

September 15, 2015

FIA & CUIA Review
Policy & Legislation Division
Ministry of Finance
PO Box 9470 Stn Prov Govt
Victoria BC V8W 9V8

To whom it may concern,

RE: FIA & CUIA Review – Initial Consultation Paper

As the province's third-largest credit union, with a membership of 240,000 and assets nearing \$10 billion, First West Credit Union appreciates the opportunity to offer its initial input and considerations as part of the Financial Institutions Act and Credit Union Incorporation Act review. We strongly support the government's efforts to ensure British Columbia's strong and vibrant credit union system—described by some as a "heritage asset"—can continue to grow responsibly, operate innovatively and act caringly.

Under the direction of our board of directors and the leadership of our CEO Launi Skinner, First West actively participated in the legislative review undertaken for the broader system (Credit Unions of BC/CUBC). **First West supports all fundamental aspects of the "Credit Unions of BC System Response to the Initial Public Consultation Paper."**

That stated, First West also believes it is important to engage further in the consultative process by offering unique perspectives on a few of the key questions—responses we believe will add thoughtful, on-the-ground insight to illustrate and enhance the dialogue.

Again, we appreciate the opportunity to speak into the consultative process on the FIA and CUIA review. Should it be seen as helpful to the process, First West would be pleased to host a round table conversation of ministry officials and interested credit union leaders this fall to discuss this matter further and/or other matters of importance to the government and credit unions.

Yours truly,



Shawn Neumann
Board Chair, First West Credit Union

Contents

Executive summary	3
Responses to questions	6
Overall Framework.....	6
Financial consumer protection.....	6
Recommendation.....	9
Credit union sector	9
Deposit Insurance.....	9
Recommendation.....	11

Executive summary

First West Credit Union fully supports the recommendations laid out in the Credit Unions of BC system submission. In our opinion, the paper effectively lays out key concerns, issues and opportunities related to the Financial Institutions Act and Credit Union Incorporation Act.

Building on the submission brought forward by the credit union system, it is important to note that some provisions of the Acts under review and potential changes will have a more profound impact on some credit unions than others. First West draws government's attention to two matters that we believe are of particular importance to our credit union and our 240,000 members:

1. Framework for corporate and business names

Financial services providers in B.C. and across Canada currently have the ability to market their products and services to Canadians through operating divisions and trade names. First West has been able to achieve strong financial performance and consumer satisfaction scores through the successful use of locally-valued trade names.

In light of the success of First West's multi-brand model over the past half-decade and given the precedent established within the province and across the country for financial services providers to market products and services through the use of trade names, we support the recommendations laid out by the B.C. credit union system in the CUBC response and recommend that language within the Credit Union Incorporation Act be strengthened.

Specifically, **First West recommends that another subsection be added to s. 14 of the CUIA.** This subsection should read: "If a credit union acquires all or substantially all of the assets of, or amalgamates with, one or more other entities, the credit union may use [operating, divisional, regional, brand or] trade names consisting of the names of the transferring entities or the amalgamating entities excluding the words "credit union", "caisse populaire" or "limited".

2. Deposit insurance

To ensure stability within the financial services sector immediately following the onset of the economic crisis of 2008, the provincial government introduced an unlimited insurance guarantee for B.C. credit unions. Since its introduction, the deposit insurance guarantee has provided British Columbians with further confidence in entrusting B.C. credit unions with their deposits and savings. The protracted economic recovery and competitive deposit insurance regimes in western provinces makes the continuation of B.C.'s deposit insurance scheme essential.

First West appreciates the complex nature of deposit insurance schemes such as the one currently at work in British Columbia. That said, **First West believes that now is not a prudent economic time to reduce the province's deposit insurance guarantee.**

Background on First West Credit Union

Though First West is among the five largest credit unions in Canada, it stands out from many of the country's leading credit unions in that it primarily serves mid-sized and small rural and suburban communities throughout British Columbia.

Further differentiating itself, First West employs a business model wherein it provides services to British Columbians through locally familiar trade names. The Fraser Valley, Metro Vancouver and North Coast (Kitimat) operate as First West Credit Union's Envision Financial

division. The Southern Interior divisions are known to members as Valley First and as Enderby & District Financial. On Vancouver Island and the Gulf Islands, consumers identify with the credit union's Island Savings brand.

The credit union distinguishes itself from other B.C. credit unions through its extensive diversification of business lines. First West offers British Columbians vehicle, property and casualty insurance through its insurance subsidiaries. The credit union's insurance business stands as the province's fifth-largest insurance brokerage and one of the largest resellers of ICBC auto insurance. In a number of B.C. communities, the credit union's insurance subsidiaries are the only insurance services provider.

In addition to insurance, First West has an extensive vehicle and equipment leasing operation primarily in B.C., but also in Ontario and Alberta. And, more recently, First West has extended its hand into sub-debt and mezzanine financing for businesses across Western Canada through its First West Capital subsidiary.



Responses to questions

Overall Framework

Financial consumer protection

Question 6: Framework for corporate and business names

Throughout its 70-year history, First West has observed that B.C. consumers and, in particular its credit union members, value and identify with the local brand name of their credit union. Despite a merger in 1983 forming First Heritage Savings Credit Union, many long-time Chilliwack and Abbotsford members still refer to the credit union today as East Chilliwack or Clearbrook Savings. Though millions of dollars were invested in marketing, signage and advertisement of Envision Financial after its 2001 formation through the merger of Delta Credit Union and First Heritage Savings, some South-of-the-Fraser residents still identify with and say they prefer the Delta Credit Union name.

In response to the trust members place and the affinity members have in the local brand name of their neighbourhood financial institution, First West adopted a multi-brand model following the merger of Envision Financial and Valley First in 2010. While First West Credit Union is the legal entity, local brands are retained as divisions of First West and used for marketing the services of First West.

By using trade names that consumers have come to recognize and trust, First West has experienced considerable growth and financial success.

Although proud of how we have implemented our business model, First West is not alone in its multi-brand approach in B.C. or in the country. **There is clear precedent of financial institutions using one or more trade names in their business dealings with consumers.**

British Columbia: Vancity & Squamish Savings

Nearly a decade ago Vancity adopted a multi-brand model when it acquired Squamish Credit Union and continued the brand as Squamish Savings, a division of Vancity. Squamish Savings explains the rationale for adopting this model in 2005: “Vancity presents us with a partnership model that was seen as an ideal way for us to expand our offering to members.... Under the new model, Squamish Savings operates as an independent business within Vancity, preserving local decision-making while backed by the resources of a larger network.”¹



Vancity also expressed the benefits of a local business model: “[Vancity] came to realize that while mergers help us to grow, they risk shifting our focus away from what makes credit unions so unique: the strong brand affinity

¹ <https://www.vancity.com/Squamish/History/>

within the community and the ‘local touch’ that comes with having directors and employees that live and work in the region making decisions for their members.²

Alberta: Connect First Credit Union

Outside the province, the use of multiple trade names has also been adopted. In



2014, **Alberta’s** First Calgary Financial and

Chinook Credit Union came together as ConnectFirst Credit Union Ltd. Today, ConnectFirst Credit Union operates two divisions—First Calgary Financial and Chinook Savings—serving more than 100,000 members through 27 branches in 15 communities across southern Alberta. According to ConnectFirst, the credit union chose its multi-brand model so that it “...can serve our members better through a large network of like-minded credit unions, with more enabling technology – all with the same brands our members have come to trust.”³

Manitoba: Multiple credit unions

For many years in **Manitoba**, credit unions have marketed themselves through divisional trade names to certain consumer groups: Sunova Credit Union uses Hubert Financial; Westoba Credit Union uses Maxa Financial; Assiniboine Credit Union goes by Outlook Financial; and Cambrian Credit Union goes by Achieva Financial, to name only some.



Ontario: Your Neighbourhood Credit Union & Community First Credit Union

Additionally in June 2015, a proposed merger of **Ontario**-based Your Neighbourhood Credit Union and Community First Credit Union was announced. The credit unions propose to merge under Your Neighbourhood Credit Union as the legal entity;



² “Mar 30: Vancity and Squamish talk merger – with a twist.” Vancity.com. <https://www.vancity.com/AboutVancity/News/MediaReleases/Archives/MediaReleases2005/Mar30VancityandSquamishtalkmerger/>

³ “About.” ConnectFirstCU.com. <https://www.connectfirstcu.com/about/>

however Community First will continue to use its local brand name in its region and Your Neighbourhood Credit Union will use its name in its region.

Federal banks: CIBC & President's Choice Financial

Beyond the credit union sector, but still within the well-regulated financial services industry, the use of multiple trade names is commonplace.



President's Choice Financial, which is found **across the country**, promotes and markets personal banking services (including deposits, mutual funds and registered investments, loans and lines of credit) under the President's Choice Financial brand name, though the services are provided through the direct banking division of CIBC⁴.

Ontario: Caisse populaires & Desjardins

In **Ontario**, separately registered caisse populaires brand themselves under a common name (i.e. Desjardins). While this approach differs from a multi-brand model, the principle is transferable: the consumer identifies with a particular brand (Desjardins), though the legal entity is less prominent. For example a customer's legal dealings may be with the co-operative Caisse populaire Rideau-Vision d'Ottawa; however, they identify with the broader Desjardins brand.⁵

Credit cards

Likewise, many credit cards market themselves through use of trade names. A Coast Capital Visa credit card, for instance, has credit issued by Desjardins Financial Group⁶. Similarly, a MasterCard branded as Hudson's Bay has credit extended by Capital One Bank (Canada Branch).⁷ In these cases, consumers identify with the brand on the credit card even though the contract is with a third party that is disclosed in the legal agreements rather than on the card or the card's marketing.

In advancing the use of multiple brand names within the financial services sector, First West fully accepts the responsibility it has to the consumer. First West believes that credit unions and other financial intuitions that use trade names to market their products and services should adhere to similar common-sense and consumer-first practices that it does, namely:

1. There is only one entity licensed and authorized to operate as a financial institution
2. All members, regardless of the trade name they identify with, are members of one credit union and understand their rights as member-owners, and as consumers

⁴ <http://www.banking.pcfincial.ca/mkt/common/legalinfo/personalbankinglegalstuff-en.html?region=BC&language=en&signinop=OB>

⁵ <http://www.desjardins.com/ca/about-us/desjardins/governance-democracy/?navigMW=ari&>

⁶ <http://www.coastcapital.desjardins.com/visacard/cartes/contrat-credit-variable/credit-terms-conditions-e.pdf>

⁷ <http://financial.hbc.com/en/credit/images/account-agreement.pdf>

3. Trade names should not represent themselves as the legal entity
4. The public can easily identify the credit union or financial institution as an entity subject to regulatory oversight and consumer and depositor protection schemes for deposit insurance

Recommendation

In light of the success of First West's multi-brand model over the past half-decade and given the precedent established within the province and across the country for financial services providers to market products and services through the use of trade names, we support the recommendations laid out by the B.C. credit union system in the CUBC response and recommend that language within the Credit Union Incorporation Act be strengthened.

Specifically, First West recommends that another subsection be added to s. 14 of the CUIA. This subsection should read: "If a credit union acquires all or substantially all of the assets of, or amalgamates with, one or more other entities, the credit union may use [operating, divisional, regional, brand or] trade names consisting of the names of the transferring entities or the amalgamating entities excluding the words "credit union", "caisse populaire" or "limited".

Credit union sector

Deposit Insurance

Questions 1-4

First West fundamentally supports the consensus position articulated in the CUBC submission on the deposit insurance guarantee. Along with our credit union colleagues, we believe that any deposit insurance scheme must:

1. Maintain a competitive credit union system.
2. Support provincial money staying in the province.
3. Recognize the value of self-regulation in the system.
4. Be easily understandable by depositors.
5. Ensure any transitions are well thought out and very carefully managed.

The B.C. government introduced the unlimited deposit insurance guarantee to instill confidence in the financial services sector during the 2008 financial crisis. In First West's experience, the scheme exceeded its objective. After shoring up the existing depositor base during the financial crisis, its ongoing presence attracted for the first time depositors who by principle or policy would not otherwise invest with a local B.C. credit union. Many municipalities, universities, schools and hospitals (MUSH), as well as aboriginal and sophisticated individual

depositors will not or cannot deposit with an organization that is either not insured or does not have a bond rating.

It should be noted that other than Vancity and Central 1 which have short-term debt ratings, **no other credit union in British Columbia has a bond rating**. The unlimited deposit insurance guarantee often alleviates the concerns large depositors have in doing business with B.C. credit unions.

First West believes that any diminishment of current deposit insurance guarantee levels would adversely affect many credit unions in B.C. and render most B.C. credit unions less competitive than other Canadian financial institutions.

While Canadian banks have limited deposit insurance guarantees in place, the six largest are considered domestic systemically important banks⁸. Further, in consideration of any taxpayer protection and bank recapitalization regime, the government notes that it is “committed to ensuring that Canada’s deposit insurance framework adequately protects the savings of Canadian consumers. In this regard, [consumer] deposits will be excluded”⁹ from the recapitalization regime. Excluding consumer deposits from a recapitalization regime implies that too-big-to-fail banks have an implicit guarantee. Any limitation on the deposit guarantee would put B.C. credit unions at a distinct disadvantage to Canada’s largest banks, resulting in the potential movement of deposits from B.C.-based institutions to Central Canada’s banking sector.

In addition to the implicit guarantee for banks, First West is concerned deposits may leave the B.C. credit union system for credit unions and other financial institutions in neighbouring Alberta, Saskatchewan and Manitoba. In Alberta, deposits made to the province’s Alberta Treasury Branches (ATB Financial) are backed by the government. To ensure competition within the province, an explicit guarantee has also been extended to Alberta’s credit unions. In Saskatchewan and Manitoba, the structure of the deposit insurance corporations in these provinces makes the joint and several guarantee more explicit, as the systems operate more as self-regulating organizations.

The negative implications of limiting B.C.’s deposit insurance scheme are serious. For First West alone, a diminishment of the deposit guarantee is projected to put at risk between \$700 million and \$1 billion in deposits (approximately 15 per cent of our deposit base), with further potential losses depending on the final structure of the deposit scheme. A reduction in deposits for the credit union would limit the ability of the credit union to provide loans to British Columbians and B.C. businesses.

⁸ <http://www.bankofcanada.ca/wp-content/uploads/2013/12/fsr-december13-chouinard.pdf>

⁹ “Taxpayer Protection and Bank Recapitalization Regime: Consultation Paper.” (August 2014)
<http://www.fin.gc.ca/activty/consult/tpbrr-rpcrb-eng.pdf>

Furthermore, with recent concerns¹⁰ that Canada has entered a technical recession, it must be asked whether now is the right time to make fundamental changes to B.C.'s deposit guarantee program at the risk of destabilizing a highly sensitive system.

Recommendation

First West appreciates the complex nature of deposit insurance schemes such as the one currently at work in British Columbia. That said, **First West believes that now is not a prudent economic time to reduce the province's deposit insurance guarantee.**

¹⁰ "Economy enters technical recession despite strong figures in June." Theglobeandmail.com.
<http://www.theglobeandmail.com/report-on-business/economy/growth/canadas-economy-shrinks/article26172722/>