

COOPERATION AMONG CREDIT UNIONS: A CALL FOR COLLABORATION

For almost one hundred years our Community-Based Credit Unions have cooperatively supported, nurtured, and strengthened the mosaic of people and cultures that collectively make up Canada. Through times of prosperity and spells of adversity they have remained present in rural towns and urban neighborhoods, as vital forces working to better the lives of their members and of all Canadians. Today Community-Based Credit Unions face unprecedented and immediate challenges that threaten their continuation. Without them, Canadian communities will become poorer and weaker.

This paper is a call to action. It calls on all of us to remember the essential role that Community-Based Credit Unions play in healthy Canadian communities. It calls on us to strive for a cooperative economy and reaffirm the cooperative principles and values that are as valid and powerful today as they were a century ago. And it calls on us to reengage immediately in cooperation and collective advocacy to overcome the challenges we face for the betterment of our communities.

Who We Are

Community-Based Credit Unions have old and deep roots in their respective rural and urban homes. Their geographic footprints are concentrated and focused, their staff and management live locally, and their operating models are lean —sometimes only a single branch. As a result, they know the people, the farms, the small businesses, the mills, and the factories of their communities intimately. They understand what makes their communities successful, what hurdles they face, and how to help them thrive. Community-Based Credit Unions put their assets, which tend to be modest when compared to other financial institutions, to careful use for the benefit of their members. They do not pursue growth simply for the sake of growth; rather, they strive to contribute to the betterment of the lives of all who live in their communities.

Why We Matter

Community-Based Credit Unions are the financial underpinning of Canada's communities. They provide core financial services --funding, payment services, banking, and investment management—that allow local businesses to compete and thrive, and residents to prosper. They are frequently the only financial institution in town, and often their members do not fit the profit-focused target market criteria of other financial institutions. They also provide good, living-wage jobs to residents, thereby allowing them to remain and contribute to the vibrancy of their communities. Over and above their business activities, Community-Based Credit Unions give back to others in the form of money and time dedicated to supporting local charities and initiatives.

What Community-Based Credit Unions do is important, but how and why they do it is what sets them apart. In a world where the financial bottom line and the accelerated pace of digital life often define interactions, they understand that people matter and come before excess profit. Their intimate and personal local knowledge allows staff to make sound, balanced decisions in support of their members. They can make these decisions quickly and nimbly, without needing to request authorization from a distant head office that may not understand local realities. The people they lend to and advise are not sales targets to be met, but neighbours to be helped. They support charities and organizations because they make their lives better, not because it makes for good advertising.

Staff and members of Community-Based Credit Unions share a deep appreciation of their relationship, which goes beyond that of supplier and customer. Loan officers work with families to help them buy homes whereas the models of big, national financial institutions may reject them. Member service representatives reach out to

help members struggling due to pandemic unemployment. They protect members by understanding them so well that they can identify and block fraudulent transactions. Marginalized and underbanked people can walk into their neighbourhood branch and be treated with dignity and respect. These relationships are key in helping people get through difficult times and eventually realize their goals. This has always been important and is especially relevant today, when the COVID-19 pandemic is stressing many Canadians and prompting others to re-evaluate their work and living options.

Community-Based Credit Unions also contribute to the resilience and strength of Canada's financial sector. Their existence mitigates the threat of monopoly and concentration, which can both raise costs for Canadians and increase the risk of system collapse through the failure of a single, large institution. Their deep knowledge of and commitment to their localities leads them to manage risk effectively for the safety and soundness of their individual Credit Union and home locales. Their focus on core banking services for their members means that they avoid complex, risky activities. Even if an individual Community-Based Credit Union were to get into financial trouble, the impact to the overall financial system would be eminently manageable, given its relatively small size. Indeed, Credit Unions have historically proven themselves willing and able to successfully manage situations where one of their number has encountered difficulty.

Strong, independent, Community-Based Credit Unions are essential to the health of a prosperous, diverse, and inclusive society.

What's at Stake

The continued existence of Community-Based Credit Unions is under threat. Never have the dangers been so many, so clear, and so present. Unmitigated, they could force an extinction that would leave the communities of Canada weaker and poorer.

One threat comes in the form of environmental trends. Low interest rates are squeezing net interest margins to historic lows. Younger people may not yet understand the Credit Union difference. The growth of frictionless digital channels, which have become table stakes in the financial services sector, has vastly increased the complexity and cost of information technology. Major changes to the Canadian payments infrastructure –the basic plumbing through which money moves—requires significant retooling of processes and systems. Regulatory requirements for financial institutions across all areas have multiplied quickly and exponentially. Responding to these multiple trends requires extensive time, money, and focus. As a result, the lean resources of Community-Based Credit Unions are greatly stretched.

Another threat comes in the shape of what many consider to be the answer to these trends: the ideology of “bigger is better.” Larger financial institutions are better positioned, so the theory goes, to respond to these developments with their richer resources and ability to realize economies of scale. This logically points towards amalgamation as a solution to the dilemma that Community-Based Credit Unions face. However, this approach would have a devastating impact on communities. The local connections and knowledge that are at the core of the Community-Based Credit Unions would be lost. Decision-making would become centralized, distant, and slow. Members may no longer trust that their financial institution is able to support their individual, local needs.

A third threat is internal to the Credit Union system, and it may well be the most dangerous of all: losing sight of the Co-operative Values and Principles. The Values – Self-Help, Self-Responsibility, Democracy, Equality, Equity, and Solidarity – embody the fundamental beliefs of the co-operative movement, while the seven Principals articulate how the Values are put into practice. These tenets are more than just ideals; they have guided Canadian Credit Unions for nearly a century to successfully enrich and improve their communities. The

Principles have been eclipsed by the temptation to grow for growth's sake, the prestige of competing with banks on their own terms, and the preoccupation of maximizing the financial bottom line. Individual Credit Unions are focusing on their own success instead of cooperating with others. Second-tier cooperative organizations that provide key services to Credit Unions are either focusing primarily on the needs of their larger members or fragmenting due to individual self-interest. As a result, the greatest strengths of Community-Based Credit Unions are ebbing.

What We Must Do

To meet the existential challenges they face, Community-Based Credit Unions must re-engage with their core strengths, as guided by the following selection from the Co-operative Principles:

- *Democratic Member Control:* Community-Based Credit Unions must ensure they continue to have a voice within the second-tier system cooperative organizations on which they rely. Respecting the Values of Democracy, Equity, and Equality, this can only be accomplished by adhering to a governance model based on one-member-one-vote.
- *Education, Training, and Information:* Despite their individuality, the knowledge and experience of each Community-Based Credit Union is of great value to the others. They must share this collective wisdom amongst themselves for mutual benefit in the spirit of Self-Help and Solidarity. They must also educate key system stakeholders on the vital role that Community-Based Credit Unions play.
- *Cooperating Among Cooperatives:* Community-Based Credit Unions must collaborate effectively and without ego to develop shared services and capabilities that realize economies of scale, reduce operating costs, provide redundancy and resilience, and meet the needs of their communities. They must be bold in exploring what are the best structures, existing or new, to provide these functions. This imperative keenly embodies all of the Co-operative Values.
- *Concern for Community:* Community-Based Credit Unions must remain laser-focused on supporting and enriching their communities, without whom they have no reason to exist. Homogenizing the Credit Union system through amalgamation and merger inevitably weakens the commitment to individual communities and erodes the Values of Equity and Equality.

The Call to Action

Time is of the essence; Community-Based Credit Unions must act now if they are to remain viable and strong. There is much work to be done, but where to start? Drawing on the Cooperative Principles, they must immediately:

- Establish an initiative to determine priority areas for collaboration that will yield collective efficiencies and realize economies of scale while preserving independence. It will be essential to recognize the key success factors for effective cooperation, identify the most efficient structures to effect collaboration, and ensure democratic member control of those structures on the basis of "one member, one vote."
- Engage with Central 1, the system's main second-tier cooperative, to make sure Community-Based Credit Unions have an equitable say in its governance structure.
- Actively advocate with regulatory authorities and government to foster an environment that is conducive to the strength and vitality of Community-Based Credit Unions.