



## **Co-operative Principles: Do They Really Differentiate Us?**

Canadian Conference for Credit Union Executives  
Members' Forum  
Ottawa, Ontario  
May 7, 2008

## Forward

This document was prepared by the National Young Leaders Committee for the Canadian credit union system, and was released in May 2008. The release of this document follows a number of provincial think tank sessions that further explored the extent to which our co-operative principles differentiate us from our competition, and what our Young Leaders felt we could do to enhance our potential for differentiation around these principles. The findings from these grass root discussions serve as the foundation our Members' Forum presentation at the Canadian Conference for Credit Union Executives in May 2008.

The National Young Leaders Committee is a committee of the board of Credit Union Central of Canada. This committee is comprised of 22 young leaders from across the country. The committee's vision is to make the credit union system the number one employer for young leaders in the financial services industry. The committee is currently focusing on four key strategic goals: attracting talent, developing talent, retaining talent, and succession planning. The committee believes that these think tank sessions will serve to engage young leaders and will assist the system in addressing significant questions relative to the future strategic direction of the Canadian credit union system.

The participants in the National Young Leaders Committee are:

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## **THANK YOU**

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Lastly, we would like to thank all the provincial organizations, centrals and managers' associations who helped us bring this project to fruition. Your support in providing us with time and access to your young leaders is recognized and appreciated. Thank you.

## TABLE OF CONTENTS

|  |    |
|--|----|
| Forward.....                             | 2  |
| Table of Contents.....                   | 4  |
| The Big Think.....                       | 5  |
| The Process.....                         | 5  |
| Executive Summary.....                   | 6  |
| The Co-operative Principles .....        | 7  |
| Voluntary and Open Membership.....       | 7  |
| Democratic Member Control.....           | 8  |
| Member Economic Participation.....       | 9  |
| Autonomy and Independence.....           | 11 |
| Education, Training and Information..... | 12 |
| Co-operation Among Co-operatives.....    | 13 |
| Concern for the Community.....           | 14 |
| Top 3 Principles.....                    | 15 |
| So What Now? .....                       | 16 |

## **The Big Think**

In line with one of the National Young Leaders Committee's (NYLC) objectives to gather information on what young leaders think about challenging system issues, the NYLC launched its first-ever Think Tank in October 2007. The topic chosen for the inaugural Think Tank was: The co-operative principles, do they really differentiate us? Ancillary questions were: What is your assessment of each principle's importance to the consumer – young or mature? How important is each principle to the consumer in making a "Banking Buying Decision", and why? How can we 'live' this principle in a way that is meaningful to members?

As a system, young leaders should be considering how and if the principles are reflective of the things that matter most to our members. Furthermore, we need to ensure that the co-operative principles are a source of long-term differentiation and serve as a competitive advantage for all credit unions, regardless of size.

## **The Process**

The inaugural Think Tank event took the form of a debate, with a corresponding online survey being forwarded to the National Young Leader Inventory. World Café style Think Tank sessions were then held across the country this spring. The World Café is a simple means of hosting conversations about questions that matter; allowing people to discuss the topic at hand in smaller groups which rotate frequently to ensure everyone's thoughts and opinions are heard, shared and recorded. Members of the NYLC worked with Centrals and Managers Associations in their home provinces to host Think Tank sessions in tandem with other events such as AGMs and conferences. Session participants were provided with a pre-workbook that defined each principle and asked them a series of questions to help them explore their thoughts and opinions. They then attended their provincial Think Tank session and shared their interpretations, perspectives and opinions, while hearing those of the others in the room.

## **Executive Summary**

Historically, the co-operative principles have served the credit union system well. Canada has one of the most robust and vibrant credit union systems anywhere in the world today. We provide significant economic benefit to millions of Canadians and thousands of communities. Much, if not all, of this benefit has been as a result of our adherence to the original co-operative principles. These principles acted as a guide for credit unions, and were sufficient to differentiate credit unions in the minds of consumers.

Our cross-country Think Tanks have provided a great deal of insight into how our young leaders and employees view the relevance of the co-operative principles. Over two hundred participants from diverse geographical regions brought forward an incredible amount of thoughtful consideration on this important topic.

A common denominator throughout the Think Tank discussions, and on virtually all of the principles, was the need for communication and member engagement. In reviewing the Café notes and summaries, it is apparent that member's are not seen as being aware of the principles and the value they hold. This is not to say that communication is the over-riding answer, but it has risen to the top as a critical factor in making sure the principles are relevant. If people are not aware that a principle exists and how that principle makes a credit union relationship unique, can we expect it to be a differentiator in the marketplace? If consumers don't have the information, it can't possibly be part of their decision tree when making a buying decision. As well, communicating the value proposition - "what's in it for me" – is important.

## **The Co-operative Principles**

Credit Union Central of Canada defines the philosophy behind credit unions as, "...everyone deserves an opportunity to achieve financial well-being, that working together co-operatively, works for the good of all and that giving back to the communities is a key rationale for profitable operations". This philosophy can be demonstrated in the co-operative principles:

Voluntary and open membership

Democratic member control

Member economic participation

Autonomy and independence

Education, training, and information

Co-operation among co-operatives

Concern for community

### **Voluntary and Open Membership**

The Rochdale Principles, initially established in the 1840's, are a set of ideals for the operation of co-operatives. The first principle states that co-operatives must have open and voluntary membership. This membership is therefore open to all persons able to use their services and who are willing to accept the responsibilities of membership.<sup>1</sup> This philosophy helps to ensure that discrimination at all levels is negated as the principle does not prevent any one willing to participate from doing so. However, the principle does not prohibit a co-operative from establishing a set of specific rules for membership such as geographic location or belonging to a specific employee group.<sup>2</sup>

### **Here's what we heard**

Voluntary and open membership may not be applicable in today's marketplace as there are external policies and laws that prevent discrimination and already protect people from being purposely excluded from credit union membership, or for that matter, dealing with any other financial institution. There is no perceived need to self govern as society and government have taken on that role in the present day, regardless of whether that has historically been the case.

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<sup>1</sup> Open and voluntary membership. <http://en.wikipedia.org> (accessed December 3, 2007)

<sup>2</sup> Open and voluntary membership. <http://en.wikipedia.org> (accessed December 3, 2007)

Additionally, competition in the marketplace has made financial services readily available. This means that people are not at the mercy of one financial institution in order to conduct their business - again, making the Voluntary and Open membership principle somewhat moot. There is a general lack of awareness as to what membership in a credit union means and therefore, the value of membership may not be clear. From a global perspective however, it is recognized that not all citizens are fortunate enough to live within a democracy as we do in Canada. Personal rights and freedoms are not always protected or made equal, making this principle more relevant on a global scale.

To better live this principle, we need to ask ourselves if we are doing a good job at meeting the financial needs of different segments or interest groups in society – is there a service gap that we could address? Assuming we do serve anyone who walks through the door, are we putting up any barriers? Member share requirements at some credit unions could be considered cost prohibitive, thereby indirectly excluding a segment of society. How well are we doing in serving the “under-served”, meaning those with low incomes, or perhaps those who are immigrants with little knowledge of our banking system here in Canada?

*“A lot of people feel that they have to be part of a group to join a credit union; we are not good at letting the general population know we are open to everyone.” **Think Tank participant***

### **Democratic Member Control**

A defining principle of the co-operative system is the necessity for democratic control. Co-operatives are “democratic organizations controlled by their members, who actively participate in setting policies and making key strategic decisions. Those members who are elected to serve on the board of directors are accountable directly to the membership. All co-operatives’ members have equal voting rights (one member, one vote).”<sup>3</sup> Therefore, a system of equality rather than one of disproportionate ownership ensures that special and controlling interests are not possible. In doing so, it is believed that the best interests of the co-operative and of the general membership are always at the forefront.

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<sup>3</sup> Co-operation among co-operatives. <http://www.en.wikipedia.org> (accessed December 3, 2007)

## **Here's what we heard**

Democracy within the credit union system is not a factor when consumers are determining which financial institution they will do business with. Members are not aware of, nor do they completely understand, that they have the right to vote. Those that do, don't feel their one vote will make a difference. In most cases, members are "rubber stamping" a management decision and the issues they vote on are often simply a matter of process or too complex for the lay-person to completely understand within the context of an Annual General Meeting.

There are many things credit unions can do to better live this principle. The voting process could be improved by providing multiple channels for voting such as in-branch, and e-ballots online. Not everyone can make a meeting, not everyone visits a branch on a regular basis and not everyone likes banking online. If we appeal to people to vote using a channel that is convenient and suits their preference, more people will cast their vote.

Other means of better living this principle go beyond voting to simply getting members to weigh-in on issues facing the credit union. Gather thoughts and opinions in advance of taking something to a vote, or launching a new product. Examples of these methods would be town-hall sessions, online surveys or panels.

*"Member Democratic Control is a principle that is very important to our members concerning far-reaching issues such as amalgamation. Regarding less drastic concerns our membership appears to be content to leave decisions to the Board of Directors. This is a unique principle of credit unions that is not found within our competing financial institutions." **Think Tank participant***

## **Member Economic Participation**

When credit unions began, they encouraged thrift through savings. A fair rate of interest was paid on savings and deposits. The surplus arising from operations after ensuring appropriate reserve levels and after payment of dividends on permanent equity belonged to and benefited all members with no member or group of members benefiting to the detriment of others. Not much has changed today, other than credit unions have adopted a market based pricing philosophy. The surplus generated may be distributed among members in proportion to their transactions with the credit union as patronage refunds, community support or directed to improve or establish additional services required by the members.

## Here's what we heard

In its current state, the value proposition of member economic participation is weak. Not all credit unions are in a position to pay a rebate and for those that are, the amount is often negligible or the method and timing of delivery of the rebate payment doesn't suit the member's needs. Of all the principles, one would think this is the crown jewel – appeal to people with the promise of money and nothing else will matter. It would appear this is not the case; otherwise, wouldn't everyone be lining up to open an account?

To better live this principle credit unions need to make the element of member economic participation more meaningful. Whether it is a more significant amount or a choice in how their participation is applied – rebate once a year or an interest rate buy-down for loans and premium for deposits – it needs to be meaningful for them at a time when they need it.

Perhaps credit unions can find innovative ways to demonstrate the direct value of their economic participation programs. Are there ways to measure the value a member receives as a percentage of the amount invested in the member share? For most credit unions, this return on investment measure would be far better than most other investments alternatives in the market place. Or, perhaps credit unions can better demonstrate value through the use of illustrations or charts that outline what level of rebate the member can qualify for depending on the amount of business done with the credit union

Another consideration for credit unions, particularly those with high growth rates, would be to share profits through the issuance of a limited offering of preferred rate investment shares. These shares could be made available to members based on the amount of business done with the credit union. Conceptually, this would allow members to contribute the capital the credit union requires to do business with them, while allowing the profits earned from that capital to flow back to the member that made those profits possible.

Not all credit unions that could pay a rebate are doing so - to truly live up to this principle, credit unions needs to make member economic participation a priority.

*"We need to move forward by honoring the past, not simply forgetting about it but bringing a connection with who we are and where we came from. Celebrate the great success we have had and link it to how we are continually evolving into the leading edge provider of financial services in Canada. We are not the place where your grandpa and grandma bank but the place*

*that they built which has taken what they have shown us (hard work, responsible savings, honesty, integrity) and moved it successfully into the current day and age. I believe it is most important to keep the principle of member economic participation active and moving forward as this will be our greatest differentiator going forward. Direct benefit returned to you as a reward for the business you do with us is a very attractive incentive these days which has been adopted by a huge majority of the retail marketplace.” **Think Tank survey participant***

## **Autonomy and Independence**

Co-operatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy. Credit union services are intended to improve the economic and social well-being of all members. One of the conflicts that exist within the cooperative principles is the debate between credit union autonomy and co-operation amongst co-operatives. This principle states that co-operatives must be autonomous and independent.

### **Here’s what we heard**

This principle interferes with consistency of service and cost competitiveness of credit unions, two things customers want when dealing with their financial institution. It is also a huge vulnerability when people are relocating across the country and need to establish their banking relationship with a new credit union.

We also heard that this principle was more applicable in the past, when times were tough, and that this principle is not as relevant in today’s more prosperous times. This is interesting, considering it reminds us of little used yet necessary legislation like the Emergency Measures Act. Some could suggest legislation such as this is not relevant in today’s society given that we live in a free and peaceful country; however, there have been times when government has used this Act, albeit infrequently, to protect those rights and freedoms. One could argue that a principle such as this falls into the same category.

We can better live this principle by focusing on the unique needs of our members and our communities, and set a strategic direction based on that. We should determine areas where local autonomy and control provide competitive advantage and then work collaboratively at a system level in those areas where there is no such advantage. In other words, maintain autonomy and independence where it matters, but if there are areas where it doesn’t, be open

to working together. As an example, we could focus on improving cross-country relationships in facilitating member transfers so that transitioning from one credit union to another is an encouraged and straight-forward transaction.

It is also important to demonstrate the value that the credit union brings to the local economy in terms of jobs, taxes paid and community investment and support. This is particularly relevant for smaller communities, where the contribution the credit union makes in this regard is extremely important.

*“With the rise of CSR type concepts in the marketplace (slowly) co-operative principles are losing some punch. CU’s don’t market to the marketplace nearly as much as the big banks so non-members/bank customers tend not to know a lot about CU’s. Credit union members tend to see “one credit union as the same as another.” **Think Tank participant***

## **Education, Training and Information**

Traditionally, credit unions have actively promoted the education of their members, officers and employees, along with the public in general, in the economic, social, democratic and mutual self-help principles of credit unions. The promotion of thrift and the wise use of credit, as well as education on the rights and responsibilities of members are essential to the dual economic and social character of credit unions in serving member needs.

### **Here’s what we heard**

Education, training and information are readily available in today’s marketplace. Access to information, especially with the proliferation of internet access and use, is easy, fast and in most cases, free. As well, our competitors also provide a wealth of information and access to tools that help customers conduct research, answer questions and map out their financial plans.

To better live this principle, credit unions need to incorporate tangible objectives specific to education, training and information into their planning process. Examples of better living this principle might include increased investment in web tools and technology in order to deliver a website that offers information of the same caliber as that of a major bank. From a training perspective, it might mean a more inward focus on credit union employees and setting specific plans around ongoing training and certification in the area of sales.

*“The generation that started the co-operative movement are slowly fading away, but we as an institution have not done a good job in promoting the co-operative movement or educating the new generations in explaining who we are or how we are evolving with our principles intact. We need to educate the new generations of who we are and where we come from and how we as a whole are as good, if not better, than any financial institution out there due to these principles.”*

***Think Tank survey participant***

## **Co-operation among Co-operatives**

According to the International Alliance’s Statement on the Co-operative Identity, “Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, regional, national and international structures.”<sup>4</sup> This philosophy fosters an economic environment where autonomy of the individual co-operative/credit union can be maintained while systematically benefiting the system as a whole. The notion that the stronger the co-operative system the stronger the individual co-operative organization has aided the development of a banking environment where ‘member first’ thinking is prevalent.

### **Here’s what we heard**

Members don’t care how we are able to provide competitive pricing and service, they just expect it. Co-operative partner companies are often too far from the member to be responsive and the decisions they make are often not based on members’ best interests. Without competition among suppliers for business, co-op supplier partners can become complacent.

We also heard that many members may not discriminate between credit unions and assume they can do business at any credit union just as they would at their own credit union. Only dealing with co-operative suppliers may also limit the quality, pricing and breadth of product and service offerings.

To better live the principle of co-operation among co-operatives, consolidation of co-operative partner companies and centrals, at both a provincial and national level, may be in order. This consolidation could improve competitiveness and consistency and provide real clarity around strategic direction.

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<sup>4</sup> Co-operation among co-operatives. <http://www.en.wikipedia.org> (accessed December 3, 2007)

On a more operational level, it could be as simple as being more accommodating of inter-credit union transactions, or as complex as adopting a single national banking platform. It could also mean re-evaluating current supplier relationships to see if a co-operative supplier has entered the marketplace with a competitive product or service offering.

On a global level, we should look to build relationships between credit unions internationally to strengthen the system. Opportunities already exist for this, perhaps we need to explore them more fully and become more engaged.

*“We need to co-operate among co-operatives and not compete with each other. The banks laugh at us as we compete for each others business. We need to play on the fact that we have always been social responsible and we are the good guys.... We preached this first but the banks are catching on that this is important and stealing the thunder. We need to focus on educating the youth in this high tech, impersonal, tough world in which we exist.” **Think Tank participant***

### **Concern for the Community**

While focusing on member needs, co-operatives work for the sustainable development of their communities through policies accepted by their members. Credit unions have always demonstrated a commitment to improving the economic, social and environmental conditions of the communities in which they operate. This continues today. In 2006, the Canadian credit union system contributed \$ 34.7 million to their communities.

Over the years, other companies have begun to position themselves in the marketplace under this principle. For credit unions, it has been the hallmark of how they have operated.

### **Here’s what we heard**

Other financial institutions have made corporate social responsibility a priority and are doing some great work. With their deep pockets they are able to commit to large-scale, long-term, highly visible causes and events that would in many cases be unattainable for credit unions.

Many consumers have become skeptical of community investment and see it as more of a PR exercise or marketing scheme, rather than a sincere interest in a cause. We also heard that credit union interests don’t always align with member interests and that often members are not aware of what their credit union is involved with in the community. Some members would

subscribe to the perspective that it is not the prerogative of business to support the community and that all economic benefit should flow directly to the member by way of reduced pricing.

To better live this principle, credit unions need to beat their own drum about the good work they are doing in the community. This can be done by negotiating strong recognition packages for sponsorships, or by earmarking funds over and above the sponsorship investment itself to be used purely for pre- and post-promotion of involvement. Credit unions could make a strategic decision to only focus on community economic development related projects, always attach employee volunteers to the cheques they write, ask for member and employee input and/or find a common theme, provincially and/or nationally, and channel resources accordingly.

*“Direct our dollars to economic development and activities that have a larger and more visible impact - longer term impact that benefits the growth of the community”* **Think Tank survey participant**

### **The Top Three Principles**

During each Think Tank session, participants were asked to rank what they felt were the top three most important principles from a members' perspective. The top three most important principles were overwhelmingly identified as; concern for community, member economic participation and education, training and information. This is an interesting and thought provoking outcome that can be viewed in several different ways. One could see these as the top three that we think we are not living up to as best we could and therefore require work; or, one could surmise that these are the top three because we're comfortable with how our members experience them and therefore focus should go to better living the remaining four principles. Although there is widespread consistent opinion that we could better live each principle, and that they are all important, perhaps these three are the easiest to leverage as differentiators.

## **So, What Now..?**

Credit unions across the country will be encouraged to read this summary paper and consider how they might find meaning within each principle and better live them within their own organizations, within their provincial system and within the national system. It stands to reason that if each individual credit union began to better live the principles of co-operation, it would propagate system wide.

Even if credit unions take no more action than simply giving the principles thoughtful consideration during their decision-making process, we've accomplished what we set out to do – *make people think*.