual members become more dependent on technology.[58] Our analysis suggests that, given credit unions' sensitivity to member demands, the absence of significant demand from medium- and large-sized businesses seeking credit union membership means there is little to no pressure for the development of the services that most of these businesses require. Furthermore, credit unions do not invest significantly in marketing their modern technological and service capabilities,[59] which reinforces the above mentioned perceptions and further dampens membership demand from businesses.

Credit union sensitivity to demand is partly due to a general aversion to risk, which stems from their mandate and mission focus. Keep in mind that, at credit unions, individual members vote-in their board of directors who then decide the makeup of senior staff. As not-for-profit institutions, credit unions are focused on ensuring member satisfaction rather than profit maximization, which means there is less incentive to invest in *extra* revenue-generating schemes such as large-scale advertising and the development of services considered ancillary to core member demands.

Of late, Comprehensive Business Services have not been necessary to keep the majority of credit union members satisfied. This is because the credit unions' member base is predominantly made up of consumers and small businesses. The makeup of credit union membership tends to shape the mission focus of an individual credit union - a predominance of consumers as members will naturally lead to a rigid consumer-focus, whereas credit unions that have many small businesses as members would be more likely to expand this focus and commit to the enhancement of business services. Should credit unions be able to attract medium- and large-sized businesses, it is likely they would pivot parts of their service focus to address the needs of such clientele. Thus, we contend that the lack of clearly expressed demand from medium- and large-sized businesses has reinforced a long-term strategy among a majority of US credit unions to focus on consumer banking. Though there exists a minority of credit unions that provide Semi-comprehensive Business Services, they also remain limited in their ability to expand their focus to cater to all sizes of business as they are constrained by this lack of demand.

The Technology Gap

A common explanation for the difference in service provision between for-profit banks and credit unions is that credit unions have yet to catch up to the technological capacity of for-profit banks. This perceived gap has been related to the not-for-profit nature of credit unions and their traditional focus.[60] An aversion to risk and a brick-and-mortar focus influences long-term strategies of credit unions, and may contribute to a lack of executive commitment to IT development.[61] This can result in poor coordination between IT staff and business services departments.[62] Compounding this are strict resource constraints - primarily tight budgets and a shortage of staff with appropriate expertise[63] - that make large scale internal development of technology-based services cost-prohibitive, especially for smaller credit unions.

Yet while there are major service differences between for-profit banks and credit unions, some suggest that the idea of a cross-industry technology gap may be misleading. According to consumer satisfaction surveys, credit unions score higher than banks on the ability to satisfy member's needs based on the provision of online banking and other technological features.[64,65] High levels of consumer satisfaction with technology provision suggest that modern credit unions are at least on par with banks in terms of their ability to apply technology toward enhancing consumer banking and, judging by the ability of several hundreds of credit unions to provide Semi-comprehensive Business Services, it appears that the US credit union industry is catching up in the capacity to apply technology toward enhancing business banking services.

In the past decade, competitive and regulatory pressures have compelled credit unions to invest significantly in closing technological and service gaps.[66] As a result, leading credit unions now offer many of the same consumer services found at banks,[67] and attitudes within the US credit union industry appear to be shifting in favor of keeping pace with technological advances and resultant changes in consumer demands.[68] Despite this, the public perception of a technology gap may remain because credit unions do not employ large-scale marketing schemes to promote their technological service capabilities while large, for-profit banks often do.[69]

Reinforcing a Limited Strategy

Our findings suggest that strategies for the development of Comprehensive Business Services among many US credit unions have stalled because of a perception that investment in comprehensive-level services is too risky given regulatory burdens and the apparent lack of demand.

Without yet having access to dedicated economies of scale or sufficient human resources (specialized staff positions and expertise), the organizational costs of expansion for US credit unions may be greater than anticipated revenues. Faced with unique regulatory burdens and greater resource constraints than for-profit banks, credit union decision-makers must be more selective with their innovation and tend to be more risk-averse when considering the costs of branching out with new or expanded departments, or the provision of expanded service offerings.[70]

One major way US credit unions have worked around resource constraints, risk management, and regulatory burdens, is to provide Semi-comprehensive Business Services via Credit Union Service Organizations (CUSOs) and partnerships with third-party providers. By collaborating with CUSOs and/or third party providers, credit unions have been able to gain access to the IT platforms necessary to host their digital presence, launch new features, and enter the business services market without costly internal development or high minimal IT commitments. These partnerships enable credit unions to broaden their array of products and services while reducing the overhead costs of expansion and regulatory compliance. Collaboration allows credit unions with strict resource constraints to maximize their value to members while minimizing their exposure to risk, ultimately providing a way for credit unions to surpass many barriers to service capability development. As such, CUSOs and third party partners may present a viable pathway for facilitating development of Comprehensive Business Services among US credit unions.

Regardless, a majority of US credit unions do not have large enough budgets or access to the economies of scale necessary to invest in the provision of *all* cutting edge products and services similar to their large, for-profit counterparts. Instead, credit unions tend to focus only on those core services that member-businesses use the most, such as mobile banking, remote deposit capture, and ACH processing. So far, this appears a valuable strategy for many credit unions. While they may provide only Basic to Semi-comprehensive Business Services, they have been successful in maintaining higher average member satisfaction than for-profit banks.[71] This aspect reflects the importance of member demand for services; without significant demand-pressure for a certain service or product, credit unions are much less likely to pursue its development.

Thanks to a historical pattern of consolidation in the industry through mergers and acquisitions, US credit unions have been successful in carving out a comparative advantage in consumer banking and developing niche relationships with local small businesses.[72] This relative success, however, appears to have resulted in a complacency that has limited further innovation and interest in business service development. US credit unions have not made a significant effort to attract medium- and large-sized businesses, and this has fed into the vicious cycle by reinforcing the logic of credit unions' original mission constraints.

Transitioning to a Virtuous Cycle

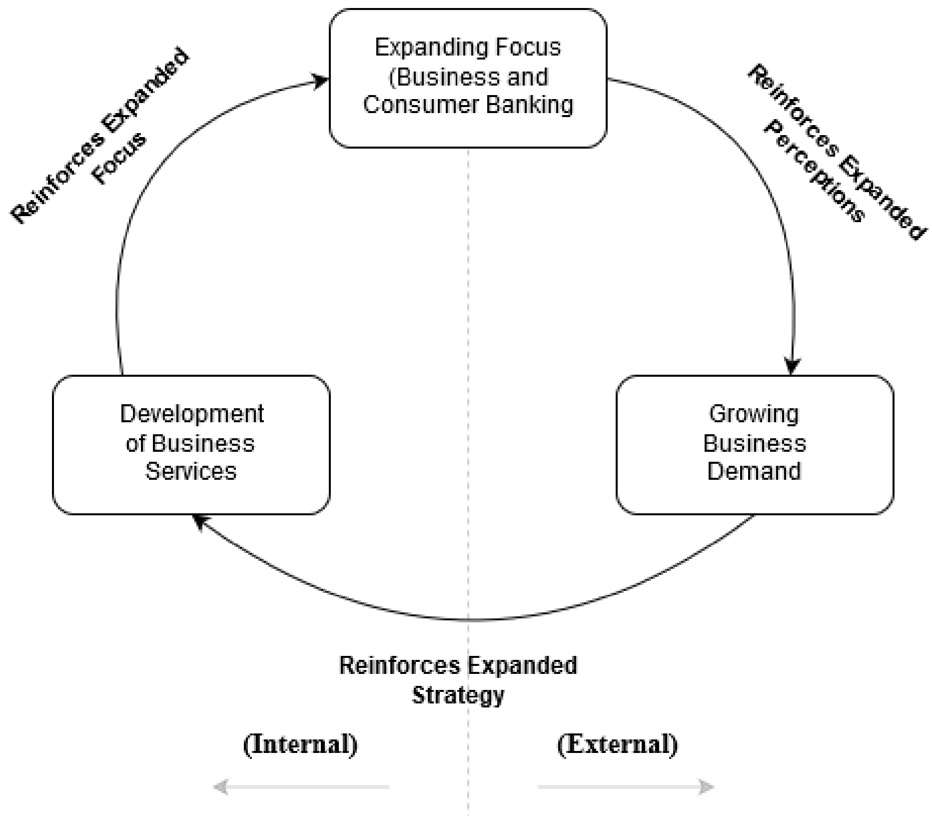
What if this vicious cycle could be broken? Imagine certain US credit unions were able to move beyond these limits to offer the entirety of business services found at large, for-profit banks.

Should the US credit union industry develop a foothold in the market for Comprehensive Business Services, we could potentially see a second wave of bank transfer movements involving businesses that would surpass the success of the 2008 "Move Your Money" campaigns. If just one percent of total national banking assets held by commercial banks shifted to credit unions this would amount to over $160 billion in transferred capital.[73]

We contend that a successful bank transfer campaign involving businesses is predicated on the provision of - or at least a committed drive to provide - expanded business services, including Comprehensive Business Services. Such a shift would result in substantially higher US credit union assets, with more capital available to circulate through local communities, driving local economic development and creating new opportunities for material security.

If our basic model holds correct, we believe that the US credit union industry is presented with an exciting opportunity for change. Systems in which a desired outcome is prevented by a vicious cycle contain leverage points that, if disturbed or neutralized, can halt the reinforcing mechanisms or even promote a reversal.[74] Applying this logic, if one or more major factors relating to constraints on credit union business capabilities could be resolved, the interrelationship we have outlined between limited mission focus, lack of demand, and lack of a case for Comprehensive Business Services could be reversed. This could cause new reinforcing mechanisms to form, generating patterns that favor the widespread consideration of business service development among the US credit union industry (see Figure 4).

Figure 4: How a Virtuous Cycle Could Drive the Development of Comprehensive Business Services within US Credit Unions



Perhaps the most obvious point in which a change may naturally occur is at the level of credit union mission focus, which is increasingly under pressure from changing market circumstances to include more innovation - particularly an expanded focus on technological development and business services.

Another promising leverage point is that of apparent business demand. We contend that a sizeable percentage of socially-conscious businesses would be interested in shifting their banking entirely to the credit union system, should credit unions have the capabilities to serve their specific needs and advertise these services accordingly.[75] If an in-principle pledge could be gained from enough businesses, we believe that certain US credit unions may have the required impetus to expand business service capabilities.

Expanding the Credit Union Focus

In order to keep up with market expectations, it has grown increasingly advantageous for credit unions to keep pace with the service capabilities of for-profit banks and, by doing so, push the limits of what it means to operate as a credit union. This push to modernize could be leveraged to spur revenue diversification in the form of expanding business services. However, such activity may be restricted to certain credit unions, given the widening technology gap between larger and smaller credit unions.[76]

Changing Perceptions about the Credit Union Relationship to Businesses

The adaptation to technological needs could provide an opportunity to rebrand credit unions as viable alternatives for medium- and large-sized businesses currently banking with for-profit banks, and could dovetail with existing pressure regulatory agencies face to loosen constraints on credit unions in the realm of business banking.[77] There may already exist a significant cohort of business owners that support the credit union mission and would choose to bank with credit unions should the services on offer fulfil their needs.[78] We suggest that the apparent shortage of observable demand from these businesses is the result of the lack of the services they need in the first place, as well as a general lack of awareness of the current and potential capabilities of leading credit unions. This lack of awareness is the result of a number of factors including: perceptions of credit unions as traditional institutions with restricted capacity; the absence of large-scale advertising campaigns; and the unwillingness of many credit unions to engage with the risks involved in establishing a baseline of advanced business services.

Should US credit unions overcome these factors by promoting available capabilities to change public perception, and working to establish an industry-wide baseline of Semi-comprehensive Business Services, we expect that credit unions would find more demand from medium- and large-sized businesses than they currently anticipate.

Making the Case for Business Service Development

If a steady baseline of both Semi-comprehensive and Comprehensive Business Services were established, a spike in demand would be expressed by a significant transfer of capital to the US credit union system. Such a movement of capital would have a profound impact on the decision-making processes of credit unions, both in terms of creating further pressure for the development of advanced business services, and in generating higher asset growth, making it possible to finance the implementation of expanded strategies.

Moreover, continuously growing demand would ensure the uptake of any new services, reducing the weight of concerns related to risk and resource constraints. Shifting business capital would result in credit unions having more resources to build their internal capacity - leading to hiring more staff, including in IT and business service departments - and enhancing their technological infrastructure - via internal development as well as third-party networks. This combination of capital growth, internal development, the growing availability of third-party partnerships, and increasing consolidation in the industry, would cement economies of scale, allowing for reduced costs of expansion and enabling rapid growth in service capacity, especially for credit unions with assets upward of $500 million.

Ranging from heightened competition,[79] changing consumer demands,[80] consolidation of the industry,[81] and a growing regulatory burden,[82] new pressures on the industry are pushing many credit unions to leverage technology toward bolstering their capacity to address change. Growing pressures to adapt and innovate will likely undermine the influence of the traditional concept of the credit union and thus reduce constraints on mission focus, allowing for the consideration of expanded strategies, including the development of more advanced business services.

Conclusion and Avenues for Further Research

Credit unions in the US have historically focused their service offerings on consumer banking and small business lending. Yet, over the past decades, regulatory shifts and market pressures have led credit unions to expand their business offerings to include Semi-comprehensive Business Services, often assisted by third party providers. No US credit union currently offers the Comprehensive Business Services demanded by most medium- and large-sized companies, with the barriers to such service provision appearing part of a vicious cycle involving mission constraints, lack of business demand, and lack of a business case. However, we see hope for this vicious cycle becoming virtuous, with a strong leverage point existing with the gathering of evidence of real business demand for credit unions to provide Comprehensive Business Services.

This study has been both preliminary and its data collection limited in scope. Building on the classification framework we have developed, we plan to conduct further research, with an expanded sample size, to confirm that no Comprehensive Business Services exist in the US credit union industry, that there is a vicious cycle holding back the development of Comprehensive Business Services, and that this cycle, without overwhelming difficulty, could be reversed.

Further research will be conducted to better analyze data across different levels of market capitalization and geography. Should the data continue to support our assessment, we suggest there is merit in research that looks at appropriate strategies for implementing the transition to a virtuous cycle.

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