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Canadian Credit Union Association
Association canadienne des coopératives financières

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November 16, 2016

Glenn Campbell, Director
Financial Institutions Division
Financial Sector Policy Branch
Department of Finance
James Michael Flaherty Building
90 Elgin Street,
Ottawa, ON K1A 0G5

Dear Mr. Campbell,

The Canadian Credit Union Association (CCUA) is pleased to provide you with our comments on the Department of Finance's consultation document for its 2019 Review of the Federal Financial Sector Framework.

Our response has been informed by numerous conversations, written comments, and meetings with representatives from our membership, which consists of the six provincial/regional credit union Centrals and 293 affiliated credit unions from across Canada, including the country's first federal credit union, Uni Financial Cooperation.

For the purposes of this covering note, we distill the Department's consultation into two over-arching questions: (1) does the consultation document identify the salient features of the financial services landscape?; and (2) does the policy framework appropriately balance stability, efficiency and utility *given* that landscape?

Our detailed response can be summarized as follows:

(1) with respect to the salient features of the landscape, we were pleased that the Department noted the growing concentration in the banking sector, a situation that we believe speaks to an imbalance between the stability, efficiency and utility objectives. While our detailed response identifies several trends not discussed in the consultation document, we think the most important of these is the fact that increasingly, policy-making is initiated internationally with little consideration given to the credit union and/or small bank implications for the simple reason that they are not internationally active. The result is a policy framework that inadvertently favours concentration and homogenization of banking models.

(2) we also share the view that the federal framework makes it challenging for smaller entities to enter into the federal framework and, once there, compete effectively given proportionately higher regulatory burden and prudential requirements. In our detailed

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response, we explain *how* the current framework can sometimes impede competition and the *diversity* that credit unions bring to the marketplace through their focus on member service rather than profit maximization.

As the title of a recent Conference Board report suggests, credit unions are "different by design." Credit unions believe their "different-by-design" model can deliver on important government policy objectives that relate back to its efficiency, stability, utility and growth objectives. These include ensuring strong private-sector banking services for small and medium-sized businesses, maintaining a physical presence in rural parts of the country to meet the needs of that SME sector and rural Canadians more generally, serving Canada's growing indigenous communities, addressing the payday lending problem, combating elder abuse and doing it all with industry-leading underwriting practices.

To conclude, we are grateful that the Department has undertaken this two-phased consultation process. We are hopeful that it signals a willingness to entertain a broad rather than narrow discussion and we approach this phase of the consultation in that spirit.

Best regards,

Chris White
Vice President, Government Relations

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1. Introduction

This is an important consultation.

It gives stakeholders, the government, Department of Finance officials, and Canadians a much needed opportunity to pause and reflect on what has transpired in the financial services sector since the financial crisis and on the rapid and significant changes taking place now and into the future.

We are encouraged by the scope of this first consultation document and would, as a first order of business, commend the Department and the federal government on its willingness to entertain the possibility of a broad-based review. We are also grateful for the Department and the federal government's actions on federal credit unions in particular and the willingness to remove frictions from the continuation process for example. Our detailed comments pick up on what we consider two core threads in the consultation document.

The first is the observation that there is growing concentration in the banking sector. While the report does not ascribe explicit causality to this trend, we think the underlying explanation is clear: notwithstanding growing sensitivity to the issue, the current regulatory framework favours large entities.

Moreover, we understand that the bail-in policy, D-SIB capital surcharge and other D-SIB-targeted policies might work against the tendency towards concentration. We also do not see growing concentration as an intentional policy outcome – if anything, policy makers have since the 1990s tried to reverse this tendency[1] – but rather the consequence of (a) the dominant position of a handful of large domestic banks able to lower the average fixed cost of all new regulatory measures simply because of their scale; and (b) the concomitant internationalization of financial sector policy making, a trend that began before the crisis and has accelerated since. We describe this trend in more detail in our response to the first consultation question.

The second thread relates to the first. We support the statement, attributed to smaller banks, that these entities face challenges competing effectively given proportionately higher regulatory burden and prudential expectations. This is the flip side of the ability of large banks to lower average fixed costs across international operations. We would add, however, that this challenge is sometimes compounded

[1] See, for example, John Jason, "Swimming with the Whales: How to Encourage Competition from Small Banks," CD Howe Institute E-Brief, available at: https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/e-brief_248.pdf

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for credit unions because of their co-operative structure, a feature rarely top of mind when policy direction gets set internationally. Often times, the result is prudential and other policies that are a poor fit for the cooperative model.

2. Evidence of Structural Problems

Our contention that the current framework poses a structural challenge to smaller institutions is an important and possibly contentious claim so we want to underline it with some evidence before turning to the questions posed in the consultation document:

- From a regulatory burden perspective, a 2013 study by Panu Kalmi and Giovanni Ferri found that small credit unions in Canada devote resources equivalent to 21% of their full-time equivalent (FTE) staff to regulatory matters versus 4% at the largest Canadian credit unions.[2] US[3] and Italian[4] research have found similar results. There is every reason to expect that this regulatory burden disparity between big and small credit unions would be amplified if we were able to conduct a similar analysis comparing credit unions to large domestic banks.

- From a prudential policy perspective, there is clear evidence that large banks have significant advantages owing to their ability to draw on the internal rating-based (IRB) approach to setting credit risk weights for the purposes of calculating risk-weighted capital. A 2014 study by the Australian Financial System Inquiry (FSI) found that for an identical asset class, large banks there were holding 18 cents of capital for each dollar of lending versus 39 cents (by virtue of the standardized approach) at smaller competitors. We have every reason to believe the results are similar in Canada given the universality of the Basel-inspired capital rules. On this point, we would emphasize that similar underwriting standards – as given by an increasingly prescriptive set of underwriting standards – should attract similar capital treatment.[5] The IRB versus standardized approach works against this principle.

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[2] Giovanni Ferri and Panu Kalmi, “Only Up: Regulatory Burden and Its Effects on Credit Unions,” Filene Research Institute, available at: https://filene.org/research/report/only-up-regulatory-burden-and-its-effects-on-credit-unions.

[3] See Credit Union National Association (CUNA), *Regulatory Burden Financial Impact Study*, available at: http://www.cuna.org/regburden/.

[4] Giovanni Ferri and Giovanni Pesce, “Regulation and the Viability of Cooperative Banks,” available at: https://www.sommetinter.coop/sites/default/files/article-scientifique/files/22-ferri.pdf

[5] In a recent talk, Office of the Superintendent of Financial Institutions (OSFI) superintendent Jeremy Rudin implicitly drew on this principle when he distinguished between “warranted” and “unwarranted” variation in risk weights across countries. In his view, risk weight variations – as given by the IRB approach – are warranted when they reflect “differences in experience, underwriting and business practices across banks.” These variations are

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- From a macro prudential perspectives, policymakers are increasingly substituting rule-based underwriting standards for the on-the-ground judgement of lenders, a reality that directly challenges a credit union model that has a long track record of prudent lending. In fact, recent third-party research shows credit unions have the lowest delinquency rates in the industry, a result the research attributes to underwriting practices grounded in the benefits that accrue from local decision-making and a deep understanding of the community and local economic environment.[6] In its recent consultation on risk sharing, the Department of Finance concedes that the introduction of new additional forms of risk sharing could have negative impacts on smaller institutions and for competition more generally.

- From a taxation perspective, we are concerned that among tax policy officials, the additional deduction for credit unions (ADCU) – which will be phased out completely after this year – was construed as a subsidy[7] to credit unions rather than what it is – a *structural* feature of the tax system that recognizes our distinct co-operative form much like differential taxation of charities, non-profits and other entities recognizes their *structural* differences. Somehow, this understanding got lost over time. We believe it existed until 1970 when credit unions were exempt from taxation. It survived in the form of the ADCU with the introduction of credit union taxation in 1971 and was effectively *endorsed* in the Task Force on the Future of the Canadian Financial Services Sector (McKay Task Force)'s work from the 1990s.

For the sake of brevity, we collapse questions 1 and 3 as well as 4 and 5, keeping question 2 as is. To frame the reading of our response, we want to suggest two types of high level recommendations that

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"unwarranted" when applied to the same exposure category. Our point is simple: if underwriting standards are *given* for a subset of lending activity, then it is difficult to understand the logic of continuing to allow the use of the IRB approach for this subset of loans. At the very least, the gap between the IRB and standardized approach should be narrowed for similar risk exposures, perhaps through some kind of floor-based approach. Rudin's remarks are available here available here: http://www.osfi-bsif.gc.ca/Eng/osfi-bsif/med/sp-ds/Pages/jr20161028.aspx.

[6] In its recent review of underwriting practices across the industry, TransUnion found that credit unions have the lowest delinquency rates in the industry and by wide margins – delinquency rates at credit unions are 15%, 69% and 79% lower than at banks for credit cards, lines of credit and installment loans respectively. TransUnion added that "with an overall market share in the 7% to 11% range, credit unions play an important role in consumer lending, and help provide Canadians an important source of liquidity. These lower delinquency readings clearly demonstrate prudent lending practices by credit unions and the value of the strong relationships and close community ties they have with their members."

[7] See, for example, the 2016 Report on Tax Expenditures, which refers to the "special rate for credit unions" as a "non-structural" measure. The report is available at: https://www.fin.gc.ca/taxexp-depfisc/2016/taxexp-depfisc16-eng.pdf.

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align with the scope of the current consultation. First, given our concern about a structural problem with the existing framework, we recommend that Phase II consist of a wide-ranging consultation process that echoes the McKay Task Force process in the 1990s. It, interestingly, gave considerable weight to competitive considerations and, notably, the credit union role in bringing about a more competitive banking sector.[8]

Second, we are convinced that the only viable solution to the problems identified in our response is some form of *institutionalization* of the credit union and small bank perspective into the policy making process. While we appreciate the substantial current efforts to understand and accommodate these perspectives, this recommendation is informed by a recognition that this kind of goodwill may not survive Departmental staff turnover or what we describe below as "policymaking efficiency" incentives. In section five of our response, we offer suggestions on what this institutionalization could look like below.

3. What Other Trends Are Noteworthy, in Canada and/or Abroad (Questions 1 and 3)?

We think the Department has captured most of the relevant macro and financial sector trends. For example, as institutions that operate largely on margin income, we have a deep appreciation for the impact of the sustained low margin environment on our business model. We similarly recognize the importance of demographic trends because our membership tends to be older than the general population.

Credit unions are also sensitive to the potentially disruptive impact of the "FinTech" sector, with many choosing to partner with these firms – or create their own FinTech units – in part at least because they recognize that millennials (and others) want instant, frictionless access to their financial services. With that in mind, we think Phase II of the review process could devote some energy to looking at ways of bringing the *Bank Act* fully into the digital age similar to the way the Canada Deposit Insurance Corporation (CDIC) for example recently proposed changes to modernize its information disclosure by-law given the increasing shift to digital channels. In Phase II, we will offer detailed proposed in this respect.

We share a similar appreciation for the other major trends discussed by the Department, including notably emerging risks around climate change and cyber-security. That said, we think there are three

[8] In particular, the Task Force crafted recommendations aimed at "enhancing the ability of existing institutions, particularly life insurance companies, **credit unions and caisses populaires**, and mutual fund companies to compete with the chartered banks" and "removing barriers to entry for new domestic competitors" (emphasis added).

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additional trends that are material for a thorough financial sector policy review in Phase II. We discuss these next.

Internationalization

While the consultation document remarks on the internationalization of banking activity, it fails to mention the related internationalization of policymaking, especially but not exclusively in the realm of prudential policy where the Basel Committee on Banking Supervision (BCBS) – working with member nations, including Canada – sets guidance that is largely adopted at the federal and, increasingly, provincial level.

Notwithstanding the BCBS' insistence that its rules apply strictly to internationally-active banks, experience suggests that national-level regulators tend to mostly template the rules to regulated entities regardless of the degree to which they operate outside of Canada. This impulse is understandable given Canada's status as a trading-nation but regardless of the causality, the result is often a set of rules designed to address problems at large internationally-active banks but which end up creating new problems for locally-focused cooperatively owned credit unions.

To be sure, we are grateful for increasing sensitivity to this perspective among federal policymakers. We acknowledge and are very appreciative of the efforts by the Office of the Superintendent of Financial Institutions (OSFI) to, for example, adapt the Basel III capital framework to the Canadian credit union reality. Similarly, OSFI has signalled a willingness to selectively apply the counter-cyclical capital buffer to institutions based on size and risk profiles. The available research suggests these buffers are already best-practice in most Canadian credit unions.[9] Again, our concern is not so much with the current policy community but rather with the risk that absent some sort of institutional anchor, the credit union and small bank perspective can easily be subsumed to the "policymaking efficiency"[10] of focusing attention on the largest banks and closely following international standards and norms.

[9] See, for example, Van Son Lai and Hélyoth Hessou, "Basel III Capital Buffer Requirements and Credit Union Prudential Requirements: Canadian Evidence," available at: http://www.uvic.ca/iwfsas2016/assets/docs/Session2-Paper2-Lai.pdf.

[10] By "policymaking efficiency," we refer to the notion that given limited resources and time constraints, policymakers will – absent institutional mechanisms to the contrary – naturally be disposed to focus their policymaking efforts on devising policies that have the greatest impact for a given level of effort. In an oligopolistic banking sector, this typically means focusing effort on policy changes that address concerns and/or policy objectives through action on the largest banks first and smaller banks second.

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Jurisdictional Clarity and the Marcotte Case

In the years following the crisis, federal policymakers appear to have become increasingly attentive to the challenges posed by shared federal/provincial jurisdiction over deposit-taking and related banking activities. The consultation document for example remarks on the federal government's efforts to clarify regulatory accountability and responsibility between federal and provincial governments with respect to provincial credit unions. We suggest this policy effort has taken place against the backdrop of two inter-related trends.

The first is that the international policymaking community has been increasingly seized by the risks posed by inconsistent regulatory regimes *across* and *within* national boundaries. As the BCBS's historical accounts suggest, this concern was first motivated by a financial and trade internationalization process that accelerated in the 1980s, the resulting and presumed regulatory disparities between western and Japanese banks of that era, and subsequent financial conflagrations that threatened internationally-active banks (e.g., Mexican Peso crisis, Asian financial crisis, Long-term Capital Management (LTCM) collapse, and most importantly, the 2007-09 financial crisis). This also can be seen in the increased efforts by international agencies like the BCBS but also the International Monetary Fund (IMF) to review and assess national alignment against what they consider regulatory "best practices," precisely to dissolve as much as possible regulatory disparities between countries. As a trading nation, we understand that Canada is generally reluctant to deviate from international best-practices but note that in at least some instances,[11] the federal government has shown a willingness to stand up to international policy norms when they are not appropriate locally.

The desire for greater clarity around federal-provincial oversight of deposit-taking entities also coincides with a second policy trend, namely the Marcotte case and the resulting increase in class-action lawsuits against federally-regulated entities. We see the 2013 change to the *Bank Act* preamble and the more recent emphasis on paramountcy in the proposed Consumer Protection Framework as responses to the Marcotte case and its consequences. Again, we note these trends only because they strike us as important for thinking through Phase II of the review process.

Other International Policy Trends

Thus far, we have focused our discussion on recognizing (as a key trend) the internationalization of prudential and regulatory policy generally and the deleterious effects of those homogenizing forces on credit unions and small banks. There are other policy trends that also merit attention and that could

[11] See the aforementioned reference to Mr. Rudin's recent discussion discussed above.

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push in an altogether different direction. We note these trends to emphasize again the need for a broad Phase II consultative process.

Consider, for example, the European Union. It is on the cusp of implementing the payment services directive 2 (PSD2), a new regulatory framework that will open bank payment and information infrastructure to outside third-parties and could set an important precedent for other jurisdictions.[12] Elsewhere in Europe, the Netherlands has introduced a new a new credit union act that has already lead to the formation of credit unions focused on SME lending. [13] Crucially, the Netherlands is seeking exemptions to Basel III norms (as applied in the European Union) because it wants to leverage the credit union model to its fullest extent and understands that the difference in form – and difference in social purpose of that form – demand different regulatory treatment.

In a similar fashion, we note the formation of supportive "FinTech" innovation hubs in places like Australia and the United Kingdom, with Ontario also signalling recently its intention to do something in that vein.[14] In many cases, these hubs are deploying "regulatory sandboxes," where they will allow innovation within clear regulatory limits. While they all differ, the hubs are premised on a common idea that different models demand different treatment and that that treatment must be anchored institutionally inside the regulatory framework.

In the United States, we see perhaps a more tentative approach to incubating the FinTech sector notwithstanding that country's leadership in this area. The Office of the Comptroller of the Currency (OCC) for example has promoted the concept of "responsible innovation," which refers to innovation that satisfies the utility objective ("evolving needs of consumers, business and communities") but does so in a way that is "consistent with sound risk management" (i.e., the stability objective) and aligned with the financial institution's overall business strategy.[15] Interestingly, the United States has a long and successful history of regulating credit unions differently than banks, with statutes that allow not

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[12] For a discussion, see for example Business Insider, "How European regulators are creating fertile ground for FinTech growth," available at: http://www.businessinsider.com/the-fintech-regulation-report-2016-4.
[13] See for example Norton Rose Fullbright, "Regulatory Framework for Credit Unions in the Netherlands," available at: http://www.regulationtomorrow.com/the-netherlands/regulatory-framework-for-credit-unions-in-the-netherlands/.
[14] See, for example, McCarthy TéTrault LLP, "Canada's First Regulatory Sandbox for Fintech? OSC Announces Plans for "OSC LaunchPad" Innovation Hub," available at: http://www.securitiesregulationcanada.com/2016/09/canadas-first-regulatory-sandbox-for-fintech-osc-announces-plans-for-osc-launchpad-innovation-hub/
[15] See "Supporting Responsible Innovation in the Federal Banking System: An OCC Perspective," available at: https://www.occ.gov/publications/publications-by-type/other-publications-reports/pub-responsible-innovation-banking-system-occ-perspective.pdf.

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only the creation of traditional closed bond (e.g., Navy Credit Union) and large community-bond credit unions but also the creation (for example) of social-purpose credit unions that operate strictly to meet the needs of under-served communities. This different treatment is anchored in a separate regulator, the National Credit Union Administration (NCUA), and supported by different prudential, taxation and other regulations.

Again, this brief survey points to one important conclusion: there are significant regulatory trends that will have a bearing on the Canadian context – if only through Canada's internationally-active banks – and that need to be fully scoped into a broad review process.

4. Does the Framework Strike the Right Balance Between Stability, Efficiency and Utility? (Question #2)

In our view, the current framework tends to weight stability ahead of efficiency and utility. Further, we think this weighting follows from the internationalization of policy-making. It is also reflective however of the long trajectory of federal regulation in this country, which many have noted has often placed stability considerations ahead of the competition (efficiency) objective, a weighting reflected in the academic concept of the "grand bargain."[16] Arguably, the most recent manifestation of this weighting in favour of stability can be found in the changes to the mortgage insurance framework and the proposed risk-sharing models. While aimed at dampening "demand side" pressure behind rapid housing price increases in Toronto and Vancouver, they also – as the risk sharing consultation document notes – are likely to have an adverse effect on competition from smaller, traditional deposit-taking and loan-making institutions like credit unions that have increasingly been serving first-time home buyers.[17] For credit unions, the impact could be particularly acute because of their outsized presence in rural parts of the country where the risk sharing approach could have a particularly large impact.

We are generally of the view that the extra weight given to prudential considerations was understandable and reasonable in the wake of the financial crisis. Given the current period of slow growth and given the changes afoot in the delivery of financial services, we think the time is right for a rebalancing in favour of utility and efficiency, towards a policy disposition that recognizes the important economic contribution that smaller institutions – and credit unions in particular – can play. We would go further and argue that there is no necessary conflict between efficiency and stability at least insofar

[16] See, for example, "Why didn't Canada have a banking crisis in 2008 (or in 1930 or 1987 or 1893), available at: http://onlinelibrary.wiley.com/doi/10.1111/1468-0289.665/full.

[17] The risk-sharing consultation document notes, for example, that "small lenders with fewer or less cost-competitive funding sources may also be less able than large lenders to absorb or pass on increased costs." It also notes that small institutions may be disadvantaged by their use of the standardized regulatory capital approach.

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as credit unions are concerned. In fact, as a growing body of work shows, greater diversity of corporate forms in the financial services sector – a contributor to efficiency/competition – can also be stability enhancing precisely because those different forms compel different behaviours which dampen the effects of exogenous shocks on otherwise homogeneous institutions.[18]

Similarly, policymakers increasingly recognize that the continued over-weighting of stability could have the paradoxical effect of *increasing* taxpayer exposure to the banking sector because of the related homogenization trends but also because there is reason to believe that policies like the bail-in framework *lock in* too-big-to-fail – and hence taxpayer exposure – rather than challenge them.[19] Moreover, given the large bank share of the market, it is hard to imagine how *any* new regulatory policy would not effectively advantage the large banks over their competitors and negatively affect consumer utility ***unless*** it explicitly set out to introduce and support competition from credit unions and other smaller entities.

5. What Can Be Done to Strengthen the Framework, Ensure its Modernity and Promote Economic Growth? (Questions #4 and #5)

Recognizing that this is a high level consultation, we frame our recommendations for strengthening the framework accordingly.

First, we reiterate our call for a broad-based open review process that takes inspiration from the thoroughgoing McKay Task Force approach. In our view, this is the only way that policymakers can fully grasp the impact of the confluence of forces at play on the pillars of stability, efficiency and utility given the desire to promote economic growth. These forces include, but are not limited to, FinTech disruption, policy internationalization and policy innovations such as the new sandbox or credit union legislative approaches, payments architecture changes, and importantly, the intersection of the financial sector policy and developments in *seemingly* unrelated – but in fact intimately joined – policy areas like taxation and housing.

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[18] For a discussion, see for example Rym Ayadi, "Diversity of the Banking Sector Revisited: Why Does it Matter Post Financial Crisis," available at http://rymayadi.com/wp-content/uploads/2016/07/Diversity-of-the-banking-sector-in-Europe-Commentary.pdf

[19] In a commentary entitled "Running with the Bears: the Canadian D-SIB Recapitalization Regime and Bail-in Debt," a National Bank analyst wrote that while the new bail-in policy increased the likelihood of shareholder exposure to a D-SIB stress, it is also true that "…in establishing the new D-SIB recapitalization regime, the Canadian regulatory authorities have not ended too-important-to-fail, rather they have ratified the concept. In effect, the Canadian federal government has acknowledged that it cannot allow any of the D-SIB institutions to fail – the costs to the broader economy would simply be too extreme." Note: this commentary is no longer available online.

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From a macro-economic perspective, we would further suggest that a broad-ranging review is also timely if only to avoid the kind of outcome that has befallen Japan, a country whose banking sector has been troubled for more than 25 years under the weight of a collapsed real estate and stock market as well as unrelenting demographic pressures towards an aging population.

Second, Phase II should give consideration to seeking views on how to anchor the credit union/small bank perspective institutionally both to ensure that this perspective can survive staff turnover but also because of the natural policymaking efficiency incentives to first focus efforts on policy development with larger institutions in mind. Without prejudging this kind of investigation, we would suggest that this “anchoring” or “institutionalization” could take any number of forms including, for example, creating a credit union / small bank advisor policy unit in the Department of Finance, examining ways to expand the role and capacity of the OSFI small bank advisor while simultaneously putting more emphasis on OSFI’s principle of proportionality, assigning a positive weighting to a provincial credit union’s long operating experience in the continuance process, or adjusting the policy framework to create a real possibility for *de novo* credit unions.[20]

Phase II of the review could also consider “institutional” anchors that are less structural in nature. These might include, for example, creating an expectation that when officials – from the Department, OSFI, CDIC or FCAC – engage in international discussions on prudential and non-prudential matters (e.g., FATCA, CRS, AML/ATF), they give full consideration to the implications of these discussions on credit unions and small banks notwithstanding the ostensible focus on internationally-active entities.

To ensure that this perspective gets communicated at these international fora, the Department could explicitly adopt a “competitive balance” lens to policy formulation. This approach will support the efficiency (and ultimately growth) objectives by helping to anchor policy development around a powerful pro-competition orienting concept that can still be anchored by a stability objective that avoids a regulatory “carte blanche” for any part of the sector, including FinTech companies. We have appended a primer on the competitive balance concept and would be pleased to discuss this further.

Finally, the second phase of the consultation process could explicitly frame-in the impact of banking and financial sector policy on other policy objectives not easily captured by the cornerstones of safety, efficiency and utility. We elaborate on these other considerations below.

[20] These *de novo* credit unions could, for example, target national niche markets such as SMEs (see Dutch example earlier) or employer/employee segments such as firefighters, police officers, teachers and nurses.

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6. Conclusion

The structural tendencies and features itemized in our introductory remarks – regulatory burden, prudential, macro-prudential and tax policy – represent a slow, grinding challenge to the credit union model and with that, to the diversity our model brings to the banking system.

On this, it is important to emphasize that when we use the term "credit union model," we mean something *more* than simply the business of making money off the spread between deposits and loans, although that is as we have noted, a vital part of what credit unions do. Rather, the "more" of the credit union business model is a singular focus on member and community service that is not driven by profit maximization. This focus translates into measurable outcomes that are good for our members and good for Canadians because they introduce a dose of *real* competition to the market. We want to conclude by underlining these benefits because all too often we fear they are secondary considerations in financial sector policymaking. As we have noted above, a broad 2019 review process should scope these considerations into the frame.

Fittingly, given the government's over-arching policy focus on economic growth, we would begin by noting that credit unions have come out far ahead of the banks in the three Canadian Federation of Independent Business (CFIB)'s "Battle of the Banks" membership surveys. In its most recent survey, CFIB members rate credit unions a full 50% higher than the next best federal bank, a margin that merits attention given the importance of the SME sector to the Canadian economy and talk of a bank-funded SME venture capital fund.[21] Credit union market share in this segment now rivals that of the large banks despite the system's considerably smaller overall market share.

Similarly, Ipsos has awarded its Best Banking Award to credit unions for 12 years running based on a survey of some 30,000 plus Canadians. In the words of the consultation document, these independent survey results show that credit unions are maximizing consumer utility and thereby helping sustain economic growth. Given the repeated pattern of credit union success, they also suggest these outcomes are **not accidents**. They are predictable outcomes of a model built on co-operative values that is oriented to member and community service.

The "more" in the credit union business model also consists of maintaining deep connections to communities by returning a five times greater share of pre-tax profits back to communities than our bank competitors through donations and community giving. Beyond this, credit unions share their profits with their member-owners whether through cash rebates, lower mortgage or higher deposit

[21] CFIB, "Credit Unions Rated Best by Small Business," available at: http://www.cfib-fcei.ca/english/article/8828-battle-of-the-banks-credit-unions-among-the-best-for-small-business.html.

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rates, or simply investing in new products and services that their members need and want. One way or another, that is money that is distributed into the hands of people who will spend it and generate growth. In fact, a recent Conference Board study shows that the "economic multipliers" associated with credit unions are significantly larger than at banks, a reflection of our local emphasis (fewer leakages) and large branch network.[22]

The "more" in the credit union model also means that, uniquely, credit unions have set up venture capital funds devoted to investing in regions outside of major urban areas. It means credit unions have pioneered programs to help staff identify, report and stop elder abuse. It means indigenous people using the credit union model to set up a financial institution that meets their needs in Manitoba. It means credit unions in other parts of the country setting up branches in indigenous communities, ensuring their representation on boards, or devising creative but prudent financing options given the legal constraints of on-reserve lending. It means credit unions that disproportionately fund other co-operatives, including dozens of coop housing units after the previous federal government walked away from refinancing these proven models of delivering affordable housing.

Credit unions are not sitting on their laurels. Drawing on a long history of innovation, they are putting unprecedented energy into rethinking how they do things given the trends described in the consultation document and above. As we noted earlier, many of our members are partnering with FinTech companies or launching their own to meet the needs of members, especially younger ones, while never losing sight of the need to maintain the kind of local physical presence that the research shows underpins robust underwriting standards[23] and makes them responsive to SME lenders especially.

Similarly, there is a significant effort to rationalize the credit union second tier (centrals, credit union service organizations) and gain economies of scale to continue to deliver industry-leading services and innovations to our members. Credit unions are on the cusp of forming a new payments entity that would rationalize our consumer-facing payments activities.

With adjustments to the policy framework, some of which we have discussed here but which will be more thoroughly rolled into our response to Phase II of the consultation process, the credit union system can do more to help the federal government delivery on its objectives of stability, efficiency and utility but also, most importantly, economic growth that benefits the middle class. We look forward to the continued discussion.

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[22] Conference Board of Canada, "The Economic Footprint of Canada's Credit Unions." A copy is available upon request.
[23] See the earlier reference to the TransUnion findings.