Financial Institutions Act and

Credit Union Incorporation Act Review

Coast Capital Savings Response to the Initial Public Consultation Paper

September 15, 2015

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Response from Coast Capital Savings

Introduction

As one of Canada's largest credit unions serving more than 520,000 British Columbians, Coast Capital Savings is pleased to provide feedback for the Financial Institutions Act (FIA) and Credit Union Incorporation Act (CUIA) review. We have 50 branches operating in Surrey, Richmond, Vancouver Island, Greater Vancouver and the Fraser Valley, and are an innovator in the credit union industry with a fresh, unique brand, products like free chequing accounts, and a focus on providing our members with real help, not just more financial products. Coast Capital also donates 7% of its pre-tax profits every year to community causes, and in 2015 we are celebrating our 75th anniversary of serving our members in British Columbia.

Alignment with the BC Sector and Central 1

Coast Capital is pleased to have contributed to Central 1's submission which is designed to represent the broad views of the credit union sector. In principle, we have no opposition to the recommendations they have put forth in their submission.

Central 1 has indicated to individual credit unions that, as a body trying to represent dozens of credit unions of varying size, it has been a challenge to try to demonstrate multiple examples or specific perspectives on each and every issue discussed in their paper. That is why they have asked each credit union to also consider submitting their own recommendations for the review, and to take the opportunity to present their unique perspectives on issues of particular relevance to them. It is important to note that, far from diluting or contradicting Central 1's position, our intention is to strengthen it with additional examples and context that may be helpful to the Ministry of Finance as it considers each recommendation.

Hence, **Coast Capital's position is that the Ministry consider all of Central 1's recommendations**, and that the information provided in **this document is intended to further strengthen the case or provide deeper context for specific points Central 1 has raised**. Therefore, only those specific items are addressed in this paper.

For ease of reference, the specific items in our response are also provided in the same order as those presented by Central 1. Their paper is also attached to our email submitting the Coast Capital response.

Capital Requirements

(Question 1, p. 25, of Ministry's Consultation Framework)

Threshold Deductions for Investments in Subsidiaries

Most credit unions have the majority of their assets secured by real estate, which for a provincial credit union, creates concentration risk both in terms of security and geography. In order to mitigate that risk, Coast Capital has invested in subsidiaries that diversify its income streams, assets and operations. We believe that, managed conservatively, this is prudent portfolio management that is in the best interest of our members, for whom these subsidiaries also provide important services.

As Central 1 indicates in their submission (p. 10), FIA currently limits a credit union from having subsidiary investments that exceed 5% of the financial institution or extraprovincial corporation's assets. So, if at time of acquisition, a subsidiary investment represented 3% of assets, even modest profitable growth of that subsidiary to more than 5% of assets would put a credit union off side of the regulations and requires sell-down of investments in that subsidiary. In effect, the credit union would be punished for having made a successful investment in a growing asset as it also executes a prudent risk management strategy for its overall business model. Coast Capital believes this is an unintended consequence of the legislation as it is currently written.

Coast Capital Savings contends that since government does not impose a cap on other areas of a credit union's business, it is unnecessary to impose one for investments in subsidiaries. For example, there is no cap on the percentage of our business that relies on residential mortgages – instead, the focus is on whether the adequate risk management and liquidity management practices are in place. We believe a similar model should be applied to investments in subsidiaries, where the threshold of investment should be regulated by the organization's risk management capacity and practices, not an artificial and arbitrary figure. The current 5% threshold may be more risk than some credit unions should bear; however, a threshold that is significantly higher may make sense for others and their business model.

If the Ministry cannot eliminate the threshold altogether, we would recommend an increase to 15% or more, to raise the ceiling on the allowable value of these subsidiary investments relative to total assets of the financial institution. We believe this would represent two benefits to the sector: enhancement and encouragement for credit unions to consider risk diversification through careful investment in subsidiaries, and reduction of punitive consequences for credit unions who experience success with those investments.

Regulatory Environment

Overview

(Question 1, p. 17 of Ministry's Consultation Framework)

Building on the discussion in the Central 1 submission, it is Coast Capital's understanding that FICOM is under-resourced. This clearly presents challenges for individual credit unions and the credit union system.

An example of this relates to Coast Capital's current exploration of whether federal credit union continuance is a viable option for our members and our business. We have been preparing a detailed business case to assess readiness for continuance to a federal regulatory environment, including analysis of the financial model, governance structure, risk review, overall organizational readiness and other factors. FICOM's framework for continuance to a federal regime has not yet been drafted, which limits our ability to truly assess the requirements, costs and potential timeframe for pursuing continuance. This is a framework we believe FICOM would have liked to have developed shortly after the federal government established its regulations for federal credit unions in 2012. However, as FICOM has had to allocate its limited resources as effectively as possible, this work was deferred to be handled if and when a serious applicant came forward. Unfortunately, it leaves a significant question mark for Coast Capital as we have limited direction as to what FICOM's requirements will be. The lack of specific criteria or a pre-determined model leaves both Coast Capital and FICOM in the position of potentially having to develop the continuance framework on a tight timeline. It could also result in a significant delay in our ability to pursue continuance and grow our business. Again, we recognize that FICOM is managing its limited resources to the best of its ability, and provide this example as a reason for the Ministry to re-evaluate the resources allocated there.

<u>Improved Transparency in Decision-Making</u>

(Questions 2 &3, p. 17 of Ministry's Consultation Framework)

Coast Capital Savings believes the sector could benefit from Central 1's proposal to separate the CUDIC and FICOM boards, and by having a system representative appointed to the CUDIC board. However, we acknowledge there are many ways in which these changes could be structured or implemented, and would look to the Ministry, FICOM and the sector to collaboratively consider a model that ensures both good regulation and strong representation that adheres to the very principles of cooperative financial institutions.

Membership and Governance

<u>Member Engagement and Special Resolutions</u>

(Question 2, p. 22 of Ministry's Consultation Framework)

As currently worded, CUIA enables any credit union member who can gather 300 signatures to force a special resolution to the full membership. For a credit union the size of Coast Capital Savings (520,000 members), this means a concern from less than 1/10 of 1% of the membership could prompt a special resolution. The last special resolution brought to the membership as a result of this 300 signature requirement cost approximately $500,000 of our members' money.

Further, the legislation currently has little limitation on how often a member can raise a special resolution. It is conceivable that a member could pose one resolution after another – at a cost of $500,000 each time. It also provides few grounds on which a resolution could be turned down. There is also the less tangible opportunity cost – staff time and resources committed to managing and explaining special resolutions could be better spent helping members with their financial well-being and enhancing the business operation of their credit union. Finally, special resolutions can become a nuisance to that broader membership, who would be confused and potentially annoyed at the constant barrage of voting packages.

The 300 signature threshold was originally created at a time when email was barely available, much less the immediacy and networking now available via social media. At that time, 300 signatures was a difficult threshold to attain. Today, it is 10 minutes' work for someone who is savvy with social media.

Coast Capital believes members should have the right to engage with their credit union and bring forward issues for consideration. But we do not believe our membership of 520,000 is well-served by legislation that allows 300 people to dictate the expenditure of so much of their money, and to have such an impact on the allocation of resources in their credit union. To put this in a broader context, consider that a referendum in BC requires signatures from 10% of the voters in every single constituency.

Our position is that a proportional but attainable threshold would be more appropriate. A requirement to secure signatures from 1% of the membership to pose a special resolution seems a reasonable balance. We also believe the Ministry should consider wording that limits the frequency with which resolutions can be brought forward in a given year, to guard against activist groups whose primary goal is to create financial havoc with the credit union.

Finally, we would like to acknowledge that some credit unions would prefer to have the legislation encourage more resolutions from members, as they embark on a deeper engagement strategy with their membership. Rather than reflecting this minority's preferences directly in the legislation, our suggestion is to add languages to the regulations that allows credit unions the flexibility to enshrine a lower threshold within their own by-laws, if they wish. This flexibility is in place in the legislation in some other provinces.

Technological Neutrality

(Questions 1, 2, page 12 of Ministry's Consultation Framework)

As noted by Central 1, the requirement to provide notification to members by mail is not only outdated and potentially not the most effective way to reach members, it is also costly. Each time Coast Capital issues a mailing to it 520,000 members, it costs approximately $500,000. Quarterly mailings result in a $2 million impact on our bottom line each year. Recognizing that retained earnings are the core method credit unions use to bolster their liquidity and fund lending and expansion of their business, these costs have a significant impact on things like our ability to invest in new products and services for members, and the scope of our community investments. We believe a change to the legislation that allows alternate methods of notification would better serve to inform members about important matters, and also save their money, which can be better used to enhance their credit union and community.

Responsibility and Regulation of Central Credit Unions

(Questions 2&3, page 28 of the Ministry's Consultation Framework)

Stabilization Central Credit Union

Coast Capital concurs with Central 1's belief that there is an opportunity to leverage Stabilization Central's capacities in a more fulsome way to support meaningful and responsive regulation of the credit union system. However, we believe this is a complex process that requires significant research and debate within and among credit unions throughout BC. We look forward to discussing the potential for an expanded mandate for Stabilization Central in the coming months as the Ministry continues its legislative review.

Deposit Insurance

(Questions 1-4, page 21 of Ministry's Consultation Framework)

We recognize that the continuation of unlimited deposit insurance has been a source of debate within the sector and with government over the past few years. Coast Capital Savings has engaged in thoughtful dialogue with our colleagues in the BC credit union sector on this topic. One of the great strengths of our sector is the breadth of sizes and business models among the province's various credit unions. It is clear that for many, unlimited deposit insurance is a very important factor in their operations. The viability of our sector colleagues is important to Coast Capital Savings, so we understand and are not opposed to their request for the continuation of unlimited deposit insurance.

For Coast Capital Savings specifically, unlimited deposit insurance is not essential. Our business model is structured such that we could adjust to an environment where a new limit was imposed. However, should a change to deposit insurance occur, we cannot emphasize enough how important it would be to the sector to have a phased and gradual approach, to enable them to plan for potential liquidity run off and other considerations. If government were to reintroduce a limit, we would also urge that consideration be given to developing a tiered approach, potentially allowing some credit unions to maintain unlimited coverage with appropriate premium rates.

Financial Consumer Protection

Financial Literacy

(Questions 1-4, p 11 of Ministry's Consultation Framework

Central 1's submission highlights Coast Capital's investment in Junior Achievement of BC's Dollars with Sense program – this section provides a bit more detail about our involvement with and pride in this excellent program and our overall commitment to financial literacy.

Financial literacy is actually one of the four pillars of our community investment strategy. We are the title sponsor of Junior Achievement's Dollars with Sense program that teaches the basics of financial management to pre-teens and teenagers all over BC. In addition to funding, our staff members also commit – many of them personally volunteer to go into classrooms to deliver this important program. Some use one of our staff benefits to add to their volunteer commitment – every employee is given 8 hours of paid time off to commit to the volunteer effort of their choice.

We also build financial literacy into our business model. Every new member receives a "Where You're At Money Chat" – a 10 minute interview and survey that helps define the member's financial situation and goals, and enables our team to help them create a plan to enhance their financial well-being. This is an area where credit unions really excel compared with the banks. We are accountable to our members, not shareholders demanding a quarterly dividend. Thus, we can put the well-being of our members first, and make their success our priority as we discuss the products they may or may not need. Educating them about the options for saving, investing and protecting their money is a significant element of our business model. Our goal is to partner with our member to create a plan to help him or her get ahead, not to create profit for some distant shareholder.