



TOO GOOD TO FAIL

By Art Chamberlain

A new breed of financial services organization values ethics over the bottom line



Obscenely massive paydays for chief executives. Soaring share prices that seem to know no limits. After the crash of 2008, who could blame people for thinking a take-no-prisoners mentality is what banking is all about?

Even today, CEOs collect multi-million dollar bonuses while analysts and investors pore over financial statements each quarter looking for ever-heftier returns for shareholders. Most want to see evidence of enhanced value, in the strict dollars-and-cents meaning of the term. The more sophisticated notion of *values* – we're talking ethics and morals here – rarely comes into play.

Yet not every such institution operates in the same way, as the Global Alliance for Banking on Values (GABV) proves. This international body of 25 banks and financial services cooperatives, which has a combined \$70 billion in balance-sheet assets, takes a refreshingly different approach. The group's goal: to touch the lives of a billion people with sustainable banking by 2020. No mention of profits or dividends. Instead, they want to use their resources to boost local economies, help people get jobs and – in the process – ensure their clientele can meet their basic financial needs. Three Canadian credit unions belong to the Alliance: **Vancity** (\$17.1 billion in assets, 497,000 members); **Affinity Credit Union** (\$2.7 billion in assets, 105,000 members); and **Assiniboine Credit Union** (\$3.4 billion in assets, 109,000 members).

THE PROMISE OF SUSTAINABILITY

What exactly is sustainable banking? The Alliance defines it by these principles:

- Their business models take a triple-bottom-line approach – that is, one that takes into account social outcomes as well as profits and losses. People, planet and prosperity are the guiding priorities.
- They're grounded in communities, serve the real economy (which produces goods and services as opposed to a financial economy concerned exclusively with

activities in financial markets) and enable new business models.

- They foster long-term relationships with clients and encourage a direct understanding of their economic activities and risks.
- They're self-sustaining, resilient to outside disruptions and durable.
- Their governance policies are transparent and inclusive.

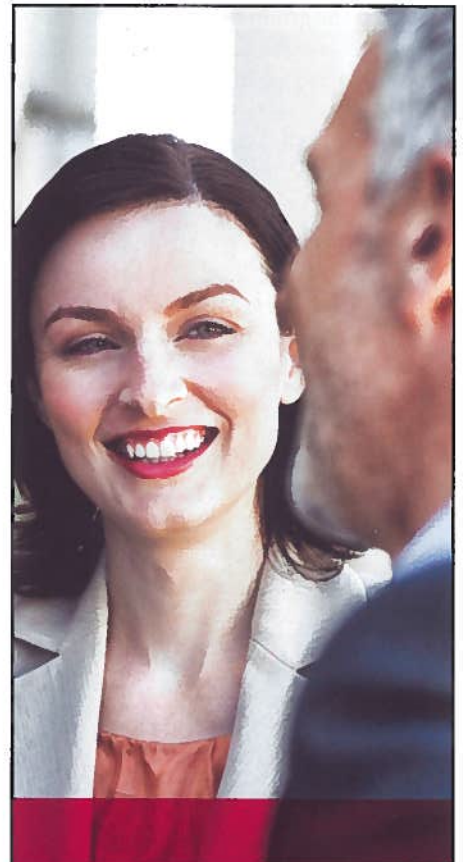
One over-arching tenet governs the group as well: all these principles must be embedded in the very culture of member institutions.

The Alliance was formed in 2009 when nine like-minded CEOs met to talk about how they could promote sustainable banking and to share ideas about what was and wasn't working at their respective financial institutions. New members can only join if they are invited and must meet three criteria: they must be independent, licensed financial institutions with a focus on retail customers; they must have a minimum balance sheet of \$50 million; and they must be fully committed to social banking and the triple-bottom-line idea.

Of course, the Canadian credit unions involved are by definition guided by international cooperative principles that include giving back. Vancity, for example, already donates time and money representing 30 per cent of its profits on a local level. But for GABV members, the approach is much broader. They don't just contribute to their communities. They take an active role in building them.

BUILDING COMMUNITY – LITERALLY

One case in point is the story of how Vancity worked with the Songhees, a 550-member Vancouver Island First Nation, on a community centre project intended to enrich the lives of grandparents and toddlers alike. Leaders had previously approached local government officials in search of funding, but were offered just a tiny portion of the \$18 million they needed. This, despite the fact that the First Nation had developed strategic economic relationships with a construction company and a dredging firm. It also had a lease arrangement with Public Works Canada for a shipbuilding school to be built on Songhees land. The tribe was running other successful enterprises, too.



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Then the group met with Vancity. Working in partnership with the credit union, the Songhees refined their financial administration procedures and Vancity agreed to lend them the \$18 million. The kicker? The loan was based on the Songhees' anticipated tax revenues – not the value of their land. Unlike other financial institutions the tribe had talked to, Vancity worked with the group to come up with a creative financing solution. Now, with the new centre in the works, Vancity is literally helping build community.

membership is growing and last fall the ad campaign won a top B.C. marketing award.

"We struggled for some time historically: How do we explain what it is we do?" Vrooman says. "[Now] values-based banking is working very well for us. It's the path of the future. In fact, Vancity finished 2013 with higher net earnings, a stronger balance sheet and a higher payout to its members and community partners than in 2012. Plus, we welcomed nearly 25,000 new members in 2013, many of them younger people drawn to the value-based model.

the Saskatchewan economy to a much greater extent," she says. "The loans are more of an engine than [our] philanthropic efforts. This is a big difference from the traditional credit union approach."

So far, the GABV club is exclusive – but it isn't keeping any secrets. A scorecard is in the works to measure the ongoing efforts of current members and to evaluate new members. It will be publicly available, says David Korslund, a Netherlands-based researcher for the group. He adds that the Alliance hopes all banks will eventually use it to demonstrate their commitment to sustainable banking: "Just like the energy-efficiency rating you can check when you buy an appliance," he says, "you'll have a bank rating." The Alliance is setting up a \$100 million U.S. fund that will raise money from institutional investors to provide



Tamara Vrooman (second from left) speaking at a panel for the Banking on a More Sustainable World public forum

"CEOs are intrigued by values-based banking but are still a little hesitant about trying this approach."

- Tamara Vrooman, President and CEO, Vancity

Tamara Vrooman, president and CEO of Vancity told a session at the World Council of Credit Unions meeting in Ottawa last July that the credit union's shift to a values-based approach came at an important time because membership was stagnating and she thought she knew why. "We lost touch with our roots and were being fast-followers of the banks and doing good after the fact," she told the meeting. "We lost confidence in being different."

The credit union's share of members' wallets was dropping and it wasn't attracting enough new, younger members. Then Vancity made the transition to values-based banking and joined the Alliance. To drive home the change, it also revamped its marketing campaign, building it around the tagline "Make Good Money." Today, Vancity holds employee training programs for new and long-term staff alike to instill the concept of values-based banking in their daily activities. As a result, employees are reinvigorated,

"It shows them there's a different way to bank."

"A NEW WAY TO TELL OUR STORY"

Mryna Hewitt, senior vice president, marketing and community, of the Saskatoon-based Affinity, says joining the Alliance and rethinking values has helped her credit union refine its approach, too. Affinity's focus today is on its role as "an engine of the Saskatchewan economy and an engine of the local communities where we operate."

"The biggest thing is that membership in GABV has inspired us tell our story in a . . . more compelling [way] to new generations of credit union members," says Hewitt. "We're not telling the same old story we've told since the 1950s." Hewitt notes that research done by GABV shows 82 per cent of Affinity's assets are loaned out to members. By comparison, the Big Five banks only lend 50 per cent of their assets to customers. "Our deposits circulate in

long-term capital for sustainable banks and to support and promote the group's principles, he explains.

Are more Canadian credit unions likely to join? Vrooman says some CEOs are intrigued by values-based banking but are still a little hesitant about trying this approach. "What they tell me is they are curious – some are even inspired – but they're still not sure," she says. "I think their basic skepticism is that it's too good to be true, so what's the catch? It isn't too good to be true. There's not some hidden risk. It does require some leadership, it does require commitment, it does require transparency, it does require discipline. But these are all things that any strategy requires."

Research done by Korslund and the Alliance bears this out. Over the last decade sustainable banks have proven to be sounder

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Jan O'Brian from Vancity and Helen Clarke, director of bankmecu

“We design banking products and services that support our customers to achieve their financial goals while also helping them to take steps to live more sustainably.”

- Damien Walsh, CEO, bank bankmecu

than most, have grown more quickly and have generated better profits than their major competitors. Evidence comparing the performance of so-called Global Systemically Important Financial Institutions (G-SIFIs) – banks essentially deemed too big to fail – against those in GABV is surprising and heartening.

A MORE-THAN-VIABLE BUSINESS MODEL

“The key is to demonstrate that this business model does work in the long term,” Damien Walsh, CEO of member bank bankmecu in Australia, told the World Council session last summer. On its website bankmecu asks: Why bank with bankmecu? Part of the answer captures the bank’s philosophy: “We design banking products and services that support our customers to achieve their financial goals while also helping them take steps to live more sustainably. We also invest our customers’ money

in responsible ways that generate benefits for them as well as create stronger communities and a healthier environment.” Walsh says that unlike the so-called too-big-to-fail banks, the members of the Alliance are too good to fail.

One challenge facing sustainable banking is that because it is based on meeting the needs of members, it is crucial to understand those needs. Vrooman says Vancity is moving

beyond engagement to dialogue, reaching out to members with focus groups, phone calls and asking them to join an online panel called my2cents where they answer monthly survey questions and provide feedback.

What about regulators, who have stepped up their oversight since the market collapse of 2008?

“We’ve had a healthy dose of skepticism from the regulator but they have been supportive because the numbers back us up,” Vrooman says.

From the beginning, the focus of the Alliance has been at the CEO level. Kevin Sitka, who just took over as president and CEO of Assiniboine Credit Union in January, says he was eagerly anticipating a recent Alliance get-together in Melbourne. “I’m looking forward to meeting with CEOs to talk about our experiences and share best practices.” Korslund says, however, that while high-level networking remains important, the Alliance is reaching out to other levels of member organizations. GABV’s human resources committee holds monthly conference calls that provide an opportunity to discuss the challenges of finding, training and retaining staff who can make sustainable banking work.

William Azaroff, director, business and community development at Vancity, blogged about a meeting last fall that brought together Alliance members to discuss a variety of topics, including how to communicate sustainable banking to a wider audience. “We need citizen bankers – people who demand that their money is put to uses that improve our society and enhance our communities,”

From left, Simone Douglas from bankmecu, a resident of an affordable housing development and Margaret Day from Assiniboine Credit Union.



he wrote. "A citizen banker is someone who desires to invest in their neighbours and communities and into projects and entrepreneurs that improve our society, and sees their bank or credit union as an intermediary to make that happen."

Korslund says the idea of touching a billion people with sustainable banking by 2020 came during a meeting in Bangladesh where it was apparent that many millions needed banking services. He acknowledged the goal is ambitious, but it ensures members will keep the focus on spreading the message about sustainable banking. Korslund says the group would like to increase its presence in the U.S. where its four members do not have a major impact in a crowded and fractured marketplace.

EAT LOCAL, BUY LOCAL, BANK LOCAL

For the Canadian members of the Alliance their new approach to banking is an extension of a trend that has grown in other areas over the past decade. As Affinity exclaimed in a marketing campaign last fall, they want those trendsetters to eat local, buy local, bank local.

Vrooman says the business approach, based on values so different from traditional banking, leads to unexpected results.

"We believe that if we really are understanding the needs of community and serving the needs of our members based on those needs, we will fundamentally make decisions different than a bank would make," she says. **E**

The Global Alliance for Banking on Values aims to touch the lives of a billion people with sustainable banking by 2020.

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