**B.C. credit unions weigh positives and negatives of national ambitions**

*Major business changes would be in the cards for credit unions looking to grow outside the province under new federal legislation*

By Richard Chu

Canadian credit unions won a major victory last March when Ottawa decided to eliminate the geographic prison provincial credit unions have operated within for decades.

But that newfound freedom will likely have its tradeoffs, especially for B.C. credit unions considering expanding outside the province.

Under the federal budget legislation the House of Commons passed this month, eligible provincially regulated credit unions can apply to become federal institutions that would be governed under the Bank Act and regulated by the Office of the Superintendent of Financial Institutions (OSFI). This would essentially create a co-operative bank able to provide financial services anywhere across the country.

However, credit union executives and members will have to consider a host of potential changes that could dramatically alter an institution's business.

According to Richard Thomas, senior vice-president of government relations at Central 1 Credit Union, "The federal government made it clear they're not going to make special deals for federal credit unions. They maintain their position of having a level playing field."

In B.C., credit unions have several business advantages over national banks. For example, for decades they've been allowed to sell insurance, either in-branch or through wholly owned insurance brokerages. For many credit unions, this has become a key line of business. It accounts for almost 10% of the annual revenue for Langley's Envision Financial and more than 7% of the revenue at Surrey's Coast Capital Savings, two of Canada's largest credit unions.

B.C. credit unions, like those in Alberta, Saskatchewan and Manitoba, also provide unlimited deposit insurance for their members. Federally regulated banks have a $100,000 per person or business cap on deposit insurance, which Canada Deposit Insurance Corp. provides.

Any credit union thinking about becoming federally regulated would also have to consider taxation changes and human resources issues, because as a federal institution it would be governed by the Canada Labour Code rather than provincial legislation.

"Looking at how OSFI regulates the capital adequacy of the banks," said Thomas, "I fully expect there will be differences for a federal credit union from [the regulations and requirements] they have today in B.C. or Alberta."

The impacts would then be evaluated against the national option's potential benefits. Aside from the ability to operate outside their home province, credit unions could expand their commercial lending portfolios beyond existing limits. Regulations currently discourage B.C. credit unions from lending more than 30% of their assets for commercial loans.

But Mike McLoughlin, an Envision executive, noted that despite the apparent trade-offs from the legislation, little is set in stone. That makes it difficult for any credit union to work out the business case for the option. “It’s hard for anybody to say it’s attractive or not unless you know what the parameters are.”

McLoughlin, who is also chairman of the credit union’s Case for Progress committee advocating for federal credit unions, noted as an example that regulations have not been created to say whether there will be any grandfathering of a credit union’s ability to sell insurance or what the timeline might be for a credit union to sell its insurance business to become a federal credit union.

“Can we continue to operate at the federal level and divest that business over five or seven years? We don’t know. Until we know what [the regulations] look like we don’t have the ability to respond accordingly.”

For Envision, McLoughlin said the lack of details about the federal credit union option makes it difficult to weigh the pros and cons against the inter-provincial credit union option made available under the Trade, Investment and Labour Mobility Agreement (TILMA) between Alberta and B.C.

Through its parent organization First West Credit Union, Envision is aiming to create the first interprovincial credit union by merging with Alberta’s First Calgary Credit Union. It has a partnership agreement with First West, which was created from the merger with Valley First Credit Union in January.

McLoughlin said one benefit of merging under TILMA is that the combined entity would not be restricted by the Bank Act. It would operate under harmonized provincial regulations between Alberta and B.C. “TILMA is about harmonizing up, so that benefits credit unions in Alberta, in particular, because they don’t have the ability to sell insurance. But we’re a supporter of the federal option, because it benefits the credit union system as a whole.” •

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