Vancity Credit Union

FUSE Society National Business Program (NBP) 2021

COMPANY ETHOS

In 1946, 14 Vancouver residents signed a charter to establish Vancouver City Savings Credit Union, now known as Vancity. During this time, access to credit was difficult without the right socio-economic profile. Those with consistent incomes were served by banks, and those that belonged to a particular group, such as a certain ethnic affiliation or workplace, had access to credit unions that catered to that group only. In a way, the existing credit unions already democratized the ability to borrow money, but the founders of Vancity felt it inadequate, and brought the trend to its natural conclusion by establishing a credit union that would serve any British Columbian resident irrespective of their identity or income.

CREDIT UNIONS

As a credit union, Vancity's financial products are only available to members. Attaining membership is a straightforward process, with British Columbian residency being the only requirement. After the purchase of between five and one thousand membership shares (with each share priced at $1), the member is entitled to dividends and voting rights (every member has one vote regardless of the number of shares they possess). The advantage of attaining a credit union membership, in addition to being a prerequisite for access to financial products, is the difference between how credit unions and banks are structured. A bank's customers do not have to be shareholders to access its products, whereas all credit union customers (members) are partial owners and participate in high-level strategic decisions such as board elections. That members are both customers and owners means credit unions have different fee structures than banks, whose products are geared to maximize income for shareholders at the cost of its customers. By contrast, credit unions set fees to make the fulfillment of member needs sustainable and approve loans/mortgages with more flexibility. In general, a credit union's interest rate paid on deposits is higher and interest rate charged on loans is lower than their traditional counterparts, although banks may afford better terms by charging fees on other services.

COMPANY OVERVIEW

Today, as the largest credit union in Canada, Vancity prides itself in mending its financial objectives with society's forefront issues. This is reinforced by the three pillars of their business model, which for a traditional bank would just mean the singular pursuit of profit. Specifically, Vancity aligns itself to tackle various issues under the umbrellas of People, which includes Vancity's human capital, its satisfaction and diversity, and social issues at-large; Planet, which includes a commitment to environmental objectives through understanding the carbon footprint of not only company operations, but operations that are funded with Vancity's capital; and Prosperity, which includes measuring financial success with metrics that reflect Vancity's values.

PEOPLE

Vancity's leadership role in its commitment to address member satisfaction concerns and social issues outlines the importance of its People pillar. In 2020, Vancity aimed to grow its membership by 1.8 per cent, 1.5 times the population growth rate. Due to the impacts of the pandemic on immigration, their target was amiss and growth is projected to continue downtrending in the future, mainly due a decline in immigration. After reevaluating its physical presence, six branches were closed and locations that could better fulfill member needs are undergoing inception. Nonetheless, member and customer satisfaction with Vancity remained high, and its initiatives promoting social justice signaled the commitment of its diverse base of over 550,000 members, 2600 employees, and 54 branches.

PLANET

In regards to its Planet pillar, Vancity has been proactive in taking bold steps and encouraging others to act. Firstly, Vancity measures the carbon emissions stemming from its loans. It has discovered that motor vehicles loans caused the most emissions on a per-dollar basis, but residential mortgages emit the most in aggregate. To address this, Vancity plans on helping its borrowers phase into more energy-efficient alternatives, such as loans they may need to replace the carbon-heavy gas heating systems in their homes. Beyond approving $4.6 million in community grants for local not-for-profits, Vancity Investment Management has taken a proactive stance in the companies it invests in, vocalizing workplace safety concerns in Disney's factories and calling on Costco and Loblaw's to reduce food waste. The discretionary portfolio management group seeks returns by adhering to socially responsible investment (SRI) principles, investing only in companies with a clear stance on environmental, social, and governance standards.

PROSPERITY

Lastly, despite the uncertainty created by the pandemic, the Prosperity pillar last year outlined Vancity's insistence to continually ensure funding to its community at the cost of its objectives. The downturn in return on member equity (ROME) was depressed by Vancity's role in maintaining a sense of normalcy during the global crisis. This included offering zero percent interest rates on credit card loans for six months to support members through the pandemic, the waiving of fees, and similar efforts, which in combination contributed to a 24.1% decline in net income from 2019 to $46.3 million. Nonetheless, 30% of net income was distributed to support community initiatives and as dividends to members under the Shared Success program. Vancity also uses the triple bottom line asset under administration (TBLAA) to determine how many loans within its balance sheet reinforce social/cultural, economic or environmental well-being, and has ambitious plans for TBLAA to account for 70% of the total assets under administration growth.

INDUSTRY

While credit unions have historically operated within a province, legislation passed in 2012 permitted interprovincial operations. Most credit unions across Canada have been hesitant to extend their presence beyond their home province and consequently signal ambitions of competing with a traditional bank. However, friction may arise in the form of the traditional bank's relative robustness, as demonstrated in the pandemic, when Vancity introduced a product paying a skyscraping 3% interest in an effort to attract deposits. Larger institutions, who have the support of wholesale markets and government security purchases in the event of an economic crisis, are viewed as safer, whereas credit unions tend to rely on the collective deposits of its many members. Additionally, for the development of new technologies, like robo-advisors and remote banking, traditional banks hold the volume of resources necessary to outpace their credit union counterparts. Nonetheless, credit unions outperform banks in customer satisfaction ratings, with members more likely to feel affinity towards a credit union with a strong tie to their community rather than a bank whose market is nationwide. Some credit unions– Coast Capital Savings in particular– have already expanded operations by merging with others, to some success. At the cost of diluting their local presence, the merged credit union attains the wherewithal to adjust to technological and competitive roadblocks.

CONCLUSION

Vancity's motto, "Make Good Money," encapsulates a modern definition of profit. "Good Money" is not just a high monetary return. In fact, Vancity makes it explicit that financial objectives are not exhaustive of the triumvirate that is People, Planet, and Prosperity. Having soared to unparalleled heights as the largest credit union in Canada, Vancity holds the right to exclaim the virtues of its threefold definition of success. Vancity is an example to follow, undoubtedly for the community it serves but also for the rest of the banking industry and corporations in general.

<u>CASE STUDY QUESTIONS</u>

1. How should Vancity address vulnerabilities in the "Prosperity" pillar, and should it be pursued at the cost of the two other pillars?
2. Should Vancity consider consolidating with other credit unions and/or interprovincial expansion? How would it address its three pillars?
3. Are there opportunities for Vancity to elevate membership growth against the declining population growth rate?
4. How can Vancity continue to differentiate itself against banks and other provincial credit unions?