



On 17 October 2016, Coast Capital Savings announced a member vote in regards it becoming a federal credit union

Coast Capital: Federal credit union implications for B.C.
Personal observations by Ross McDonald

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One member one vote. A core principle of cooperative organizations.

Coast Capital Savings Credit Union is currently conducting an important member vote. Its management and Board seek member approval to submit, and to progress, an application to the federal government for Coast Capital Savings to become a federal credit union.

This is a big deal for members of Coast Capital Savings. But it also has significant and diverse implications for the B.C. credit union industry.

Federal Credit Unions

First, context. In 2012, the federal government enacted legislation that permitted federal credit unions. Federal credit unions are authorized to operate branches in any Canadian province. Therefore they are subject to federal legislation and federal regulation. For example then any federal credit union would be subject to OSFI Guidelines, including those on the adequacy of their liquidity and capital that are perhaps more stringent than current provincial regulations. In July 2016 then Caisse populaire acadienne Ltée (“UNI Financial Cooperative”) became the first - and currently only - federal credit union. UNI Financial Cooperative is a credit union, headquartered in New Brunswick, that has C\$3.5 billion assets; 155,000 members; and 1,000 employees.

Coast Capital Savings Credit Union

Second, Coast Capital Savings. Per CCUA then, at end 2015, Coast Capital Savings was the third largest Canadian credit union with C\$13.7 billion assets and 532,000 members. Management and the Board of Coast Capital Savings support the federal credit union strategy. Under its own Rules then Coast Capital Savings must secure 66.7% member approval to execute this strategy. To that end then Coast Capital Savings has recently published documents and videos to educate its members on related matters. Coast Capital Savings has also scheduled two member information sessions. Any approval by members of Coast Capital Savings would represent an important, and necessary, first step. Subsequent consent would be required from CDIC (federal deposit guarantor); FICOM (provincial regulator); OSFI (federal regulator) and the federal Ministry of Finance.

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B.C. credit union system

Third, the BC credit union system. Now it gets complicated. Credit unions, while distinct cooperative entities, significantly operate as a system. This is partly driven by legal regulations - for example, the B.C. Financial Institutions Act requirement that credit unions hold certain liquidity deposits at Central 1 Credit Union. It is partly driven by collective commercial benefit - for example, centralized clearing and settlement of payments - that enable product innovation and provide cost economies that would be unavailable to any single credit union. And it is partly driven by cooperative principles (“cooperation among cooperatives”).

The federalization of Coast Capital Savings would have numerous indirect implications for the B.C. credit union industry.

No stress event is likely. The press release of UNI Financial Cooperative noted that its federal charter was secured ‘nearly 18 months after having received a merger approval from its members’. Any similar schedule for Coast Capital Savings would likely allow significant time for members and stakeholders to consider implications and to execute actions.

Central 1 Credit Union would face broad and material impact. If federal then Coast Capital Savings would likely lose its class A membership of Central 1. Cascade effects include share capital, liquidity deposits, governance representation and potentially profitability and service pricing. Any change in the level of utilization of cooperative centralized products - such as for payments, trade or treasury - by Coast Capital Savings may impact the scope and/or pricing such services, both to Coast Capital Savings and other credit unions.

The residual B.C. credit union industry would still be larger than in any other province. Per CCUA, at December 2015, Canadian credit unions collective reported assets of C\$188 billion. B.C. credit unions represented 35% of this, with C\$66.4 billion assets. A federal Coast Capital Savings would remove C\$13.7 billion assets from the B.C. system. For context then Ontario credit unions held C\$40.0 billion assets at end 2015.

“Residual credit unions may enjoy lower deposit insurance premiums.”

Individual B.C. credit unions may receive a short-term boost. High-value member deposits, say amounts larger than the federal deposit guarantee, may migrate from Coast Capital Savings to other BC credit unions. Some current members of Coast Capital Savings may also seek an alternative credit union. There may also be medium-term benefits. In time then credit unions may have an incremental intermediary for securitization, through a debt-rated Coast Capital Savings. Residual credit unions may enjoy lower deposit insurance premiums - Frank Chong, Acting Superintendent FICOM, 7 October 2016 Public Accounts Committee draft minutes “A credit union opting to continue into the federal jurisdiction would not be able to bring their funds that were provided to CUDIC to the federal jurisdiction. Those funds would be retained by CUDIC.”

But B.C. credit unions, collectively and individually, would face negative impact too. Industry fragmentation - between large commercial and small community credit unions - may accelerate. Competitive forces could increase as a federal Coast Capital Savings could offer product types, funding sources and cost economies that could attract members from B.C. credit unions. But the B.C. credit union industry would lose the ideas; expertise; experience; and contributions of a major current stakeholder. B.C. system-level initiatives, such as the FIA review or the liquidity stress test, would be have one fewer voice. Coast Capital Savings may add its voice to federal-level credit union issues. Stronger together, perhaps, but at a federal rather than provincial level.

“I encourage members of Coast Capital Savings to read the documentation, to attend an information session ... and to vote.”

Were Coast Capital Savings a federal credit union then the BC provincial government would face lower deposit guarantee risk; a smaller mandatory liquidity pool; a lesser regulatory footprint; and the potential for consumer confusion, initially at least, in regards market conduct. Both the federal transition and residual circumstances may impact FICOM, CUDIC and other government entities.

One member one vote may be a compelling principle. But in practice then only a small proportion of members typically vote in credit union resolutions. This one is unprecedented. I encourage members of Coast Capital Savings to read the documentation, to attend an information session scheduled by Coast Capital Savings, and to vote.

<http://www.coastcapitalsavings.com/vote>

References

Coast Capital Savings Credit Union

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- Member vote information - <http://www.coastcapitalsavings.com/vote>
- Management/Board rationale - <https://vote.coastcapitalsavings.com/why-go-national/>
- 2015 FIA response - <http://www.fin.gov.bc.ca/pld/files/Coast%20Capital%20Savings%20Credit%20Union.pdf>

OSFI, federal regulator

- Guidance on federal credit unions - <http://www.osfi-bsif.gc.ca/eng/fi-if/app/aag-gad/Pages/CFCU.aspx>
- List of OSFI Guidelines - <http://www.osfi-bsif.gc.ca/eng/fi-if/rg-ro/gdn-ort/gl-ld/Pages/default.aspx>

Federal Credit Union - UNI Financial Cooperation - July 2016

- UNI Financial Cooperation (profile) - <http://www.acadie.com/en/contenu.cfm?id=2057>
- UNI Financial Cooperation (announcement) - <http://www.acadie.com/en/communique2.cfm?id=144>
- Federal Department of Finance - <http://www.fin.gc.ca/n16/16-086-eng.asp>
- CDIC - <http://www.cdic.ca/en/newsroom/newsreleases/Pages/first-federal-credit-union.aspx>
- CCUA - https://www.ccuau.com/news/uni_financial_cooperation_first_credit_union_to_obtain_federal_charter

Other

- Central 1: Supporting Credit Union Success - <https://www.central1.com/sites/default/files/uploads/files/Future%20State%20Discussion%20Paper%20with%20Letter.pdf>
- CCUA: Canadian Credit Union System Brief - https://www.ccuau.com/-/media/Public/About/facts_and_figures/documents/Quarterly%20National%20System%20Results/2016_03_15_4Q15_system_results.pdf
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- Vancouver Sun: <http://vancouversun.com/business/local-business/surrey-based-coast-capital-savings-making-bid-to-go-national>

ABOUT THE AUTHOR

Ross McDonald is a financial services executive and consultant with experience in strategy, finance, growth and regulation. He has held Director, VP and SVP level roles in multiple organizations including Citigroup, Salomon Brothers, Ernst & Young and recently completed an interim contract role as Director Credit Union Centrals at FICOM. He holds MBA, CA & BAcc qualifications. Ross was a member of the 2012-3 Board Governance Task Force on Director Pay of Coast Capital Savings Credit Union. Ross is a current member of Coast Capital Savings Credit Union.

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