Credit Union Central of Canada

Submission to the House of Commons Standing Committee on Finance

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Executive Summary

As full-service financial institutions owned by their local members, credit unions are a very different kind of financial institution. The differences are many. For instance, credit unions don't issue shares on capital markets and as a result depend primarily on retained earnings for capital.

In order to promote economic growth and competitive choices for Canadians, the differences between credit unions and other financial institutions need to be recognized and celebrated in federal policy, not ignored.

Credit Union Central of Canada is urging the members of the House of Commons Standing Committee on Finance to make the following recommendations in their pre-budget report:

- **Implement a Capital Growth Tax Credit** set at 5 per cent of a credit union's retained earnings increase in the previous year. This will enable credit unions to increase lending to small businesses, farms and families and create good local jobs;

- **Conduct a mandate review for Farm Credit Canada** to ensure its activities complement those of private sector lenders including credit unions; and

- **Undertake a full and complete financial sector review in 2017** including the decision to eliminate federal regulation of credit union centrals.

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Introduction

On behalf of Canada's 320 credit unions and 27,000 employees, Credit Union Central of Canada welcomes the opportunity to participate in the House of Commons Standing Committee on Finance's 2014 pre-budget consultation process.

Credit unions are member-owned financial institutions that serve communities across the country. There are 5.3 million credit union members (outside Quebec) who all have a say in the operation of their credit union and can, through a democratic election process, serve on the credit union's board of directors. This structure, combined with the credit union's adherence to co-operative principles, ensures that credit unions provide financial services in a sound and sustainable manner.

Credit unions measure success differently than shareholder-owned financial institutions. Profit is not the sole objective because credit unions are established, first and foremost, as institutions with a mandate to deliver service to members. Because of this focus on members, credit unions operate in 380 communities across the country (outside of Quebec) where there are no other bricks and mortar financial institutions. This commitment to service is well recognized. For a ninth consecutive year, Canadians ranked credit unions first in overall "Customer Service Excellence" among all financial institutions in the 2013 Ipsos® Best Banking Awards.

Credit unions by province			
	Members	**Pop. share**	**Assets**
British Columbia	1,881,194	41%	$59.4 billion
Alberta	646,864	16%	$22.0 billion
Saskatchewan	491,095	44%	$18.7 billion
Manitoba	628,688	50%	$24.2 billion
Ontario	1,562,924	12%	$39.4 billion
New Brunswick	228,602	30%	$4.0 billion
Nova Scotia	152,244	16%	$2.1 billion
PEI	55,224	38%	$850 million
Newfoundland & Labrador	53,424	10%	$1.0 billion

With their strong focus on member service, credit unions add a vital choice to consumers in what is otherwise a highly concentrated banking market. In some provinces, like Manitoba, credit unions serve half of the population, while in others like British Columbia and Saskatchewan they serve more than 40% (see table). In the small business market, credit unions consistently come out on top in Canadian Federation of Independent Business (CFIB) member surveys and have an estimated 11% market share, well ahead of some banks many times their size.

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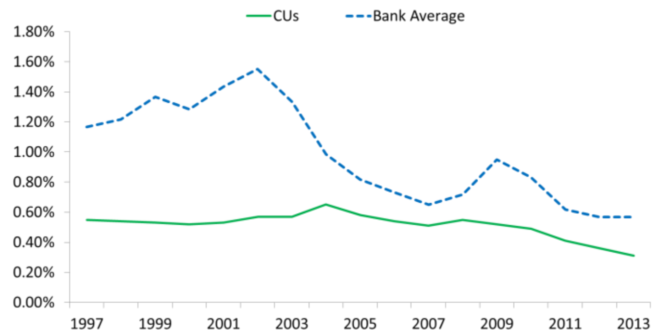
Credit Unions: A Very Different Competitor

Credit unions are very different competitors in Canada's financial services sector. Credit unions matter to small businesses and start-ups that are able to get financing and advice at their credit union that they couldn't get from a bank. They matter to families who are able to afford a home because of competitive mortgage rates. They matter to farmers, who have come to count on responsible lending from their credit union through good times and bad.

They matter because credit unions know their communities. Their board of directors is made up of local citizens. Their headquarters is on main street, not Bay Street. Their loan officers live where they lend. That local knowledge makes a difference for the person receiving a loan and for the credit union's wellbeing (As the chart demonstrates, these practices have meant that for the past 15 years, credit unions have, on average, had a more secure lending portfolio than the banks). That's why, in small rural towns, suburbs and big cities, Canadians know that their credit union matters, and it should matter to Ottawa.



As full service financial institutions, credit unions may look like banks, but they aren't the same. The differences are many. Credit unions are owned by their local members, not shareholders. They don't issue shares on capital markets like banks do. On average, nearly 80 per cent of their capital is retained earnings, compared to less than 45 per cent for banks. The average credit union has 81 employees, compared to 240,000 domestic employees for the average bank.

These kinds of differences are not well understood by federal policy makers. As a recent report by The Conference Board of Canada noted "The thrust of recent policy decisions at the federal level has been to treat credit unions as

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simply another type of deposit-taking institution, not materially different from banks."[1]

In order to promote growth in the economy and competitive choices for Canadians, credit unions' difference needs to be recognized and celebrated in public policy, rather than being ignored.

Improving Canada's Taxation and Regulatory Regimes

Recommendation: Implement a Capital Growth Tax Credit for credit unions

As noted above, credit unions have one primary source of capital: retained earnings. This fact was well understood when, more than 40 years ago, Parliament put in place an additional tax deduction for credit unions. That was good policy and helped support credit union capital growth in that it mirrored the positive impact the capital gains tax deductions has on building bank capital. Budget 2013 began the phase-out of this deduction, ultimately increasing taxes paid by credit unions and *caisses populaires* by an estimated $42 million a year.

Canada's taxation regime needs to recognize the important differences between credit unions and shareholder-owned financial institutions. To help credit unions grow their retained earnings and ensure a measure of competitive balance in the tax system, CUCC is proposing a new tax credit – called the Capital Growth Tax Credit (CGTC) – set at 5 per cent of a credit union's retained earnings increase in the previous year. It will help credit unions grow, invest in small business, farms and families and create good local jobs. We estimate the CGTC would cost $66 million in foregone tax revenue but would generate an additional $700 million in much needed lending to homeowners and small businesses.

Increasing Competitiveness in the Agriculture Lending Market

Recommendation: Mandate review for Farm Credit Canada

Last year, your committee recommended that the federal government consider reviewing the mandate of Farm Credit Canada.[2] CUCC welcomed this recommendation but was disappointed when this important recommendation

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[1] Michael Grant and Mark Liew. *Positioning Saskatchewan's Credit Unions for Growth*. The Conference Board of Canada, Ottawa. 2014. 39.
[2] House of Commons Standing Committee on Finance. "The future we want: Recommendations for the 2014 federal budget." House of Commons. Ottawa. December 2013

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was not implemented in the budget. Canada's credit unions believe that this review is crucial to ensure competitiveness in the farm lending business right across the country. We urge the committee to reiterate this recommendation in its report for budget 2015 and consider undertaking its own study on this important topic.

Since 1993, Farm Credit Canada (FCC), the Crown lender to the agricultural sector, has doubled its share of the agriculture finance market (outside of Quebec) to 31 per cent. FCC's dominant market position is the result of the combination of access to low-cost government funding and an unusual legislative mandate that does not require it to operate in a manner that complements the lending activities of private sector financial institutions. FCC was granted this broad mandate in 1993, a mandate that is distinct from other Crown financial institutions (eg: Export Development Canada and Business Development Bank of Canada) that are restricted from competing directly with the private sector.

CUCC recommends that FCC undergo a parliamentary mandate review to determine an appropriate role for it in this competitive market and to ensure its activities complement those of private sector lenders including credit unions.

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Improving Financial Sector Policy

Recommendation: A full and complete financial sector review in 2017, including the recent decision to eliminate Part XVI and XVII of the federal *Cooperative Credit Association Act*.

Canada's financial services sector is increasingly large, complex and vital to our economy. In order to ensure that the regulatory environment keeps pace with rapid change, financial institutions legislation is reviewed every five years. However, it has been close to 20 years since the government undertook a comprehensive review of the sector, opting instead for technical reviews or incremental adjustments that may not always take into account their interactions with other elements of the financial services regulatory framework. We believe that the upcoming 2017 review should be comprehensive and include a review of the federal government's role in regulating the credit union sector. The Australian government, after a similar 20-year time span, recently embarked on just such a comprehensive review.

This review would be especially important in light of the Budget 2014 announcement that the federal government will be moving to end regulation of credit union centrals under the federal *Cooperative Credit Associations Act*. Centrals are provincial/regional associations that provide trade, payment and liquidity services to their credit union owners. They are a vital link between credit unions and the wider financial services sector and allow the system to obtain the economies of scale necessary to compete effectively with banks. Removing federal oversight, if not carefully considered, could impact the delivery of these services.

CUCC is of the view that such a significant change to how credit unions and their centrals operate should be a part of the 2017 review rather than implemented in isolation from other potential changes to financial sector legislation.

Conclusion

In summary, CUCC urges the House of Commons Standing Committee on Finance to make the following recommendations in their pre-budget report:

- **Implement a Capital Growth Tax Credit for credit unions**
- **Conduct a mandate review for Farm Credit Canada**
- **Undertake a full and complete financial sector review in 2017 including the decision to eliminate federal regulation of credit union centrals.**

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Thank you for the opportunity to participate in this pre-budget consultation process. We look forward to the committee's report.

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