

Happy International Year of Co-operatives!

Brigitte Goulard, Vice President, Policy, CUCC

The United Nations General Assembly designated 2012 as the International Year of Co-operatives (IYC). Under the theme of “Co-operative Enterprises Build a Better World”, co-operatives across the world will highlight cooperative successes and the ability of an egalitarian and community-focused business model to bring people together in powerful ways. Have a look at Kate Martin’s report of the January 12th launch of the IYC.

And if you thought cheques were a thing of the past, I also invite you to read Sabrina Kellenberger’s article on the recent CFIB survey on payment mechanisms used by SMEs. You might be surprised.

Interested in learning more about the recent consultations on Anti-Money Laundering and Anti-Terrorist Financing Regime, Jan Hopper’s article provides an excellent summary of the proposed changes and potential impact on credit unions.

One of this year’s objectives is to re-vamp the Policy and Advocacy Report (PAR) to make it even more relevant for our readers. To assist us in achieving this goal, in the near future, we will invite our readers to complete a short survey which will enable us to determine whether our Report is too short, too long or missing key information. We thank you in advance for your support.

I wish you a very healthy and successful New Year.

Collaborating...and Connecting

SaskCentral Continuance

Ken Anderson, CEO, SaskCentral

It’s amazing how quickly the Canadian credit union system has evolved. In Saskatchewan, we have past directors of credit unions who can remember when their credit union’s cash handling system consisted, literally, of a kitchen drawer in someone’s house. Today, across the country, credit unions as modern, full-service financial institutions present an entirely different face to the world. (continued on page 2)



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If anything, the pace of this change in recent years has accelerated and credit union Centrals, as the support organizations for credit unions, have had to stay light on their feet to remain effective. SaskCentral is no exception. Over the years, we have undergone transformations that have taken us beyond the core provincial Central functions of trade services and liquidity management. This has included taking ownership positions in a number of service providers to ensure that our credit unions have ongoing access to the products and services they required. Our current initiative – continuance as a federal association – is one more step in a direction we have been heading for many years. This long-term direction is that we will work toward the achievement of a nationally unified co-operative financial network.

So how does continuance as a federal association help us reach that goal? Well first, a bit of context. At the moment, SaskCentral is in a rather unique position in that it was created and incorporated under a private Act, the *Credit Union Central of Saskatchewan Act* (1999). This private Act draws from other provincial Acts in regard to corporate structure, access to capital, provincial business powers and provincial regulation. At the same time, federally, we are registered as a Part XVI Central. Our business powers and regulatory responsibilities are drawn exclusively from the federal *Cooperative Credit Associations (CCA) Act*.

While this dual regulatory framework has served well up to this point, it limits the type of business arrangements that SaskCentral can enter into. Continuance as a federal association would incorporate SaskCentral under the *CCA Act*. Under that single regulatory umbrella, our organization would realize three benefits.

First, continuance as a federal association will assist us in ensuring the business strategies of SaskCentral and Concentra Financial, our major investment, remain independent but aligned. Concentra, which was the continuation of Co-operative Trust as Canada's first retail association under the *CCA Act*, has established itself as an important provider of services to credit unions across Canada. Continuation as a federal association would place SaskCentral under the same regulatory umbrella as Concentra and would allow the two organizations to operate in tandem more

effectively, with no duplications in terms of the services we offer.

The second benefit that is anticipated is more of the nature of "let's be ready for when this happens." Amendments to the *Bank Act* were introduced in 2011 that provide the option for credit unions to operate on an inter-provincial or national basis by way of a federal credit union or co-operative bank charter. Such a charter would allow credit unions to pursue cross-border strategies and federal capacity as a means of strengthening their operations and providing services to their members. It would also give credit unions a way to diversify sources of funding and spread their geographic risk exposure.

We expect that at least some credit unions will take advantage of this federal option and will evolve in size and form to have operations across provincial boundaries, although it's difficult to say exactly when that might happen. But when it does, SaskCentral, as a federal association would be similarly able to operate across boundaries and, in close collaboration with Concentra Financial, would have the regulatory and market scope to support the expanded needs of these new federal credit unions.

Financial capacity would also be positively impacted by the new structure. An improved profile within the capital markets for the federal association has the potential to lead to more effective access to investment dealers and other financial resources, with fewer delays than is currently the case. Should a Saskatchewan credit union decide that it wants to exercise the federal option, SaskCentral continued as a federal association would be better positioned to continue offering trade services, liquidity management, access to payments systems, and other services that might be required.

The third benefit, and the most important, is that continuance as a federal association would place SaskCentral in a much better position to pursue future partnership opportunities. Throughout our history, joint ventures and other initiatives with our co-operative partners, have been critical to our ability to grow our service offerings and capacity to match the growing needs of our larger credit unions. The result is that today we are a highly diversified Central with joint ventures with other provincial Centrals focused on

payments and information technology, and ownership positions in organizations that provide insurance, wealth management, financial and other services crucial to the success of credit unions.

A federal association would have a wide range of membership options available to it. These could include other associations, credit union Centrals, credit unions, co-operative corporations, leagues and deposit protection agencies. The types of business arrangements that could be entered into are also numerous. They could include direct investment, joint ventures, mergers, transfers of assets or downstream investments.

From the perspective of existing and potential partners, the benefits that we've listed here would work both ways. One thing that is crystal clear is that status quo is not an option. Our business environment is changing rapidly, and history has repeatedly shown that the time to reinvent ourselves as service organizations is while our credit union system is strong and while the regulatory windows are open. The future has never looked so good!

On the Policy Front

CFIB Survey Re: Payments Mechanisms Used by SMEs

Sabrina Kellenberger, Senior Manager, Regulatory Policy, CUCC

In late October, the Canadian Federation of Independent Business's (CFIB) released the results of a membership survey that may be of considerable interest to credit unions. The 21 question survey¹, which was conducted on-line between July 7 and July 25, 2011, was designed to gather information to contribute to the work of the *Task Force for the Payments System Review* and thereby "guide the reform on the payments system in Canada." The survey probed small business owners' ability to accept various payment types, as well as their preferences for making and accepting payments. But given Canada's

steady march toward electronic payments, financial institutions and the payments industry may find the results somewhat unexpected.

Working off the premise that businesses set up payment systems that meet the needs and preferences of their "customers"—which are defined as either consumers or other businesses—while remaining cognizant of the varying processing fees and handling costs of each payment type, the survey report reveals the central role cheques play in small and medium enterprises (SME). Although there is considerable variation between industry sectors, on an aggregate basis, 89% of the survey's respondents reported being equipped to accept cheques and 85% cash, while 73% reported being able to accept credit cards and only 59% being able to accept debit cards. In terms of dollar value, most SMEs, (with the exception of those in the retail and hospitality sectors), also rely heavily on cheques, although there is an increase in the use of electronic transfers/pre-authorized payments as businesses grow and mature. Overall, cheques account for 46% of average total dollar sales, while credit cards account for 22%, and debit cards for 13%.

When asked to identify the key factors in preferring one payment type over another, respondents cited ease of use, low cost and certainty of being paid, but with respect to cheques, also added usefulness in record keeping, and perhaps surprisingly, "reliability" as factors. Paper based payment options apparently are regarded as being more reliable than electronic ones as it is felt the lower risk of declined transactions they carry can help "businesses save time, improve their cashflow and provide them with greater security in dealing with payments."

In light of the intention to move towards a fully electronic payments future, such a strong attachment to paper may prove to be problematic. Nevertheless, 75% of business owners surveyed already offer, or intend to offer, their customers the option of electronic payments, with 47% saying they have already increased, or plan to increase, the number of ways in which a customer can pay electronically. There are, however, many obstacles to embracing electronic payments and cost is mentioned as the primary one, with more than half of all respondents asserting it as

¹ The survey garnered more than 8,200 responses providing a statistical accuracy of ± 1.1 percent 19 times out of 20.

the reason why they do not accept electronic payments. Other impediments noted were:

- the high cost of implementation, including the cost of renting/leasing necessary equipment;
- the inability of suppliers and government to accept the electronic payment;
- the lack of acceptance of electronic payments as a common payment type within the industry;
- satisfaction with current payments systems used;
- concern with on-line security, e.g. data breaches, viruses, etc.; and
- a lack of trust in financial institutions and the payments industry with respect to transparency and overall cost.

Given these findings, the CFIB argues that reforms to the payments system must consider current practice and address obstacles to effecting the proposed changes. It proposes that the following five principles be adopted to ensure that the needs and concerns of SMEs are taken into consideration:

- (a) Affordability: many SMEs struggle with the cost of going digital;
- (b) Security: there is skepticism about the robustness of security of digital payments;
- (c) User friendliness: payment methods should be universal and easy-to-understand;
- (d) Accessibility: address the unique needs of small business with respect to access to the necessary tools; and
- (e) Trustworthiness: build on the improved practices brought about by the *Code of Conduct for the Credit and Debit Card Industry in Canada*.

But the notion of only applying these “guiding principles” in the context of payments system reform, may be ignoring a remarkable opportunity to make inroads with the SME sector. The survey results and principles clearly articulate the preferences and concerns of business owners in regards to payments and what it will take to allay them. While there are industry-wide issues such as attaining critical mass before wholeheartedly embracing electronic payments, there are also a number of business issues, such as cost/pricing, training, support and building trust that

can, and must, be addressed at the enterprise level. Since the majority of businesses in the country are SMEs, it makes sense for credit unions to focus on how to best meet their needs.

The full survey report is available at <http://www.cfib-fcei.ca/cfib-documents/rr3239.pdf>

CONSULTATIONS

Anti-Money Laundering and Anti-Terrorist Financing Regime

Jan Hopper, Senior Policy Advisor, Consumer Affairs, CUCC

On December 21, 2011, the Minister of Finance launched a new consultation to update Canada’s Anti-Money Laundering and Anti-Terrorist Financing Regime. The consultation document – “[Strengthening Canada’s Anti-Money Laundering and Anti-Terrorist Financing Regime](#)” – puts forward several proposals that may be considered for future changes to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. The proposed changes are intended to:

- strengthen client due diligence standards;
- close gaps in Canada’s regime;
- improve compliance, monitoring and enforcement;
- strengthen information sharing in the regime;
- introduce a list of potential countermeasures; and
- update reporting requirements.

This latest consultation follows the previous consultation process undertaken by the Department of Finance in November 2011 that related to customer identification and due diligence requirements. The results of both of these consultations are expected to feed into the Parliamentary Review of the legislation – the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (“PC(ML)TFA”)– to be completed by the Standing Senate Committee on Banking, Trade and Commerce in 2012.

Credit Union Central of Canada will be soliciting feedback from the credit union system in order to prepare a comprehensive government submission in response to its request for feedback (due March 1st). The Business Issues Committee, the Legislative Affairs

Committee and the Risk Management Policy Committee will be involved in this consultation process. Credit unions wishing to provide feedback on the proposed changes are encouraged to contact their regional Central or send their comments to hopperj@cucentral.com for inclusion in the government submission.

The proposed changes that have the potential to have a high impact on credit unions include:

- Expanding the requirements relating to “Politically Exposed Foreign Persons” (PEFPs) to:
 - Include “close associates” within the definition of PEFPs;
 - Require a PEFP determination for all members (regardless of risk level).
- Elimination of the \$10,000 reporting threshold for international EFTs. This will have the impact of increasing reporting requirements to include international EFTs of all monetary values. To meet the increased reporting requirements, customer due diligence requirements will increase as they currently only apply to EFTs of \$1,000 or more.
- Expanding the definition of a “single transaction” for purposes of clarifying the 24 hour rule. Credit unions will therefore need to monitor all transactions, regardless of their amount that are conducted on behalf of the same person within 24 hours that total to at least \$10,000.
- Requirement to keep a record of “reasonable measures” taken in relation to certain requirements of the Act. This will cause increased record keeping requirements for credit unions.
- Defined countermeasures to be employed in relation to Governor in Council directives. Credit unions face increased possibility of non-compliance and increased administrative burden as the new countermeasures will be in addition to existing AML requirements.
- Broadening the requirement to report suspicious transactions. Credit unions would be required to report activities in support of transactions and attempted transactions that give rise to suspicion of money laundering/terrorist financing, such as account applications that are considered to be “suspicious”.

Despite the potential negative impact that some of the noted changes will have, there are a couple of proposed changes that will alleviate some of the administrative burden associated with some of the PC(ML)TFA requirements. These include the possible expansion of the scope of introduced business scenarios that would qualify for an exemption to current customer due diligence requirements and the potential exemption to certain record keeping and identification ascertainment for all publicly traded corporations, not just those that have over \$75 million in assets.

Credit Union Central of Canada will continue to monitor the progress of this consultation process and anticipates participation in the Government’s 2012 review of the PC(ML)TFA.

Bank of Canada Watch

The Year Ahead in Monetary Policy – Waiting on the ECB and a Global Minsky Moment?

Marc-André Pigeon, Director, Financial Sector Policy, CUCC

Last year at this time, the consensus was clear: the Bank of Canada would start increasing its target for the overnight lending rate (i.e., “interest rates”) by mid-year. Homeowners were warned: mortgage rates were set to rise. Credit unions prepared for the seemingly inevitable.

Of course, the inevitable – as it so often does in human affairs – proved to be a lousy date. Over the first six to eight months of 2011, the situation changed dramatically due to the threat of default on Greek debt, talk of a European monetary union collapse, debt rating downgrades, bond haircuts, the resulting pressures in the European inter-bank lending market, a slowing U.S. economy, the U.S. debt ceiling debacle and most recently, news of a contraction in what was seen until now as the unstoppable German economy.

Suffice it to say, events and sentiment changed dramatically and with them, so did mortgage rates – instead of going up, they went down to the point where now, at least one financial institution (Bank of Montreal) is offering a record low 2.99% five-year mortgage,

more evidence of a fiercely competitive market for loan business that is squeezing credit union profit margins.

Despite the gloom and doom, there are glimmers of economic hope at the outset of 2012. The U.S. economy seems to be tentatively finding its feet and those with a Pollyanna penchant might point to the fact that election years, such as the one under way, tend to yield positive economic outcomes for all the obvious political reasons. Good news for Canada if true.

Meanwhile, the European Central Bank (ECB) has kept the music playing and avoided a disastrous scramble for the last chair by engaging in what it calls its Securities Market Program (SMP), a game only a central banker could love that consists of buying European government debt on the secondary market from banks and other large institutions that have been emboldened by the very same SMP to buy this debt at auction. The resulting reserves flow back to the ECB where they collect risk-free interest at its deposit rate. No default. No inflation. More *Fur Elise*.

It is now increasingly understood that this *ad hoc* measure is the only thing standing between financial Armageddon – a term used with distressing frequency in the financial press in 2011, especially given that 2012 is the putative year when the world comes to an end – and what many see as a more slow boil economic and financial crisis that will flow from a unified European strategy that consists of higher taxes, less government spending, hoped-for falling wages (to re-establish competitiveness of course) and the (vain?) hope that somehow all of this will provide businesses with the confidence they need to fire up another round of investment to pull Europe out of its mess.

While these happenings might seem distant from the concerns of Canadians, we of course live in a globalized world and a disaster over there necessarily cascades over here as credit default swaps kick in, seemingly uncorrelated assets (even commodities) move in lockstep because of margin calls, interbank lending seizes up, and economic growth slows.

And if that risk isn't enough to warrant concern, our Bank of Canada governor Mark Carney has warned cryptically in a recent speech of a "globalized Minskyan moment," an event named after a famous (on Wall

Street) economist who warned of enduring tendencies in market economies for growth in ponzi-type financing – whether in businesses, households or governments – that ultimately threaten the broader economy. Factories may shut, jobs may be lost, wages may fall, government spending may be cut, but nominal debt values are eternal (until default that is). In short, deleveraging is painful.

And lest we think Canada is immune to this concern, Carney and a growing chorus of commentators are pointing to record household debt (to income) levels in Canada, a sign that perhaps some segments of the Canadian population still haven't gotten the message that taking on too much debt is a bit like imbibing too much alcohol – enjoyable while going down, but the hangover can be painful.

Meanwhile, the main lesson drawn by the policymaking community seems to be that, as Carney put it in a recent speech, "financial markets...cannot always be relied upon to get debt levels right" and so, he went on, "it follows that backsliding on financial reform is not a solution to current problems." In short, there will be no regulatory relief in 2012.

And so the prognosis for 2012 could not be more different than it was in early 2011 – everyone seems to agree that interest rates will stay low at least until 2013, the global economy will struggle to grow, financial regulations will continue to tighten, and the world will wait, with a mix of dread and fascination, to see how the situation in Europe plays out. But perhaps 2012 will resemble 2011 in one important respect: the inevitable will not come to pass.

Ottawa Update

Credit Unions Brief Senate Committee on Small Business Lending and Financial Sector Changes

Kate Martin, Policy Analyst, Government Relations, CUCC

In December, close on the heels of *Hike the Hill* 2011, Canadian Central was called upon twice to appear before the Senate Standing Committee on Banking, Trade and Commerce.

The first hearing took place on December 1st, as the committee was wrapping up their study of the present state of the domestic and international financial system, with specific focus on financing growth capital for SMEs. Canadian Central CEO David Phillips was joined by John Lahey, CEO of Alterna Credit Union and James Gosselin, Vice President, Corporate Lending of Steinbach Credit Union to tell the committee how credit unions are supporting the SME sector in Canada. In the hour-long meeting, the credit union delegation highlighted the many ways that credit unions are helping SMEs through a challenging economy, concerns over Farm Credit Canada's lending activities, and Business Development Canada's mandate review. It is expected that Canadian Central's remarks will be included in the committee's upcoming report.

The full proceeding transcript of the December 1st appearance, is available on the committee's [website](#).

A week later, Canadian Central was once again before the Senate Banking Committee at their invitation, this time on legislative changes resulting from the five-year review of financial institutions legislation. At this meeting, Senators questioned Canadian Central Vice President Policy Brigitte Goulard and General Counsel Brenda O'Connor on Bill S-5, the *Financial Systems Review Act* containing technical amendments to the *Bank Act*, the *Cooperative Credit Associations*, and the *Canadian Payments Act*.

Canadian Central indicated its support for proposed changes to the *Canadian Payments Act* to allow a future federal credit union to participate in the governance of the Canadian Payments Association as part of the "cooperative class." Ms Goulard also indicated support for changes to the *Cooperative Credit Associations Act* that would allow a Central to provide payment technology services to any member of the Canadian Payments Association. It is anticipated that this expanded power will help strengthen the payment operations of the Centrals.

Committee members also took interest in Canadian Central's perspectives on section 427 *Bank Act* security. While S-5 does make amendments to address two recent Supreme Court of Canada decisions concerning the priority of unperfected personal property security interest over a subsequent

but perfected *Bank Act* security interest, Canadian Central has questioned the relevance of section 427 given the existence of modern *Personal Property Security Act* legislation. Many Senators were in agreement with this point and were pleased to learn that the Department of Finance had indicated its intention to deal with the matter in the future.

At the conclusion of their hearings, the committee reported the Bill back to the Senate without amendment, but with a comment asking the Minister of Finance to address concerns raised by witnesses from the Canadian Payments Association about the proposed definition of "clearing and settlement system" in the Bill. Following the committee's report, the Senate held a rare Friday sitting in mid-December to adopt S-5. Because it was introduced first in the Senate, the bill will still need to go through all stages in the House of Commons before becoming law. The Bill must be passed by the statutory sunset date on April 20th.

The full proceedings of Canadian Central's December 8th appearance is available on the committee's [website](#).

International Year of Co-operatives Gets Off to a Great Start

Kate Martin, Policy Analyst, Government Relations, CUCC

Last week in cities across the country, thousands of co-operators and co-op supporters joined together to celebrate the launch of the International Year of Co-operatives (IYC). Mirroring the diversity



of the co-operative sector, the Canadian launch succeeded in bringing together 14 different events, which each tuned into a live internet broadcast of the official launch at 12pm EST on January 12, 2012.

The launch celebrated the theme of IYC, "Co-operative Enterprises Build a Better World," by highlighting co-operative successes and sharing in the ability of an

egalitarian and community-focused business model to bring people together in powerful ways.

The national internet broadcast opened with welcoming remarks from Dame Pauline Green, President of the International Cooperative Alliance, who reminded co-operators that this is the time to be proud about being a co-operative. “Together, we can show being in a co-operative is not business as usual. We’re different, we’re better, we’re a better way to do business,” said Green.

During the webcast, co-operators heard from Kathy Bardswick, president and CEO of The Co-operators (live from Calgary) and Monique Leroux, president and CEO of Desjardins (live from Levis, Quebec). Veterans Affairs Minister Steven Blaney addressed the nation also from Levis, Quebec. There was also a premiere performance of a co-operative song by the Montreal group Samajam.

The words of celebration from each of the speakers were followed by a presentation highlighting the opportunities that the International Year of Co-operatives presents. Claude Gauthier, Chair of the Board of the Canadian Co-operative Association explained that 2012 “offers an important opportunity to educate the public – and our own co-op members – about the enormous role co-operatives play in building communities, revitalizing economies and creating jobs here in Canada and around the world.”

All year, events will be held to mark this across Canada and around the world. Canadians will celebrate with one billion cooperative members internationally! To learn more about Canadian events to mark the International Year of Co-operatives see: www.canada2012.coop.

Big Thinking Lecture on Credit Union Contribution to Communities Draws Large Parliament Hill Crowd

Marc-André Pigeon, Director, Financial Sector Policy, CUCC

In early December, Canadian Central, in partnership with Desjardins, the Canadian Co-operative Association and the Conseil Canadien de la coopération et de la mutualité, sponsored a talk on Parliament Hill about the economic impact of credit unions and caisses populaires on their communities. The lecture was part of the “Big Thinking” speaking series organized by the Canadian Federation for the Humanities and Social Sciences and featured Dr. Lou Hammond Ketilson, director of the Centre for the Study of Co-operatives at the University of Saskatchewan. With more than 90 attendees, including several Parliamentarians, it was one of the most successful “Big Thinking lectures” in recent years.

In her discussion, Dr. Ketilson showed how credit unions and caisses populaires have withstood the pressures of recession while continuing to contribute to sustainable regional economic development. Based on her current research, she spoke to the impact of credit unions and caisses populaires on both the economic vitality and the quality of life in the regions where they operate. Dr. Ketilson’s presentation also drew media interest, resulting in a feature article in the *Western Producer*, a key agricultural trade publication.

Hill Happenings

Kevin Dorse, Senior Policy Advisor, Government Relations, CUCC

Parliament passed four Bills in its last few sitting days of 2011. Notable among them were Bill C-13, which implemented measures contained in the 2011 budget, including the \$1,000 Employment Insurance refund for small businesses; as well as Bill C-18, the controversial Bill to end the Canadian Wheat Board’s single desk marketing system. The passage of these Bills brings the number of government Bills to 12 that have been adopted since May’s election.

Twenty-one other government Bills are in various stages in both the Senate and the House. Included among these is Bill S-5, *An Act to amend the Law Governing Financial Institutions and to Provide for Related and Consequential Matters*, which contains the technical and “housekeeping” amendments to the *Bank Act*, *Cooperative Credit Associations Act*, *Insurance Companies Act* and *Trust and Loan Companies Act* resulting from the regular five year review of these statutes. As mentioned elsewhere in this *Policy and Advocacy Report*, in early December, Canadian Central appeared before the Senate Banking Committee’s hearings on the Bill which now awaits review and debate by MPs when the House resumes.

With MPs working in their constituencies, the focal point of political action has shifted away from the Hill. For his part, the Finance Minister has held pre-budget meetings and photo-ops in Vancouver, Calgary and his home riding of Whitby. While in Ottawa his officials are beavering away on what will be Jim Flaherty’s seventh budget.

The budget may take some cues from the House of Commons Finance Committee whose pre-budget recommendations included that the government:

- continue to promote financial literacy;
- study the intergenerational transfer of family businesses, including farms, to ensure tax fairness;
- review and reduce unnecessary regulations;
- take necessary steps to ensure the strength of banking systems, including implementing Basel III reforms;
- monitor the housing market and ensure its long-term stability; and
- support the agriculture industry with the continued development of the Growing Forward 2 policy framework.

Flaherty has projected very little of what the 2012 budget might contain. The only thing certain to be absent in this first regular budget since the Conservative majority is the usual spike in election speculation that has resulted from budgets during minority parliaments.

With just a little over two months until New Democrats select their new leader, the eight candidates vying to succeed Jack Layton have been drumming up support across the country. Among those candidates is party strategist Brian Topp who is also known in the credit union system, having been a senior executive at Canadian Central from 1999 to 2001, as well as the current board chair of Creative Arts Savings and Credit Union in Toronto.

The House of Commons will reconvene on January 30th, which means that if you haven’t already, you’ve still got some time left to schedule a meeting with your local Members of Parliament. Right now is when MPs have the most time to catch up with community leaders. Remember, you don’t have to *want* something to meet with your elected officials. It’s about relationship building and sharing the great work your credit union is doing in the community.

Don’t know which MPs represent the areas where your branches are located? **Canadian Central’s government relations staff are here to help. Drop us an [email](#). We’ll check our database and let you know what MPs you should be talking with.**

Research Bits

Les Czarnota, Researcher, Information Services, CUCC

Credit Union Central of Canada subscribes to various research firms on behalf of the Canadian credit union system. This allows affiliated members to access the research directly and search for relevant material to fulfill an information need.

The Council on Financial Competition (CFC) usually publishes 4 to 5 research studies, several white papers and a number of research briefs annually. This installment of Research Bits highlights CFC’s observations on banking innovations.

Oh What a Year! CFC’s Observations on Consumer Banking Innovation and How It Is Reshaping Growth (December 2011)

In a survey of retail banking executives, the Council on Financial Competition found that the top two areas of focus for 2012 are “becoming more innovative” (63% of

surveyed executives) and “developing innovative and appropriate products and services” (52%).

Five years ago, the Council’s exploration of consumer banking innovations focused almost exclusively on credit products and other core offerings. Today, driven by technology, innovation is happening rapidly across a range of products, services and channels as banks reinvent the relationship between products and delivery channels.

Technology-driven innovations offer exciting new possibilities for creating relationships with customers, building targeted services and products, and communicating the value of what banks can do. The growing role of technology and social media suggests two key outcomes: richer customer relationships empowered by new ways of engaging, and increasing competition around technology-driven customer experience.

This research brief explores six key “bets” on growth that emerged from CFC’s study of innovation:

- (Re)engagement starts by fitting into customers’ lives;
- Banks are increasingly making the true value of relationships explicit to customers;
- Net promoter and referrals have a multiplier effect that was almost unimaginable just a few years ago;
- Create products that better align with segment behaviors and needs;
- Social media has significantly enhanced the ability to capture voice far beyond marketshare; and
- Banks are making themselves more consumer-friendly by learning to imitate “the language” of non-banks.

To access this and other CFC reports, the Council on Financial Competition now requires an individual registration using your email address as your user name.

To register go to the home page of the Council on Financial Competition at:
<https://cfc.executiveboard.com/Public/Default.aspx>

If you are unable to access the site, please send an email with your contact information to czarnotal@cucentral.com

Research Updates

Marc-André Pigeon, Director, Financial Sector Policy, CUCC

If you think about it too much, the world can look like a scary place for credit unions. On the one hand, many credit unions struggle to attract new members, especially in a context where the big Canadian banks are refocusing on domestic operations. On the other hand, you have regulators scrambling to contain a complex world by introducing new rules around capital, liquidity, money laundering, and the list goes on.

What to do? Canadian Central and the Filene Research Institute have just published two new joint publications that offer some guidance on how to face these challenges. The first, “Market Niches: Social and Demographic Opportunities,” looks at case studies of credit unions working to grow their member base by targeting a membership group – a market niche – that will complement the credit union, allow it to grow but keep marketing costs under control. While this case-based approach looks at only four such niches (First Nations, Latinos, Lesbian/Gay/bisexual/transgender, and young adults) and cannot therefore offer comprehensive guidance, it does point to some clear take aways for credit unions seeking to serve a niche market well, namely: (1) focus is key; (2) root out biases early; (3) make it somebody’s full-time job; (4) let it age; and (5) partner up.

In the second publication, “Keeping an Eye on the Ball: Credit Unions, the Level Playing Field, and Competitive Balance,” Blayne Haggart, PhD, Visiting Scholar, Regulatory Institutions Network, Australian National University, explores how the credit union system might benefit by framing its policy discussions in terms of “competitive balance” instead of the “level playing field.” Whereas the “level playing field” metaphor suggests images of a football game in which competitors overseen by a neutral referee following a fixed set of rules battle for supremacy, the “competitive balance” metaphor suggests handicapping in games such as golf or chess.

The former tends to focus the policy attention on means – treating everyone the same regardless of size, purpose or structure, whereas the latter focuses on ends, i.e., making sure that rules are structured to ensure maximum competition given differences in size, purpose or structure.

The Market Niche and Competitive Balance papers, as well as the full Filene Research catalogue, are available for free to all employees at Canadian Central-affiliated credit unions who are registered (<http://filene.org/home/cucc>) on the Filene Research Institute Website – already, some 450 Canadian credit union employees have registered for the Filene Research Institute content). The Market Niches paper is available at: http://filene.org/publications/detail/Market_Niches; the competitive balance paper is available at: [http://filene.org/publications/detail/Competitive Balance](http://filene.org/publications/detail/Competitive_Balance).

Your Statistical Report

National Affiliated System Results – Q3 2011

Sandra Brizland, Research Analyst, CUCC

Canadian credit unions continue to strengthen financially in 2011. At third quarter, strong gains were reported in the three main financial categories, assets, savings/deposits and loans, continuing the upward trend in growth recorded during the last few quarters.

Some key findings in the Q3 system results are:

- Central affiliated credit unions / caisses populaires across Canada ended third quarter 2011 with \$138.1 billion in assets, representing an annual gain of 9.7 per cent. An estimated 1.1 per cent of this growth can be attributed to the amalgamation occurring in June, 2011 between Meridian Credit Union and Desjardins Credit Union, a non-affiliated credit union.
- Canadians had \$122.8 billion on deposit with Central affiliated credit unions and caisses

populaires, representing an increase 8.0 per cent over third quarter 2010.

- Loan growth continues to exceed deposit growth for a sixth consecutive quarter. Total loans at third quarter grew by 9.0 per cent, reaching \$113.6 billion.
- There were 373 credit unions at the end of Q3 (down from the 396 reported a year ago); the number of locations was 1,745 (an increase from the 1,735 reported a year ago); and the number of members was 5,131,900 (an increase from the 5,080,392 reported at Q3 2010).

The Policy and Advocacy Report is published by Credit Union Central of Canada. For editorial or general inquiries please contact:

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