



Submission to the 2019 Federal Pre-Budget Consultations

House of Commons Standing
Committee on Finance

September 19, 2018

SUMMARY OF RECOMMENDATIONS

- 1) We recommend that the Committee and Parliament support the CCUA's development of a Market Code of Conduct as the preferred vehicle for enhanced consumer protection and disclosure, as opposed to any new government-created regulations.***

- 2) We recommend that the Committee and Parliament work with the Minister of Finance to ensure that during the 2019 review, the government institutionalizes the perspectives of cooperative credit unions within the Department. This would mean permanent staffing dedicated to proposing (or reviewing) financial sector policy and other key policies (e.g. housing and taxation) through the lens of smaller financial institutions and with a view to enhancing competition.***

- 3) We recommend that the Committee and Parliament work with the Department of Finance to address and implement the CCUA's prior recommendations to the Department of Finance regarding membership thresholds and other governance matters aimed at increased diversity and competitiveness.***

- 4) We recommend that the Committee, Parliament, and the Department of Finance consider new ways to re-establish competitive balance between credit unions and banks in the tax system.***



INTRODUCTION

The Canadian Credit Union Association (CCUA) is pleased to participate in the 2019 pre-budget consultation process of the House of Commons Standing Committee on Finance.

The CCUA is the national trade association for 252 credit unions and *caisses populaires* outside Quebec. Credit unions are full-service financial institutions that are 100 per cent Canadian-owned competitors to the banks. Credit unions contribute \$6.5 billion to Canada's economy by providing deposit, loan and wealth management services to 5.7 million Canadians. Collectively, credit unions and regional centrals employ close to 29,000 people, and manage over \$225 billion in sector assets, representing approximately 7 per cent share of domestic assets held by all Canadian deposit-taking institutions. By market segment, excluding Québec, credit unions occupy roughly 8 per cent of the mortgage lending market, 11 per cent of the small business market, and 10.7 per cent of lending to the agricultural market.

As co-operatives owned by the members they serve, credit unions are a different kind of financial institution. Unlike publicly traded banks, credit unions are motivated not by profit maximization but by providing the very best service to our members and the local community. Credit unions frequently give expression to this through preferential rates to members, enhanced customer service or maintaining branches and service outlets in underserved communities. In fact, credit unions are the only banking service provider in 370 communities across Canada.

Credit unions truly champion their members and the communities they operate in. In 2017, Credit Unions returned \$174 million to their members in profit-sharing, and contributed another \$62.3 million back in to their communities.

Credit unions also embrace workforce diversity. In fact, 34% of Credit Union CEO's are women, compared to just 13.4% of Schedule I bank CEO's. Further, women account for nearly 40% of the board positions amongst the 30 largest credit unions by asset size and 33% in total.

ENHANCING COMPETITIVENESS: DEVELOPMENT OF A MARKET CODE OF CONDUCT

We would like to take this opportunity to thank the members of this committee for their hard work over the past year to achieve an exemption for credit unions from Section 983 of the *Bank Act*. This exemption enables credit unions to remain competitive domestic alternatives in the financial services industry, by allowing them to continue to use generic



terms such as “bank,” “banker,” and “banking,” as they have done for decades. We do not want to lose these important gains through regressive regulations.

Budget 2018 included the following line item: “providing prudentially regulated deposit-taking institutions, such as credit unions, flexibility to use generic bank terms, subject to disclosure...”

CCUA has begun work on the development of a Market Code of Conduct (MCC), which will go beyond disclosure and will formalize the award-winning customer service Canadians have come to know from credit unions. Once developed and implemented, the MCC will set out best practice principles for credit unions to adhere to, including:

- **Access to banking services** (cheque cashing, access to funds);
- **Acceptable business practices** (advertising, preferential pricing, coercive tied selling, negative option billings, and products and services offering);
- **Complaint Handling Processes** (Ombudsman standards, problem resolutions, and complain reporting requirements); and,
- **Governance and Accountability** (Directors’ responsibilities with respect to complaints handling, requirements to demonstrate governance and accountability).

CCUA believes an industry-developed MCC is the best method to protect consumers and provide disclosure to our members. It allows credit unions to remain competitive, by avoiding unnecessary regulations – that add further costs for credit unions, their members, and taxpayers – while achieving both disclosure and responsible consumer protection. Ultimately, the MCC will benefit both the Canadian consumer and credit unions.

1) We recommend that the Committee and Parliament support the CCUA’s development of a Market Code of Conduct as the preferred vehicle for enhanced consumer protection and disclosure, as opposed to any new government-created regulations.

SUPPORTING COMPETITION: “RIGHT SIZING” FINANCIAL SECTOR REGULATION

Over the decades, federal policy has helped cement the dominant position of the banks in the market, despite sporadic attempts to reverse the trend. Thus, competition in the market has suffered and Canadians have fewer choices for their banking.

In our view, this partiality results from two important policy dynamics:



1. **A commitment to “one size fits all” regulatory policies** that results in the largest and smallest banking institutions adhering to the same compliance requirements – despite those requirements imposing disproportionately higher costs and challenges on smaller institutions. For example, a recent study by Panu Kalmi and Giovanni Ferri found that smaller credit unions in Canada devote resources equivalent to 21 per cent of their full-time equivalent (FTE) staff to regulatory matters versus 4 per cent at the largest Canadian credit unions.¹ US and Italian research have found similar results. There is every reason to expect that this regulatory burden disparity between big and small credit unions would result in similar outcomes if comparing credit unions to large domestic banks.
2. The trend toward **internationalization of financial sector policymaking** has contributed to regulatory measures designed for large multi-national, shareholder-owned banks that are considered too big to fail. Unfortunately for smaller institutions, Canadian regulators have often chosen to follow the approaches that focuses on large multi-national banks when applying the regulations to domestically-oriented and cooperatively-structured credit unions. When policies and practices aimed at big international banks are subsequently applied domestically, Canadian regulators give a competitive advantage to the big over credit unions and smaller banks.

Fortunately, the federal Department of Finance has acknowledged that growing concentration is a problem in the banking sector and recognized the need to support the competitiveness of credit unions and small banks. Notably, in *Budget 2018* it is stated:

“Canadians expect and deserve a stable financial system that safeguards their savings and investments. They want technology to make everyday banking easier, to provide them with up to date and accurate information. At the same time, they want to know information is secure, products and services offered meet the highest standard of quality and safety, and that the fees they are paying for products and services are fair.

In this spirit, **the Government proposes to advance measures that will strengthen financial sector stability, support innovation and competition in the financial sector;** and bolster consumer protection.”

¹ Giovanni Ferri and Panu Kalmi, “Only Up: Regulatory Burden and Its Effects on Credit Unions,” Filene Research Institute.



Specifically, the Government has suggested that the upcoming 2019 review of financial institutions legislation is an opportunity to address these issues.

CCUA believes that, if the Department of Finance wishes to be successful in fostering competition, the cooperatively-owned credit union perspective needs to be more prominent and permanently embedded in the policy making process.

Last year, the CCUA provided several recommendations during the second stage of the Department of Finance's consultation on federal financial institution statutes. Several of these recommendations link directly to enhanced competitiveness in the financial services sector and are thus important to bring forward to this Committee.

Notably, with respect to member proposals, we note that currently, a single member can advance a proposal and the federal credit union must oblige. However, registered bank shareholders/beneficial owners must hold a prescribed number of shares for a prescribed period or have the support of persons who in aggregate meet these requirements to be eligible to submit proposals. This is potentially a highly punitive lack of regulatory symmetry. The costs related to printing additional proxy materials can be quite significant. The imposition of a threshold would prevent a single member (or a relatively small number of members) from presenting a frivolous and costly proposal. This is of particular concern given the growing membership size of some credit unions.

There are precedents for setting thresholds in the credit union system and in federal statutes. In British Columbia for example, special resolutions must obtain a minimum of 300 signatures prior to being considered at a meeting of members. In the federal Insurance Companies Act (Canada), a proposal made by a participating policyholder in a mutual (structured similarly to a co-operative) must be signed by at least 500 policyholders entitled to vote or 1% of the total number of those policyholders, whichever is lesser. CCUA believes the lesser of 500 or 1% of policyholders is a reasonable threshold, and recommends that the *Bank Act* be amended to include this threshold, with a caveat that would allow individual credit unions to set lower thresholds if they see fit.

CCUA also made several governance recommendations, as follows:

- We supported amending the *Bank Act* to allow electronic voting in advance of annual general meetings.
- We supported government's proposal to require federally-regulated financial institutions to abide by a "comply or explain" model around diversity.



- We recommended against the imposition of fixed one-year terms on federal credit union board members, as well as majority voting standards for federal credit unions.

We recommend that the Committee and Parliament work with the Department of Finance to ensure that during the 2019 review, the government institutionalizes the perspectives of credit unions within the Department. This would mean permanent staffing dedicated to proposing (or reviewing) financial sector policy and other key policies (e.g. housing and taxation) through the lens of smaller financial institutions and with a view to enhancing competition.

We recommend that the Committee and Parliament work with the Department of Finance to address and implement the CCUA's prior recommendations to the Department of Finance regarding membership thresholds and other governance matters aimed at increased diversity and competitiveness.

SUPPORTING COMPETITION: TAXING CREDIT UNIONS AS COOPERATIVES

The fair tax treatment of credit unions as cooperatives remains an evolving policy matter in Canada. The new government of British Columbia has recently signaled that it will enhance the lending capacity of credit unions by making their cooperatively-oriented tax status permanent. A similar treatment had existed at the federal level in recognition of credit unions' reliance on retained earnings for capital. However, this was eliminated without consultation in 2013 and left credit unions with a framework that imposed higher taxes – suitable for joint stock banks, not cooperatively-structured credit unions. CCUA put forward a proposal to the previous government that would re-establish competitive balance in the tax system. We would be pleased to discuss this with your committee and the Minister.

We recommend that the Committee, Parliament, and the Department of Finance consider new ways to re-establish competitive balance between credit unions and banks in the tax system.

Thank you for considering this submission. We welcome the opportunity to work with you.

Regards,

Martha Durdin
President & CEO
Canadian Credit Union Association

