

**The
Changing Banking Environment
in
Atlantic Canada
and
Effects on the SME Market
& the Economy in General**

FINAL REPORT

Prepared for:

**Atlantic Canada Opportunities Agency
Moncton, New Brunswick**

Prepared by:

**Ray Folkins, CA, CMA, CMC
CFO Sustainability Group
504-1663 Brunswick Street
Halifax, NS B3J 2G3**

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1.0 Introduction

In recent years, the banking landscape in Atlantic Canada has changed for a variety of reasons. These include advances in communications technology and banking production techniques, efficiencies in scale of operations where more can be done with less, and the drive to increase shareholder returns by reducing costs and consolidating the bank branch network to reduce duplication and costly or unprofitable branch locations. Chartered banks have closed a number of branches over the past ten years, in both urban and rural locations, resulting in an erosion of their traditional advantage of being close to serve their SME customers and possibly presenting disadvantages to these customers.

Easing access to capital continues to remain as one of ACOA's most important strategic priorities in pursuit of its mandate. The Business Development Program (BDP) is based on the principle that access to capital for SMEs in the region is more difficult to obtain than other regions in the country. ACOA has also recently renewed its commitment to long-term community-based economic development through the not-for-profit network of Community Business Development Corporations (CBDCs) across the region. ACOA's commitment includes additional funding for the Atlantic Canada Community Business Investment Fund (ACCBIF) and increased investment to implement an Internet-based technology system to manage and streamline computerized administrative and loan management processes. ACOA's regional offices also remain financially supportive of the provincial community or regional economic development organizations and work collaboratively on community economic development matters within each province.

The purpose of this report is to consider any actual or perceived gaps that have occurred as a result of bank closures and the impact on lending and financial services to the SME sector in the region. This report will also consider the use of alternative delivery channels by the chartered banks, such as Internet and telephone banking, to compensate for any gaps in financial and banking services. To further compensate for any gaps in services by the chartered banks, increased activities by other financial institutions, such as Credit Unions and Caisses Populaires, along with government economic development agencies including ACOA and the CBDCs will be considered.

This report is a general assessment of the changing banking environment in the Atlantic region. This assessment was completed by interviewing several key informants including chartered bank and Credit Union representatives, small business owners, and ACOA and CBDC representatives. The resulting observations and considerations are primarily based on the anecdotal information received and further research and analyses may be required to adequately assess any economic impacts on the SME market and local economies.

2.0 Summary of Observations and Considerations for ACOA

- Chartered banks have reduced their branch network in Atlantic Canada by more than 16% during the past ten years and have further rationalized business banking services and lending decision making to regional or larger centres creating serious gaps in access to capital and banking services for rural communities in the region

- Newfoundland has encountered the loss of more than 23% of its chartered bank network, most notably impacting rural Newfoundland; also recently Scotiabank announced that its pilot partnership program with Canada Post in Newfoundland in operating 10 rural outlets has failed and will be closed in January 2003
- Small business owners in Atlantic Canadian communities that have lost their banking services and/or have encountered rationalization of banking services state that their businesses and local economies have been seriously harmed by these decisions
- Gaps left by the chartered bank branch closures have not been filled by new banking technology or alternative service delivery methods and channels; small business owners complain that new technology and service delivery methods may be helpful, but does not replace the lost conveniences and economic benefits of a community-based “bricks and mortar” bank location
- Small business owners believe that the only alternative available to them, since the chartered banks seem unwilling to listen to local citizens, is for government to take action to help determine appropriate solutions that can restore “essential” banking services for affected communities
- The federal government has relied on competition as one solution, but it appears that this is not working in the region; for example the credit union movement has been unable to fill the gaps left by the chartered banks due to the high costs of expanding their Credit Union network, the lack of community support, and the reality that people search out the best returns for their savings and investments, resulting in local capital working elsewhere in Canada and not necessarily within the Credit Union system to be reinvested in the local economy
- Community and small business leaders suggest that another solution involves the commitment by chartered banks, with appropriate government legislation, to help communities retain a larger portion of savings and investments within their local economies; a form of Community Reinvestment Act (CRA) legislation similar to the US or an expansion of the Nova Scotia’s Community Economic Development Investment Fund (CEDIF) program in Atlantic Canada or such similar initiatives
- ACOA, in conjunction with the network of CBDCs and provincial economic development organizations are well positioned to help communities that have suffered the most from the withdrawal of banking services to develop or to attract the types of initiatives that could feasibly replace these banking services including Credit Union branch development, new forms of community partnering with a bank or Credit Union, e.g. In-Store banking services within an existing business location similar to such Urban initiatives, or even co-locating with a local CBDC

- Further research and analysis of community based options and alternatives may be warranted to assist communities with strategies to help build and strengthen their economies in collaboration with senior ACOA and CBDC representatives, existing Community Economic Development organizations, and the financial institutions that are keenly interested in building the rural Atlantic economy.

3.0 Bank Closures and Rationalization of Services

The top five chartered banks currently operate across the Atlantic region with 477 branch locations to serve their consumer and business markets. During the past ten years, these five banks have closed 92 branch locations representing more than 16% of their original branch network.

The breakdown of this information is summarized from Exhibit 1:

Top 5 Banks	<u>Existing Locations</u>		Total Existing	<u>Location Closures</u>		Total Closures
	Urban	Rural		Urban	Rural	
RBC	40	72	112	14	7	21
CIBC	32	37	69	4	3	7
TD	39	24	63	0	0	0
BOM	36	40	76	6	4	10
BNS	51	106 ¹	157	27	27	54
Total	198	279	477	51	41	92

It is important to note that TD Canada Trust claimed that there were no branch closures per se, only amalgamations of former locations of TD Bank, Central Guaranty Trust and Canada Trust operations. TD Canada Trust’s Senior Vice President stated that they closed only a limited number of branches in the last ten years and through mergers with Central Guaranty Trust and Canada Trust as well as a roll-out of In-Store branches in Sobeys’s and Wal-Mart locations, the size of TD’s actual branch network has increased over the years.

Summarized from Exhibit 1, a breakdown of the existing chartered bank branch network and branch closures by province is as follows:

By Province	<u>Existing Locations</u>		Total Existing	<u>Location Closures</u>		Total Closures
	Urban	Rural		Urban	Rural	
NB	68	67	135	10	7	17
NS	85	123	208	27	15	42
PEI	12	17	29	1	1	2
NF	33	72	105	13	18	31
Total	198	279	477	51	41	92

¹ Does not include 10 rural Newfoundland ScotiaBank/Canada Post pilot partnership outlets slated for closure in January 2003.

Although the chartered banks have closed about 16% of their branch network in Atlantic Canada during the past ten years, further analysis of the above provincial breakdown shows that Newfoundland has lost over 23% of their bank locations with almost 60% of closures occurring in rural Newfoundland. Nova Scotia encountered a 17% reduction in bank locations mainly due to the large number of branch closures by Scotiabank.

In addition to the reduction of the chartered bank's physical presence in the region, the banks have rationalized their services to their customers through a variety of means. The driving forces behind this rationalization of services are the utilization of technology and the ability to cluster Account Managers at a regional branch location. Account Managers encourage customers to reduce their need for direct bank services by adopting debit and ATM cards, the use of VISA or MasterCard, Internet and telephone banking and other means to manage and maintain their financial affairs, whether personal or small business.

4.0 Views of the Chartered Banking Community

Interviews with senior chartered bank officials for the Atlantic region generally portray a similar picture in terms of their rationale for bank branch closures and rationalization of banking services in the region. Taking advantage of critical mass and efficiencies of scale within locations that are able to serve a broader market versus a community location with limited or marginal potential became the rationale. The chartered banks realigned their branch network around regional or strong small town or city locations with skilled and well trained personnel to serve their consumer and business markets.

These senior officials however expressed keen support for and continued interest in the SME market as a prime market for business for their banks. In particular, RBC comments that their closure of branch locations may have been an overly aggressive initiative under the guise and somewhat false promise of Internet banking. They now see the value and importance of their existing branch network and foresee no further reductions in the next 3-5 years. RBC is also "bullish" on the SME market and has 110 Account Managers in Atlantic Canada committed to achieving RBC's goal to grow the SME market.

Chartered banks are in the business to compete and provide high rates of return to their shareholders. Also, the chartered banks compete in the capital markets to finance and grow their business, so solid share value and profitability enables them to compete more effectively, thus the drive to continuously increase share value and profitability. This means that the banks must look to efficiencies and ways to improve profit throughout their operations, including a continuous assessment of their branch network.

Also, several bank officials pointed out that their Account Managers, based from larger regional locations are generally better trained, have easier access to more resources to support their customer base, and are more proactive in going out to serve their customers. For example, CIBC in Newfoundland has a network of 8 rural branch locations, outside of St. John's, that work proactively to serve a growing radius of small business customers and have apparently captured almost 20% of Newfoundland's rural small business market.

In general, the senior chartered bank officials wish to work more closely with community and government leaders, especially the ACOA, CBDC, and the provincial economic development organizational network of personnel across the region, to determine ways to become more effective in serving the rural sector and small business market in particular.

5.0 Views of the Credit Union Community

Senior Credit Union officials continue to view their Credit Unions as an alternative to the chartered banks. However, they too are affected by the cost of operating and maintaining branch locations that serve limited and/or shrinking demographic markets. Credit Unions have also gone through a period of closures and amalgamations during the past decade where, for example, Nova Scotia has reduced its Credit Union network from 106 to 84 locations across the province. However, this reduction in locations, mainly conducted through amalgamations of former independent Credit Unions to operate under one banner (e.g. Coastal Financial Credit Union's 7 branch network in Southwestern Nova Scotia) has strengthened the overall capacity of the network to serve its customers.

A summary of the number of Credit Union and Caisses Populaires branches located in the region, mostly rural or small town based, is as follows (NS and PEI Caisses Populaires branch locations operate under their respective provincial Credit Union Centrals):

Province	Credit Unions	Caisses Populaires	Total
NB	44	86	130
NS	80	4	84
PEI	13	1	14
NF	40	0	40
Total	177	91	268

Establishing a new Credit Union location is very costly in today's market due to the demand for a full range of services, which involves the use of new technology. Also, Credit Unions are hampered by provincial and regulatory legislation that requires a minimum level of funding and equity to establish. For example, Newfoundland and Labrador Credit Union Central estimates the start-up costs of a new Credit Union at over \$100,000. In addition, under the Credit Union Act and regulations of Newfoundland and Labrador Credit Union Deposit Guarantee Corporation, a new Credit Union requires a minimum of 500 members, a minimum of \$50,000 in initial share equity (500 risk shares at \$100 per share), and a minimum initial deposit of \$200,000.

Credit Union Central Nova Scotia's President and CEO suggested that in today's market, it's not generally feasible to start a new Credit Union from scratch. However, establishing new branch locations of an existing Credit Union or a new location as a part of a group of amalgamated Credit Unions is feasible because the minimum membership, equity and deposit criteria are in place and generally exceed the minimums required. Nova Scotia's network of Credit Unions is generally able to reach out to most markets, but pockets in the province still remain underserved where improved or increased services are needed.

Senior officials with Credit Union Centrals in Nova Scotia and Newfoundland expressed a keen interest in working more closely with ACOA, CBDC's, and provincial economic development organizational networks to consider avenues to assist communities where banking services have been lost or reduced leaving small business and the general public faced with higher costs and greater inconveniences in conducting their banking affairs.

6.0 Views of SME (Small Business) Owners

Both Urban and Rural bank locations have been closed over the years, but the greatest impact was on smaller communities, especially those that lost their local bank with no close banking or credit union alternatives available. It appears that Newfoundland has been most impacted by the closure of chartered bank branches where some communities experienced the loss of their only financial institution. It also seems that Scotiabank has been noted as the main chartered bank that has withdrawn services, although the other chartered banks have also closed rural locations in Newfoundland.

In interviewing some small business owners, the difficulties encountered in losing their main banking services presented many problems, not all necessarily related to access to capital issues. Access to capital issues did surface and small business owners are often discouraged in their attempts to start a new business or expand their business. The main issue is the loss of the 'friendly banker' who knows the people involved and knows the community. Decision makers from afar are unfamiliar with the local market opportunities and the character of a community's small business people who take risk and make things happen. The current scorecard lending practices of the chartered banks undermines the character based lending approach preferred by small business owners.

Alternative methods such as Internet and telephone banking compound the issue of not being able to deal directly with a friendly local banker. As the Canadian Federation of Independent Business reports "small business owners do not view on-line banking as a substitute for branch banking. The limited applications and impersonal nature of on-line banking will likely hinder its proponents' ability to use the Internet as a way to replace 'bricks and mortar' branches."² Business owners complain that Internet technology does not provide the services they require most; easy access to meet deposit and business cash needs, and limited broadband connectivity severely restricts efficient business operations.

Beyond access to capital issues in communities affected by bank closures, small business owners pointed out that they face enormous costs, risks and inconveniences as a result of losing their bank. These include increased operating costs due to travel and courier/taxi services to do their banking, excess cash funds kept on hand, the increased risk insurance premiums as a result, increased security and safe cash holding facilities, lost business by customers who travel to the larger centres to conduct their banking, and the general loss of business opportunities for the community in losing their 'hub' bank. Exhibit 2 notes many of the comments made by these small business owners. Further economic analysis of these costs may be warranted to fully assess their impact on community businesses.

² Banking on Entrepreneurship: Results of a CFIB Banking Survey, March 2001.

In the communities of Trepassey and English Harbour West, Newfoundland, small business owners commented on the above challenges that they face and the additional responsibilities that they assume in serving their customers. Their businesses take on the responsibility of acting as a quasi-bank for others in the community, carrying excessive amounts of cash to pay their suppliers and to regularly cash cheques of all types for their customers such as employment insurance, pension and old age security, payroll, etc.

One commented in regard to the risk they face in having to order \$50,000 bundles of cash to be delivered several times per week by Canada Post, where once the money leaves their bank account (over two hours away), the business owner assumes the risk that the money will arrive safely; e.g. money needed for Monday leaves the bank on Thursday or Friday in time to arrive on Monday.

Small business owners believe that the chartered banks have little conscience in terms of how they are treating communities in rural Canada. They believe that all communities should have reasonable access to and availability of financial and banking services. They also believe that local politicians and government leaders should be more proactive in helping rural Canada and especially the small business sector; which is considered to be the backbone and main strength of the Canadian economy.

Some community business people believe that another wave of bank closures is imminent as a result of recent reports of declining bank profits. One business owner suggested that recently reported reduced bank profits, resulting primarily from over exposure in the high technology and offshore markets, is similar to the 1980's period of lending over exposure in the real estate market. During this past period, due to the billions lost by the chartered banks, small business owners, particularly in rural Canada suffered restricted lending practices and cutbacks from their banks and this may occur once again as a result of new pressures to recover from the current round of bank losses.

They also believe that politicians and government leaders should pay more attention to the recommendations and solutions offered by the Canadian Federation of Independent Business and the Canadian Community Reinvestment Coalition. The lone voice of a small business person is often unheard, but the efforts by these associations and others offer reasonable and valid alternatives to help rural Canada and small business, which in the end can only benefit all Canadians, including the large chartered banks.

7.0 SME Financing Market Share

Generally, small business owners and Community Business Development Corporation leaders believe that the small business financing market share is shifting somewhat to government and the CBDC network. Small business owners in rural communities are experiencing more difficulty in obtaining capital from their banks and have discovered the value and capacity of their local CBDC.

ACOA's Business Development Program (BDP) activities continue to grow in the region as a result of increased demand. One small business owner in St. John's noted that if it

weren't for assistance from government programs, he would not have been able to get his business off the ground. This early stage funding enabled him to acquire necessary Venture Capital financing and grow his business to employ more than 60 people today.

The following table reflects a select portion of the SME financing for Atlantic Canada, particularly that related to ACOA/Federal government assisted financing over the past three years (a broader analysis is beyond the scope of this assessment, but additional research may provide useful information):

	2000 (\$ Million)	2001 (\$ Million)	2002 (\$ Million)
CBDCs	\$34.0	\$28.9	\$33.3
Seed ConneXion	\$5.0	\$4.3	\$3.8
ACOA-BDP Commercial	\$79.0	\$94.0	\$88.0
CSBF Program*	\$125.0 (Yr. 1999)	\$126.9 (Yr. 2000)	\$109.7 (Yr. 2001)

* Formerly known as the Small Business Loans Act (SBLA) program; the latest Canada Small Business Financing Act (CSBF) program lending information most recently published is for years 1999, 2000 and 2001.

ACOA/CBDC financing for the SME sector has increased slightly over the past three years and demands on the CBDC network are generally considered on the increase. Also, in comparison to chartered bank high risk lending through the Canada Small Business Financing Act (CSBF) program (formerly know as the Small Business Loans Act, SBLA program, see Exhibit 3), ACOA's BDP program annual lending is close to the amount lent by the top 5 chartered banks in the region. This table also reflects lower CBDC lending activity from 1999 to 2000 and declining Seed ConneXion lending, which may correspond to the shifting demographics of a rural population decline in the region.

Although the chartered banks report a stable level of outstanding loans to the business market (the latest information available through the Canadian Bankers Association to June 2001 confirms aggregate outstanding loans at about \$5 billion, including large businesses), it is interesting to note that the utilization of the CSBF program in Atlantic Canada has dropped from \$127 million to \$110 million between 2000 and 2001 (see table above and Exhibit 3). The chartered banks use the CSBF program mainly to serve the SME market for high risk lending purposes, so this may indicate a significant retreat from serving this market.

Exhibit 3 displays the most recent information (with summary analysis) related to the Canada Small Business Financing (CSBF) program activities for the Atlantic region. The top 5 chartered banks account for 89% of the CSBF program lending in the region. It's noteworthy that the utilization of the CSBF program by the Caisses Populaires in New Brunswick and the Credit Unions in Nova Scotia exceed or closely compete with several of the chartered banks in CSBF program utilization, which indicates their success in

working with the small business market. On the other hand, Newfoundland Credit Unions have not made use of this valuable program for small business lending.

8.0 Sample of Communities Affected by Bank Closures

Mulgrave in Nova Scotia and Trepassey and English Harbour West (Max Taylor's home community, currently President of the Atlantic Association of CBDCs) in Newfoundland are a sample of three communities that have experienced the loss of all banking services.

The community of Mulgrave however, rallied community leadership and support under the Chairmanship of Basil Ryan (currently Chief Executive Officer of the Atlantic Canada Community Business Investment Fund) and persuaded a Credit Union to locate in the building vacated by the Royal Bank. This solution for the Mulgrave small business market did not necessarily improve access to capital issues, but did provide for continued access to banking services, although on a limited basis due to the Credit Union's shorter operating hours and availability of fewer sophisticated services.

In the words of community residents, losing the community's local bank is devastating to the local economy in more ways than imagined during the closure process. Losing one's bank is similar to losing the heart or 'hub' of a community; losing the capacity to conduct one's financial affairs in a timely and cost efficient manner poses untold problems, costs, risks, and inconveniences for community residents and business people alike while losing the heart of banking services for the community sends dollars out of the community.

The backbone to any community is its collection of business operations, whether a bank, fishing or farm operation, gas station, convenience store, grocery store, restaurant, bed and breakfast, bar and entertainment operation, drug store, etc. Local or closely located banking services are the lifeline to the small business owner. Small business owners complain of the impact on them and their businesses and how much more difficult it is to remain in business. Exhibit 2 notes many of their comments on these issues and also offers potential solutions to compensate or fill the gaps left by the chartered banks.

Clearly, strong community leadership and action will be the foundation to help deal with the many issues and problems faced by these communities in regaining a financial hub for their community. Credit Union leaders suggested that communities need to mobilize the full support of local citizens to consider a Credit Union alternative. Credit Unions are noted for their community-based approach and their need to achieve a reasonable level of sustainable operations for their members as opposed to the chartered banks' objectives to maximize profits and return to shareholders.

However, Credit Unions, similar to the banks, need a full range of a customer's business to generate profitable and sustainable operations. Part of the problem is that financial institutions compete for the profitable parts of the business and leave the unprofitable or transaction based business to other means. Also, people search for the best returns for their savings and investments and the lowest available costs for their transaction banking

and generally are unwilling to take the risk or bear the inherent costs of supporting their local community based Credit Union with all their financial business needs.

Circulation of investment capital (savings, pension funds, investments, etc.) closer to the community from which the capital originates is a solution practiced in the United States under their Community Reinvestment Act (CRA) legislation.³ The CRA legislation requires banks to help meet the credit needs of the communities in which they operate, thus fostering community economic development and stronger local economies.

This solution is also promoted by the Canadian Community Reinvestment Coalition (CCRC)⁴ and Nova Scotia's Community Economic Development Investment Fund (CEDIF) program. For example, the CEDIF program advertises⁵ the following to encourage consideration of CEDIF investment opportunities: "in Nova Scotia, more than \$600 million is invested in Registered Retirement Savings Plans (RRSPs) every year, yet less than two percent of that finds its way back into the Nova Scotia economy".

9.0 General Observations

In considering the changing banking landscape in Atlantic Canada, the mandates of the chartered banks, credit unions and community economic development (CED) groups such as the Community Business Development Corporations (CBDCs) clearly differ. The chartered banks are driven by centralized corporate objectives to increase profitability and shareholder returns. Credit Unions are community and membership based with a focus on maintaining sustainable operations and equity levels to provide quality member services and modest returns to the membership. The CBDCs have an important social mandate to help improve the economies of the communities they serve.

Rural Atlantic Canada, and in particular Newfoundland, has suffered in numerous ways as a result of the chartered banks closing a significant portion of their branch network and rationalization of services to regional or urban centres. In some cases, it appears that the rationalization of decision making for lending to the SME market in Atlantic Canada has been centered in financial centres such as Halifax and Toronto, thereby further eroding the region's culturally important personal relationship with one's local banker.

One small business owner reported a comment made by her local banker that he was not allowed to be as 'friendly' anymore because the Toronto head office believed that local bankers were in danger of losing their objectivity in dealing with local business owners, thus justifying their bank's policy for an impartial and more objective central decision making process.

Senior Credit union officials believe in the concept of community and local citizens who know their community best. A quote attributed to Rev. Dr. Moses Coady, co-founder of The Antigonish Movement, "local people know where the ice is thin" and in terms of

³ Reference Website "www.ffiec.gov/cra" for more information

⁴ Reference Website "www.cancrc.org" for more information

⁵ Example Website "www.wvda.com/en/cedif" for more information

character-based lending and community economic development, this is an advantage that distant decision making cannot overcome. In fact, decision making far removed from the market and people involved seems to result in less risk taking by the financial institutions and more difficulties for the small business market in accessing capital.

Senior chartered bank and Credit Union officials generally presented a keen desire and enthusiasm to work more closely with rural community business people and community economic development groups to find better ways to serve their needs. In many cases, bank and Credit Union Account Managers and Commercial Lenders are being coached to seek out and liaise with community leaders to build stronger relationships with the SME and Small Business sector.

However, chartered banks as opposed to Credit Unions operate in the global environment and march to corporate objectives that may not favour the types of positive action and community reinvestment strategies required to help communities improve their economic circumstances. For example, Scotiabank, in the face of closing dozens of branches in Atlantic Canada, attempted a partnership approach in Newfoundland by establishing 10 locations with Canada Post to serve rural communities. The pilot program only lasted a year or so when “bank officials declared the project a failure because none of the outlets generated a profit ... as a result, banking services will be pulled from the postal outlets in January 2003. ... Some local business leaders suggested that Scotiabank undermined its own experiment by failing to offer services for businesses.”⁶

Community business owners in the region tend to look to the credit union movement to assist where the chartered banks have withdrawn services. Also, Community Business Development Corporation leaders are looking for ways they can help offset the loss of or reduced banking services. Working with the credit union movement and fostering better relationships with the existing banking network may open avenues for CBDCs and the provincial community economic development organizations to become more effective in the communities they serve.

Regarding the credit union movement, the following two paragraphs are quoted from a presentation made to the House of Commons Standing Committee on Finance by the Canadian Federation of Independent Business in March 2001:

“It is understandable that the government would look to credit unions as a possible alternative source of financial products and services for small business. In Québec, the Caisses Populaires Desjardins’ competitive presence and performance has pushed the banks to elevate their performance and satisfaction scores in the SME market. The credit union movement in Western Canada also serves the sector well while it is largely a non-factor in Ontario and Atlantic Canada. For these reasons, credit unions are being looked to and may well prove to be a legitimate competitive alternative outside of Québec but this assumes many things and will take time to develop. They have to overcome their independent streak that impedes strategic partnerships and mergers. They will have to

⁶ Newspaper Article – Corner Brook Western Star, August 5, 2002

convince their members (largely deposit-making consumers) to move to support the SME market. And they will have to develop SME lending expertise.

Not many credit unions currently have the experience or the moxy to get into our market although some do it very well. The leadership of the credit union movement has to develop the vision and the leadership to make this happen in order to develop a credible competitive product for SMEs, Canada-wide, through the credit unions. The assumptions are critical to the chances of success of the credit union sections of the reform package. The government through these measures has provided the maneuvering flexibility to the credit union movement. It is incumbent upon the movement to now act. The growth of credit unions to serve Canadian small business seems to be the major component of the government's "more competition" strategy."⁷

Senior Atlantic based Credit Union officials believe their Credit Unions have the capacity and systems to grow their commitment to the SME sector. The Credit Union Centrals in the region are cooperating on several fronts to work together to strengthen and build the Atlantic network of Credit Unions. They also expressed a desire to work with ACOA, the CBDC network and other community or regional economic development organizations to present Credit Unions as a viable alternative to the chartered banks.

In terms of other alternative banking service delivery channels, as noted previously, from comments made by a senior bank official and small business owners, technology such as Internet banking, telephone banking, debit cards and ATM solutions have not closed the gap for small businesses in terms of accessing capital and acquiring convenient banking services. Even bank officials have recognized that Internet banking technology cannot fully replace the human element in providing convenient and efficient banking services.

Although considered a convenient tool, Internet banking has not developed into the virtual panacea that was expected. These tools provide information and transaction based conveniences, but until Internet banking technology is fully developed and ATMs can handle a company's daily deposit and cash needs, small business owners require direct transactional and decision making banking services to help their businesses succeed.

To date, the federal government has relied on competition to open the doors for increased banking services for Canadians. It is clear that this has not happened, especially for rural Atlantic Canadian communities. Although this may be a factor of "competition goes to where the money is", the fact remains that rural economies cannot grow or be sustained without appropriate access to capital and banking services. Governments need to pursue strategies that can help Atlantic Canadian communities build (and in some cases rebuild) and strengthen their local economies.

⁷ Statement to the House of Commons Standing Committee on Finance on Bill C-8 respecting Financial Institutions Legislation, March 14, 2001, Canadian Federation of Independent Business.

10.0 Considerations for ACOA and the CBDC Network

ACOA, through its regional office network and through its relationships with the CBDC network, provincial community economic development organizations, and the banking and credit union community across the Atlantic region, is well positioned to work closely with communities that have encountered a loss or significant reduction in financial and transactional banking services. Small business owners confirm that serious gaps in access to capital and financial banking services have occurred in their communities.

In fact, it might be no understatement that several communities in the Atlantic region have been devastated by the withdrawal of banking services. Community economic development is also being hampered by the lack of or reduced services from the banking sector; leaving government and the community economic development organizations as the only alternatives available to assist in developing effective solutions.

Comments and views shared by senior chartered bank and Credit Union officials along with several small business owners believe that the CBDCs have a community focus and presence across the region that can be leveraged to work together in constructive and meaningful ways. Most people presented a genuine interest and willingness to collaborate and possibly partner with local organizations to develop practical solutions to ensure that affected communities receive an appropriate level of financial services. The opportunity to work constructively together seems timely as the chartered banks and Credit Unions continue to assess and search for new business opportunities and growth in the region.

As noted by the Canadian Federation of Independent Business, government is looking to competitive solutions to assist small business development in rural Canada. Similar to successful development in the West and Quebec, the credit union movement may offer a means for communities to create their own solutions for acquiring appropriate banking services. The credit union system in the Atlantic region, particularly in New Brunswick, Nova Scotia, and Prince Edward Island, but less so in Newfoundland, has grown stronger over the years and is committed to making further inroads as an effective alternative financial institution for rural communities and their small business market.

Next steps may include developing a constructive dialogue between senior ACOA, CBDC, and provincial community economic development officials to consider ways to work with the banking and credit union movement in the Atlantic region. Small business owners would applaud such an initiative, especially for those communities most impacted by the closure of chartered bank branches.

The US has the advantage of the Community Reinvestment Act (CRA) legislation requiring their banking sector to reinvest in local economies to honour their social responsibilities and commitments to disparate communities. The Canadian Community Reinvestment Coalition (CCRC) has promoted this approach as a means to reduce poverty and economic disparities across Canada. Now may be the time for Government leaders to seriously consider and help facilitate such an approach for Atlantic Canadian communities and other parts of rural Canada.

Senior Credit Union officials in Nova Scotia and Newfoundland suggested that a few seriously affected communities could be targeted where a strong CBDC and a strong Credit Union organization would work together to assess ways to establish new branch locations in these communities. A senior Credit Union official suggested that the CBDCs may provide a logical place to establish a banking service for the communities they serve where no other alternatives exist. In Newfoundland, the view is that new Credit Union branch development in affected communities is a priority solution.

In addition to considering alternatives with the credit union movement, chartered banks have successfully partnered in urban communities with Sobey's, Wal-Mart, and Atlantic Superstore locations offering limited service banking operations through In-Store branch locations. Although, their focus is primarily on the consumer market, recently CIBC initiated a similar banking service for the small business market through a partnership with Staples/Business Depot.

In the small communities in Newfoundland that lost their only banking service, two small business owners that were interviewed operate a grocery store and a general store and found themselves operating as quasi-bankers for their respective communities. This may provide an opportunity that chartered banks and Credit Unions could consider as a logical In-Store branch banking partnership approach that might work in smaller communities.

These and other viable approaches need to be further explored to help small communities in Atlantic Canada access essential banking services. It seems that community economic development in rural Canada, and particularly, Atlantic Canada, may be unsuccessful or seriously impeded if the community does not have reasonable access to banking services. This includes more ready access to capital, transactional based banking services, and bank and Credit Union representatives who understand the local landscape and character of the business market in their locale.

Governments need not get into the business of banking – chartered banks and the credit union movement have already been empowered to provide these services for Canadians. However, government leaders can help facilitate approaches that can work effectively to serve the banking needs of all Canadians. Key to continued economic development and prosperity in Atlantic Canada is the creation of solutions for the times that will help open new avenues for small business and small communities to survive and thrive.

Further research and analysis may be appropriate as a result of this assessment. Clearly, ACOA and the CBDC network offer the most effective means to further address access to capital and banking services issues. Since the federal government views the credit union movement as a prime competitive alternative to the chartered banks, finding ways to help strengthen this sector in the region may be worthy of further dialogue. Senior credit union officials, community leaders, and small business owners are open to participating in this timely and important opportunity to make positive changes.

In advance of, or in anticipation of possible further chartered bank branch closures in the region, now is the time to develop an action plan to help communities that have already suffered the consequences and thereby safeguard communities that may be affected in the future. Small business owners who contributed to this assessment suggest strongly that their communities need help and therefore hope that positive action comes as a result.

It is recognized that ACOA's mandate is to improve access to capital for the SME sector in the region. Although small business owners and community leaders complain that the loss of community banking services poses detrimental economic consequences for their businesses and communities, this report concludes that further empirical analysis of such consequences will be required to confirm any economic impacts.

Exhibit 1 – Top 5 Chartered Bank Locations and Closures in Atlantic Canada

RBC	Existing Locations		Total Existing	Location Closures		Total Closures
	Urban	Rural		Urban	Rural	
NB	13	15	28	2	1	3
NS	18	45	63	9	4	13
PEI	2	2	4	0	1	1
NF	7	10	17	3	1	4
Total	40	72	112	14	7	21

CIBC	Existing Locations		Total Existing	Location Closures		Total Closures
	Urban	Rural		Urban	Rural	
NB	12	6	18	2	1	3
NS	13	17	30	1	2	3
PEI	2	6	8	0	0	0
NF	5	8	13	1	0	1
Total	32	37	69	4	3	7

TD Canada Trust	Existing Locations		Total Existing	Location Closures		Total Closures
	Urban	Rural		Urban	Rural	
NB	14	6	20	0	0	0
NS	17	12	29	0	0	0
PEI	3	2	5	0	0	0
NF	5	4	9	0	0	0
Total	39	24	63	0	0	0

BOM	Existing Locations		Total Existing	Location Closures		Total Closures
	Urban	Rural		Urban	Rural	
NB	11	13	24	1	1	2
NS	17	11	28	4	2	6
PEI	2	1	3	0	0	0
NF	6	15	21	1	1	2
Total	36	40	76	6	4	10

Scotiabank (BNS)	Existing Locations		Total Existing	Location Closures		Total Closures
	Urban	Rural		Urban	Rural	
NB	18	27	45	5	4	9
NS	20	38	58	13	7	20
PEI	3	6	9	1	0	1
NF	10	35	45	8	16	24
Total	51	106	157	27	27	54

Top 5 Total	198	279	477	51	41	92
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Exhibit 2 – Quotes and Comments by SME Owners

Comments on difficulties and issues ranged as follows:

“the costs to my business include many new factors – higher risk of carrying more cash on hand, higher insurance costs, increased costs for a new security and safe system, costs to courier and/or take deposits to St. John’s, a four hour roundtrip, risks in bad weather conditions from April to November, having to close business at noon on Fridays for my employees to do their banking once a week, frustrated customers when you run of cash available to cash cheques, my business has become a bank service by cashing all types of cheques and my bank charges me for depositing these”

“our bank served as a hub for our community drawing people from a wide radius bringing business dollars as they did their banking; now that’s been lost to St. John’s”

“residents, fishermen and other business owners now face trips to St. John’s to do their banking and our community is losing business as a result – what makes a community stronger than keeping our money revolving within the community”

“governments should ensure banking services of some type remain as an ‘essential service’ within a reasonable distance of smaller communities, for example where grocery store, drug store, medical services, and other essential services tend to locate”

“the amount of cash on hand for my business has increased substantially for a couple of reasons, one due to less frequent deposits and the other due to cashing cheques for many of my customers as a means to retain their business”

“my accounts receivable have increased substantially because customers do not have the cash on hand to pay for their purchases – this is increasing my risk of losses”

“Internet banking, debit cards and ATMs do not provide solutions for my business – we only have dial-up Internet service, our ATMs only provide cash and do not take deposits, using debit cards where people want cash-back in addition to their purchase increases my bank service fees and means carrying more cash on hand”

“I have to continuously scrounge for cash and coin from church collections, bingo, other businesses, etc. to keep my business operating – the inconveniences without banking services is taking a serious toll on me and my business”

“if one were to thoroughly assess the cost of losing close access to banking services, the cost to small business and the general public is astronomical; no one seems to realize the overall impact until its too late”

“getting a loan for my business has become very difficult – the decisions are so far removed and impersonal – the idea of your friendly local banker does not exist anymore”

Exhibit 2 – Quotes and Comments by SME Owners, Continued

Comments on difficulties and issues ranged as follows:

“in the late 80s, the chartered banks lost billions in real estate loans to the Reichmann companies, yet continue to take risk on big business; in this regard bankers have short memories, but have long memories when a few million dollars is lost in Atlantic Canada”

“small business is recognized as the backbone of the Canadian economy, but Canadians in general are not being listened to – the major banks are gambling with offshore and high-technology business investments but don’t seem to realize the importance, loyalty and stability of the Canadian small business market”

“the federal government talks about Rural Canada development, but isn’t listening to small business owners and farmers – it’s becoming tougher to stay in business with increasing red tape and with banks unwilling to take any risk with small business”

“banks are using a scorecard system to screen loan applications and seem unwilling to consider the business history or character of the individual involved – if your business does not fit their parameters, there’s no way you going to get a loan”

“banks have no conscience – they built their businesses one customer at a time and now have no allegiance or loyalty to the communities where these people live”

Comments on possible solutions ranged as follows:

“the federal government should mandate banks to continue serving communities or find a way to ensure that all Canadians receive reasonably equal treatment in terms of access to banking services”

“ACOA may wish to consider helping communities affected by bank closures through the CBDC network by arranging banking services with a willing partner such as a Credit Union”

“the bank’s ATM network should provide the ability to make deposits, in conjunction with a night deposit arrangement for cash and coin deposits – in our communities ATMs only allow cash withdrawals”

“small business in Rural Canada seems forgotten and ignored – can government help make it easier, not harder to do business in Rural Canada and that means having full access to banking privileges?”

“it seems that government people could be a lot more visible and proactive with the communities they serve – learning about the CBDC in my community for the first time was a breath of fresh air, but I should have known about them years ago”

Exhibit 2 – Quotes and Comments by SME Owners, Continued

Comments on possible solutions ranged as follows:

“I’m very impressed with the commitment and dedication of the staff and volunteers of my local CBDC – they seem to do a lot with a little, so hopefully these organizations continue to get the support they need so they can do even more to help”

“technology seems great, but it doesn’t work for my business and most of my customers; we need to find ways to help communities take advantage of new technology, but our culture still calls for personal relationships – computers will never replace people and only governments can ensure that people are not forgotten”

“when banks pull out, why doesn’t a Credit Union step in to fill the gap – how can we work with Credit Union people to help them establish in our area?”

“Associations like the Canadian Federation of Independent Business and Duff Conacher’s Canadian Community Reinvestment Coalition are doing great work, but it doesn’t seem that anyone listens to their solutions for small business and community economic development?”

“it seems that banks do not have a social conscience when it comes to making decisions at their head offices that seriously hurt people in rural Canada – where are our politicians when you need them most?”

“we need to find ways to help our community survive and losing our bank is not helping the situation – young people can only look to the future with hope when they see positive steps being taken in our community; we need to act now before it’s too late”

**Exhibit 3 – Canada Small Business Financing (CSBF) Program Lending
In Atlantic Canada for the Year 2001⁸
(Formerly known as the Small Business Loans Act (SBLA) program)**

Financial Institution	NB \$ 000	NS \$ 000	PEI \$ 000	NF \$ 000	Total # of Loans	Total \$ 000 Atlantic Canada
RBC	15,788	17,676	1,386	4,034	458	38,884
CIBC	2,905	4,095	1,232	6,794	157	15,026
BOM	4,317	3,385	1,116	2,133	126	10,951
Scotiabank	6,658	9,756	1,980	8,387	466	26,780
TD	1,646	2,514	816	1,073	74	6,049
<i>Sub-total</i>	<i>31,314</i>	<i>37,426</i>	<i>6,530</i>	<i>22,421</i>	<i>1,281</i>	<i>97,690</i>
<i>Top 5(%)</i>	<i>80%</i>	<i>92%</i>	<i>94%</i>	<i>98%</i>	<i>91%</i>	<i>89%</i>
Nat'l Bank	1,166	0	0	0	13	1,166
HSBC	407	297	0	263	10	966
Caisses P	5,691	0	0	0	56	5,691
CUs	275	2,775	402	0	46	3,452
Other	380	133	0	177	7	689
Total 2001	39,232	40,630	6,931	22,861	1,413	109,655
<i>Top 5 Banks</i>	<i>31,314</i>	<i>37,426</i>	<i>6,530</i>	<i>22,421</i>	<i>1,281</i>	<i>97,690</i>
Total 2000	42,205	47,317	7,608	29,793	1,737	126,922
<i>Top 5 Banks</i>	<i>32,641</i>	<i>43,644</i>	<i>7,276</i>	<i>29,232</i>	<i>1,581</i>	<i>112,793</i>
Total 1999	42,027	43,543	7,198	32,293	1,775	125,060
<i>Top 5 Banks</i>	<i>31,912</i>	<i>37,435</i>	<i>6,293</i>	<i>31,882</i>	<i>1,568</i>	<i>107,521</i>
Total 1998	49,473	53,449	9,771	32,449	2,344	145,142
<i>Top 5 Banks</i>	<i>35,037</i>	<i>48,201</i>	<i>9,129</i>	<i>31,119</i>	<i>2,043</i>	<i>123,487</i>

Summary Analysis (CSBF for 2001 and SBLA for 1998-2000):

- Top 5 chartered banks accounted for 89% of CSBF program lending in the region (91% for all chartered banks); Caisses Populaires and Credit Unions accounted for 8%
- Caisses Populaires in NB exceeded CIBC, BOM and TD in CSBF program lending
- Credit Unions in NS exceeded TD Canada Trust in CSBF program lending
- Credit Unions in Newfoundland have not made use of the SBLA/CSBF programs
- Overall CSBF program utilization decreased by about 14% from \$127 to \$110 million during 2000 to 2001 and decreased over 24% when compared to utilization in 1998
- Similarly, CSBF program utilization by the top 5 chartered banks decreased by 13% from 2000 to 2001 and by 21% from 1998 to 2001
- Caisses Populaires and Credit Unions more than doubled their utilization of the CSBF program from 1998 to 2001

⁸ Most recent SBLA/CSBF published information.

Exhibit 4 – List of Key Contacts and Interview Informants

Chartered Banks:

RBC: Wayne Bossert, Senior Vice President, Atlantic Provinces Headquarters

CIBC: Rupert MacBeath, General Manager, Sales Effectiveness, Atlantic Region
Greg Hughes, Regional Business Manager, Atlantic Region
Raymond Gagné, Community Manager, Newfoundland and Labrador

BOM: Carol Snider, Senior Vice President, Atlantic Provinces Division
Ann Etter, Senior Manager, SVP's Office, Atlantic Provinces Division

TD: David I. Morton, Senior Vice President, Atlantic Canada

BNS: Doug Hill, Regional Banking Manager - Scotiabank Atlantic Regional Office
Pauline Connors, Sr. Administrative Officer - Atlantic Regional Office
Brian Holt, Director, National Sales and Alliances - Small Business, Toronto
Diane Flanagan, Senior Manager, Scotiabank Public Affairs, Toronto
Francis Power, District VP, Newfoundland & Labrador, St. John's

Business Development Bank of Canada:

Ross Miller, Vice President & District Manager, Newfoundland and Labrador

Credit Union Organizations:

Robert Mowbery, President & CEO, Credit Union Central of Nova Scotia
Eleanor Humphries, President & CEO, Credit Union Atlantic
Daniel Honnor, General Manager, Credit Union Central, NF & Labrador
Glen Fitzpatrick, Managing Director, NF & Labrador Federation of Co-operatives

Small Business Owners:

Tom Sutton, Owner, Sutton's Foodtown, Trepassey, Newfoundland
Gerrard Trainor, Owner, Weathershore Windows, Trepassey, Newfoundland
Wayne Hanlon, Owner, Foodland Grocery, Trepassey, Newfoundland
Judy Bartlett, General Manager, Petite J. & Sons Ltd., English Harbour West, NF
Chris Griffiths, President, Griffiths Guitars International, St. John's, Newfoundland
Jeanette Hermanson, Owner, Green Thumb, Alma, Nova Scotia

ACOA and Community Business Development Corporation (CBDC) Leaders:

Paul Joudrey, Director Operations, ACOA Head Office
Philippe Dupuis, Manager, Community Economic Development, ACOA Head Office
Jean-Guy Poirier, Manager, Business Development Program, ACOA Head Office
Max Taylor, President, Atlantic Association of CBDCs
Basil Ryan, CEO, Atlantic Canada Community Business Investment Fund
Cathy Perry, Executive Director, Southern Shore - St. Mary's Bay CBDC, NF