Review of the Federal Financial Sector Framework

Response to the Department of Finance Canada's Second Consultation Paper, "Potential Policy Measures to Support a Strong and Growing Economy: Positioning Canada's Financial Sector for the Future."

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On behalf of Central 1 Credit Union (Central 1), I would like to thank you for the opportunity to comment on the issues outlined in the Department of Finance's second consultation paper as part of the government's review of the federal financial sector framework. Specifically, the consumer protection issue as to whether prudentially regulated non-bank deposit-taking institutions should be given the flexibility to use the terms "bank" or "banking" to describe their activities and services.

As financial institutions dedicated to protecting consumer well-being and the interests of the communities we serve, Central 1 and B.C. credit unions are supportive of the Department of Finance's proposal to review the *Bank Act* limitations around the use of the terms "bank," "banker," and "banking."

As outlined in the consultation document, Canada's financial service sector is changing rapidly and adapting to several shifts, including a changing macroeconomic environment and a more uncertain international business climate.

Furthermore, the financial technology (fintech) revolution and the emergence of open banking and digital currency suggests that Canada's financial services landscape will look much different from today's in years to come.

What's more, as new, non-traditional financial enterprises enter and exit the market, the financial sector framework must foster a competitive market environment, while at the same time, protect the interests of consumers.

Given the vast amounts of change and complexity outlined in the consultation document, Canadian consumers require clear and accurate information about the financial services and institutions available to serve them. Naturally, language and terminology play an important role in helping Canadians determine the best options to meet their unique financial needs, enabling them to distinguish between different types of institutions as well as financial services and products.

Certain financial language communicates more than service and product descriptions, it conveys quality standards guaranteed by Canadian regulators. Therefore, credit unions appreciate the Office of the Superintendent of Financial Institution's (OSFI) decision to suspend its compliance expectations around the use of banking terminology until a thorough review and consultation of this issue has been conducted.

For the reasons presented in the following discussion, we argue that credit unions, as prudentially sound financial institutions, should *not* be forced to invent new terms to replace common language used by credit unions for decades. Furthermore, we outline the negative impacts to credit unions and the broader implications to the economy should credit unions be mandated to revamp banking language and terminology.

Discussion

Credit unions operate under a different business model than banks, but are subject to similar legislative and regulatory oversight

Credit unions are established institutions and fundamentally different from fintech and other emerging, non-traditional financial enterprises. That is, credit unions are traditional, prudentially sound financial institutions, well-regulated by provincial and federal authorities.

Moreover, credit unions are known as prudent lenders with low loan losses. Provincial deposit insurance provides credit union members protections equal to or greater than those available to bank depositors. What's more, credit unions have weathered the 2008-2009 financial crisis without incident and no credit union members lost money during the financial crisis. Additionally, there were no credit union failures because of the crisis.

Restrictions on banking terminology outlined in the *Bank Act* limit the use of "bank" and "banking" terms to banks by virtue of their being, as stated in the consultation document "subject to protections and obligations created by the federal banking framework". Implicit in this is that their prudent regulation increases consumer trust in banks that they can effectively manage consumers' money.

However, as the above experience demonstrates, Canadian credit unions are as prudent, or more prudent than banks, as deposit taking entities. They are, like banks, subject to rigorous legislation and regulation and prudential rules that ensure judicious fiscal management and consumer protection oversight.

The co-operative model does not entail more risk in comparison to banks; indeed, it may engender less, as credit unions have better knowledge of their lendees and negligible exposure to international risks compared to banks. Nor do the services provided under the credit union model differ substantially from the services provided by banks that a distinction in language need to be drawn to safeguard consumers. For these reasons, credit unions should not be prevented from using the terms "bank," "banker," and "banking" to describe their services and activities from a prudential, or consumer protection perspective.

The issue of credit union competitive disadvantage

Restricting credit unions from using the terms “bank,” “banker,” and “banking” results in a significant competitive disadvantage for credit unions when competing for business with banks. Given that the Department of Finance seeks to encourage competition and a level playing field amongst market participants via the modernization of the financial services framework, allowing only banks to use common language appears to contradict this policy goal.

Banning credit unions from using banking language may lead consumers to perceive credit unions as incapable of providing stable, reliable financial services. Moreover, consumers may perceive credit unions as untrustworthy if they understand credit unions’ inability to use banking language as a measure implemented by regulators to protect consumers from harm. As addressed above, credit unions are no less well-regulated than banks.

Credit unions outperform banks when serving the needs of small and medium-sized businesses.[1] Furthermore, research by the Canadian Federation of Independent Business (CFIB) indicates that credit unions do the best job of servicing entrepreneurs. Indeed, credit unions are a catalyst for growth for small businesses, providing access to capital to those who are denied by banks. Credit unions have worked hard to develop the trust of the small business community and the inability to use common banking may erode this trust.

Loss of credit union members, as well as capital and brand equity, are real and significant threats to all Canadian credit unions should they be disallowed to use banking language. To popularize new language to describe our services and activities could cause unintended consumer confusion and seriously doubt the credibility of credit unions as trusted financial institutions in Canada. With over 10 million members of over 300 credit unions and caisses populaires across Canada, it is important to consider the consumer emotional response to credit unions inability to use banking language.

“Bank,” “banker,” and “banking” are words that most Canadians understand and use to generally describe their dealings with deposit-taking institutions like a bank or credit union. Like banks, credit unions need to be able to speak the language Canadians use and understand to compete effectively with the banks.

The financial impact of the proposed language restrictions to credit unions is extreme

The Canadian Credit Union Association (CCUA) estimates that a ban on the word “banking” will cumulatively cost Canadian credit unions a minimum of $80 million to replace signage, advertising, websites as well as additional legal costs. Because credit unions will need to popularize new terms to replace terms like “on-line banking,” “business banking,” and “bank with a credit union,” rebranding, marketing, and campaign costs will add enormously to the $80 million figure. Ultimately, increased costs and decreased revenue translates into less lending to consumers and businesses.

Credit unions shouldn’t be forced to invent new words to replace the terms Canadians already use to describe their dealings with regulated institutions like credit unions. We believe that the *Bank Act* should be amended to clarify that credit unions, as regulated deposit-taking institutions, can use these terms to describe what

[1] http://www.vancouversun.com/business/Credit+unions+outperform+banks+serving+smaller+businesses+survey+says/8421920/story.html

they do while ensuring that Canadians know they are dealing with a credit union, not a bank.

Conclusion

Credit unions are fundamentally different than banks and other financial enterprises. This difference is important to the competitive positioning of credit unions. However, to compete fairly, credit unions need to be able to continue to use common-sense language to describe and explain the services we offer. Credit unions have used these terms for many decades without incident; that's because credit unions have used the terms the same way Canadians do – to describe the kinds of activities that take place between members and their credit union.

We recommend the Department of Finance propose changes to the Bank Act that would allow credit unions, as prudentially regulated deposit-taking institutions, to use the terms "bank" and "banking" to describe their activities and services.

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

Sincerely,

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