

Intelligence MEMOS



From: David Losier
To: Provincial Governments
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Re: **TIME FOR THE CREDIT UNION PASSPORT SYSTEM**

The most critical aspects of policy responses to US tariffs revolve around what we can do for ourselves – control the controllables.

Canada is collectively waking up to its internal challenges in trade, transport and industrial competition. Internal trade barriers are rightly getting attention. One particular change would help boost competition and grow our domestic economy: lowering the barriers facing credit unions.

Banking has been going digital for the past decade or so and is accelerating. Traditional banks and credit unions need to continuously invest and adapt. Providing a winning digital proposition within the rules, constraints and limits of provincial regulation is a huge disadvantage to provincial credit unions. Allowing them to more easily expand across provincial borders, share investments and diversify risks will provide more competition to the financial sector, leading to more innovation and better choices for Canadians.

If trust in our friends to the south has been eroded, how do we make our economy more resilient? We must invest. Invest in physical infrastructure like pipelines, intellectual infrastructure for innovation and productivity, and regulatory infrastructure like barriers to trade between provinces. The financial services sector is an important part of this investment.

Outside Quebec, credit unions run their operations on a myriad of different banking systems and serve their members through a wide range of partnerships, relationships, and affiliates. They also have their own by-laws, regulations, policies, and guidelines, which have been shaped and influenced by different provincial regulators. This fragmented system is affecting the ability of provincial credit unions to acquire the required scale and national reach the industry needs to optimize its operations and meet the needs of small and medium-sized Canadian businesses.

In 2012, legislation allowed credit unions to shift from provincial to federal regulation and, thus, operate across the country. However, very few have taken up this option. There are several reasons, chief among them being the cost and resources required to switch regulatory systems. While some large credit unions have been willing and able to make this switch, provincial governments need to ask themselves the question: “Why do we require credit unions to change regulatory systems in order to do business in other provinces in the first place?” Provincial regulation has been very successful in building a resilient, useful, and efficient system. Is there a better way to adapt?

An alternative path forward – as I have [written](#) in the past – would be a passport system to allow credit unions to operate, serve members, and grow across provincial boundaries. This would allow them to gain similar benefits as those going federal while adjusting and harmonizing the regulatory environment in response to the particular risk profile of credit unions.

The provinces could look at the passport systems in place in the Canadian securities industry and in European banking for inspiration and lessons learned on how to implement a similar regime for credit unions. An opening of borders with a new cooperative approach to oversight, as well as efforts to harmonize regulations and thus reduce the likelihood of regulatory arbitrage, will allow credit unions and regulators to find the right balance between member services and efficient oversight.

Credit unions are 100 percent Canadian. More than 20 percent of small and medium-sized businesses in Canada count on them for their lending needs as well as 35 percent of Canadian agriculture businesses. Now more than ever we need a regulatory environment that allows them to diversify their risks across the country and provide their patient capital in the most effective way possible for all Canadians.

A passport system does not add risk to the system. Indeed, it spreads it out and allows it to be put to work much more effectively. Ultimately this leads to a need to harmonize regulations between provinces, but this harmonization must not be a roadblock to making this happen. Europe allowed its banks to operate across borders decades before they finished harmonizing regulations.

With everything going on in the world, and our closest neighbour and ally becoming an adversary – at least for now – we need to look at all options to improve this country’s competitiveness and increase investment. The momentum is there. We just need to seize it.

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