

Intelligence MEMOS



From: David O'Neill Losier
To: Banking System Observers
Date: December 7, 2021
Re: **LET'S GIVE CREDIT UNIONS A FIGHTING CHANCE IN THE DIGITAL AGE**

Payments Canada recently declared that the “radical shift in purchasing behaviours since the onset of COVID-19 continues” as online payments surge.

That is no surprise to any of us. The long-predicted digital revolution in financial services is upon us. Two big changes are already scheduled: Payments Canada and Interac expect to launch a [Real Time Rail System](#) for payments in 2022, and Canada's Advisory Committee on Open Banking has targeted January 2023 as the go live date for open banking with all its implications for data sharing.

Innovative minds in financial services will leverage this new infrastructure for Canadian consumers, and change our relationship with money. How will credit unions, a key competitor to the banks, effectively meet this challenge and continue to ensure that the needs of their members are met on Main Street and on the Financial Superhighway?

My recent C.D. Howe Institute [report](#) outlines the reasons changes are required to credit union regulatory framework to ensure that these important financial-sector competitors have the tools they need to thrive in this new environment.

Beyond the digital table stakes of providing their members with the infrastructure and systems needed to access these new offerings, credit unions also need to ensure they have the talent to develop their own innovative solutions – financial engineers, programmers, coders, and cybersecurity specialists – which, in turn, will persuade members to stay and new members to join.

And cost efficiency is the other side of the coin. Margins in the Canadian banking industry are large, which is drawing the eyes of competitors. All financial institutions need to have a careful eye on their efficiency and ensure they can continue to prosper with lower margins.

Boards and management of all financial institutions therefore need to ensure their strategies focus on both sides of the coin. The challenge is such that all large financial institutions, including the big banks and the Desjardins Group in Quebec, are relying both on their internal capacity and partnerships in their digital strategies.

Credit unions outside Quebec don't have the same internal capacity as those dominant players and many of them view mergers as part of the solution to increase their scale, as they have been doing for the past 20 years. However, some of the most significant Canadian credit unions have already reached the limit on their ability to grow further through mergers, either because they are becoming too big to fail for their respective provinces, or there are no other similar sized credit unions in their province with which to merge.

Credit unions in Canada are divided into 11 provincial silos. Those silos significantly affect the ability of credit unions to efficiently expand their operations, scale up, and collaborate across provincial borders. The time has come to get rid of those silos.

As proposed in my paper, a passport system like the one in place within the Canadian securities industry or like the one used in the European banking industry may be just what we need here in Canada.

Such a system would allow credit unions to operate, serve members and grow across provincial boundaries. This would allow credit unions to gain the same benefits as those going federal while adjusting and harmonizing the regulatory environment in response to the particular risk profile of credit unions.

By harmonizing minimum prudential regulations around capital and liquidity, by pooling existing risks around solvency, by defining how those risks will be shared between jurisdictions going forward and finally by ensuring all credit unions have adopted appropriate market conduct rules, the implementation of a passport system in Canada for credit unions should be within reach. Such a system would enhance the stability, utility and efficiency of credit unions in Canada for the benefit of all Canadians.

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