Credit Union Central of Canada

ISSUE PAPER: BANK MERGERS

ISSUE: Governments have been faced with the question of whether or not to allow mergers between Canada's large banks for many years. If the current, or any subsequent, government allows mergers to proceed in the future, the credit union system will play a significant role in ensuring Canadian consumers continue to benefit from a strong second tier of financial services providers. The credit union system needs to be prepared for the possibility that mergers will be allowed in the near future.

In recent years, the credit union system has been engaged in a national effort to formulate a response to bank mergers, when and if they occur. National initiatives to position credit unions as the definitive second-tier of financial service organizations across the country began in 2004 with the creation of the Special Strategy Committee (SSC) on Bank Mergers, a limited life committee of Canadian Central. The SSC and its four teams have been hard at work on following fronts:

- Bank Branch Acquisitions – to ensure that credit unions and centrals across Canada are prepared for the purchase and integration of bank branches should the opportunity arise;
- National Small and Medium Sized Enterprise (SME) Strategy – to illustrate the support that credit unions provide to small businesses in communities across Canada;
- National Connectivity – to work toward a single service-charge free network of ATMs nationally to illustrate that credit union members have a high degree of accessibility to their funds;
- Community Involvement – to leverage the good work of credit unions in this area to ensure that profile is enhanced and recognition is generated.

The efforts of the SSC are valuable and worthwhile, even in the immediate absence of bank mergers.

POTENTIAL IMPACT ON CREDIT UNIONS: Bank mergers will provide the credit union system with an opportunity to grow and expand in the areas outlined by the four teams of the SSC (branch acquisitions, SME lending, ATM Networks, and community enterprise)

CANADIAN CENTRAL POSITION: Canadian Central's primary message to the government and to the public is that credit unions are not promoting mergers among large banks, but if mergers are to occur credit unions could be part of the solution to major concerns, particularly if involved from the beginning. Canadian Central considers mergers between financial institutions, including mergers between banks, a legitimate business strategy.

In the event of bank mergers, the government should take steps to foster a post-merger competitive balance by facilitating the strengthening of second-tier or alternate financial institutions. Credit unions have the capacity and, in many regions, already serve as a strong second-tier of financial institution. The credit union system is well positioned to expand its presence in the market in the event of mergers and will continue to ensure Canadians have broad access to, and choice of, financial services.

Co-ordinating a national bank branch acquisition strategy will ensure the credit union system is a key player in the event of bank branch divestitures. Since 2000, the credit union system has purchased 74 bank branches in six

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provinces, providing continuity and excellence in customer service. Our current strategy builds upon that experience.

Credit unions should also be identified as the preferred choice for small and medium-sized enterprises in Canada. In fact, research shows that credit unions are already strong players in this market with about $18 billion in loans, second only to the Royal Bank at $20 billion. A National SME Image and Awareness media campaign was launched in February, 2007. Reaction to the advertising has been favorable.

The ultimate goal of the ATM strategy is to increase the size of the network that credit union members can access without charge.

In discussions with the federal government, credit unions have stressed their role in community development. The Community Leadership Initiative Committee has proposed the government establish a National Community Development Fund that would finance projects across the country. The fund would be invested in socially responsible sectors and the profits would be used to finance community economic development, creating a permanent source of funds to support the social economy. The fund would be active in micro-lending to underserved communities, expanding the availability of affordable housing and increasing access to financial services for vulnerable Canadians. Credit unions would provide their extensive experience and staff expertise in promoting and lending for community development projects.

ISSUE STATUS/OUTLOOK: The current status of any possible government announcement on bank mergers is on hold. Bank mergers will likely remain on hold for the remainder of the current Conservative minority government. A definitive policy statement either in favour or against mergers between the large banks is not likely to be made during a minority Parliament. There is speculation that the issue will be dealt with within the first months of the next majority government, either Liberal or Conservative. With the prospect of a general election in 2007 low and polls continuing to indicate divided support for the Liberals and Conservatives, the probability of a majority government in the near term is not high.

Canadian Central will continue to communicate key messages on the credit union system response to possible bank mergers to elected officials at every reasonable opportunity. With a general election not likely until 2008 at the earliest, the SSC will continue to make sure the credit union system is prepared for the possibility of a majority government outcome and ensuing announcement on bank mergers.

RELATED DOCUMENTS:

C.D Howe, June 2007 study encouraging government to allow bank mergers:
http://www.cdhowe.org/pdf/commentary_251.pdf