



A New  
Financial  
Institution  
for  
Nunavut  
Feasibility Study

RT Associates Ltd.  
April 2005

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## Note

There are many references to Nunavut Tunngavik Inc. (NTI) throughout this document. Generally speaking, when ‘NTI’ is mentioned in the context of policy, overall direction and control or decision-making, the intent of the reference is to the NTI Board of Directors. However, when ‘NTI’ is used in the context of partnering to deliver financial services, or providing support for the delivery of financial services, the intent of the reference is to NTI and/or Atuqtuarvik Corporation and/or another organization designated by NTI to act on its behalf.

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# Executive Summary

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While full-service banking is available to residents of Iqaluit, Rankin Inlet and Cambridge Bay, Nunavummiut living in the smaller communities must either incur the expense of travelling to one of the territory's regional centres, or patronize local businesses which offer limited financial services as an adjunct to their primary retail business.

Studies done in the early 1990s provided two compelling reasons for creating a new deposit-taking financial institution in Nunavut:

- ❶ To improve the standard of living in the smaller communities; and
- ❷ To access the cumulative savings of Nunavummiut to create a significant capital pool that could be put to productive use within Nunavut.

Nevertheless, implementation efforts (which focused on a credit union system) were not successful for a variety of reasons, mainly having to do with financing difficulties or regulatory challenges. However, changes to the federal *Bank Act* in 2001 make it easier to start a bank or trust company that could also improve access to financial services for Nunavut communities.

The intent of this study was to determine the feasibility of creating a bank or trust company in Nunavut to improve access to financial services, utilizing existing skills, expertise, infrastructure, services, and service delivery mechanisms where possible and practical.

Specific study objectives were:

- To determine the market for financial services in Nunavut
- To determine the feasibility of implementing a deposit-taking financial institution in Nunavut utilizing existing skills, expertise, infrastructure, services, and service delivery mechanisms where possible and practical
- To assess the capability of third parties – both Southern and Nunavut-based – to provide financial services in a timely, secure and cost-effective manner, consistent with national standards and best practices

The original business concept for improving access to financial services in smaller communities in Nunavut is based on the decentralized community banking model introduced in an earlier report<sup>1</sup>. It would be implemented as a 'stand-alone' bank majority owned by NTI or its designate, and incorporated under the federal Bank Act.

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<sup>1</sup> RT Associates Ltd. *A New Financial Institution for Nunavut: Overview and Options*. A report prepared for Atuqtuarvik Corporation, January 2004.

The concept of a ‘Nunavut Bank’ would be implemented as:

- A partnership among Nunavut Tunngavik Inc., the Regional Inuit Organizations, the Government of Nunavut, and external capital from funding agencies (e.g., Aboriginal Business Canada, DIAND) and a major chartered bank or trust company.
- Creation of the Nunavut Banking Corporation, a holding company in which all partners would invest. This holding company would own the community banking centres, and provide overall planning and management services.
- A series of ‘Community Banking Centres’ – a desk, telephone, customer service rep and full-service machine, located inside a Co-op or Northern store – in the Nunavut communities, linked to a main office in one of the regional centres.
- Other service delivery partners which could provide essential skills, expertise, infrastructure, services, and service delivery mechanisms where possible and practical.

However, it is the determination of the study team that a Nunavut Bank is not feasible: it would be prohibitively expensive to create (probably on the order of \$15-\$20 million), and would consistently lose money because of a failure to obtain the necessary breakeven market share, estimated to be about 50% of all Nunavut-based personal and commercial deposits. Further, the increased focus on risk by federal regulators has substantially increased the risk management effort and resources required by banks to remain compliant, decreasing the probability of obtaining a strategic alliance with a major financial partner.

The study team concluded that alternative business concepts – which involve less cost, less risk and/or opportunities to exploit larger savings pools – should be investigated. Alternative business concepts discussed in this report include:

**RBC Royal Bank Agency.** Under the Agency Banking Model, the Royal Bank and Arctic Co-operatives Ltd would partner to provide financial services in selected Nunavut communities. Local co-op stores would host the services by providing space, staff and basic office supplies. The Royal Bank would provide financial services and products, all training and marketing. The Agency Banking model is characterized by:

- Deposits to, and withdrawals from, RBC Personal and Business Bank Accounts, using an RBC ‘Client Card’ and Moneris© Point-of-Sale debit card reader;
- On-site cheque cashing and bill payment;
- On-site service provided by a Customer Service Representative in the client’s language of choice;
- Internet Banking, depending on the community internet service capability; and
- Access to RBC’s broad range of financial services and products, including VISA cards, investment products (Guaranteed Investment Certificates, RRSPs, Mutual Funds, Investment Accounts), personal and business loans.

**Investment Partnership.** Although NTI could conceivably invest in any small bank or trust company currently operating in southern Canada, potential candidate partners should include First Nations Bank, based in Saskatoon, and Peace Hills Trust Company, Hobbema, Alberta. As Aboriginal Financial Institutions committed to Aboriginal peoples, both First Nations Bank and Peace Hills Trust should be more sensitive to the needs and concerns of Nunavummiut, and would likely be more responsive to working with NTI and other partners on a delivery mechanism that addresses those needs and concerns.

The Investment Partnership model would entail NTI making a significant investment in an existing deposit-taking financial institution, in consideration for which:

- Representation on the Board of the financial institution in which the investment is made;
- A commitment from the target financial institution to work with NTI and Arctic Co-operatives Ltd. to bring services to Nunavut communities;
- NTI would enter into a *Memorandum of Understanding* with the chosen partner, outlining how the respective parties will work together on various financial endeavours both in and outside of Nunavut; and
- An implementation plan which would be similar to that of the RBC Agency Banking Model, with the additional provision that a regional office of the target financial institution be located in Nunavut.

**Virtual Bank Model.** A “virtual” bank interacts with its customers via Internet access: it has no physical branches (except for a head office). ING DIRECT is the best Canadian example of a virtual bank. It is a completely branchless bank. This keeps their overhead costs low and allows ING to offer higher interest rates on savings than major chartered banks. Implementation of broadband internet access across Nunavut greatly facilitates consideration of the virtual bank model. However, there are issues which limit the practicality of this model for Nunavut, including services in Inuktitut or Inuinnaqtun, and no ATM support.

**Cooperative Bank Model.** Cooperative banking is all about members of an organization helping each other financially through resource pooling and sharing. It is a popular banking model in European countries, and in less developed countries such as India and the Philippines. The cooperative bank philosophy would be a good fit, given the strong history of the cooperative movement in Nunavut. But this model depends on a large deposit base to provide a low cost source of funds. It is then assumed that these lower cost funds translate into reduced pricing on lending products. Nunavut does not have a large deposit base, so there would not likely be any cost advantage compared to any of the other models, e.g., the RBC Agency Banking Model.

An informal rating system was developed by the study team in order to make comparisons between these four options. Comparative ratings are presented on the next page.

## Model Ratings

	<b>Original Business Concept</b>	<b>Agency Banking Model</b>	<b>Investment Partnership</b>	<b>Virtual Bank</b>	<b>Cooperative Bank</b>
Improved Access to Financial Services	Access increased considerably but still dependent on support of strategic alliance partner. Rating: 8/10	Personal banking access increased considerably; business banking access increased moderately. Rating: 7/10	Access increased considerably. Banking services tailored to the Aboriginal market. Rating: 9/10	Access only increased for those with reliable Internet access. Rating: 2/10	Personal banking access increased considerably; business banking access increased moderately. Rating: 7/10
Level of Control	Nunavut-based owners would control and direct most Nunavut activities. Rating: 8/10	Influence on location and operations of Agencies, but little influence over RBC activities. Rating: 4/10	Major shareholder and director influence on Nunavut activities. Rating: 7.5/10	No influence Rating: 0/10	Some influence on location and operations of Agencies, but little influence over co-op bank partner. Rating: 3/10
Implementation Cost	Extremely high Investment Capital Costs (\$12 – 15 million) and continuing exposure to high operating losses. Rating: 1/10	Modest investment and support cost associated with implementing and operating Agencies. Rating: 9/10	Significant capital investment, but with reasonable prospects for an investment return. Shared Agency costs. Rating: 7.5/10	Costs for ATM network probably have to be assumed by NTI Rating: 3/10	Modest investment and support cost associated with implementing and operating Agencies. Rating: 9/10
Risk and Other Factors	Exclusive Nunavut focus, but significant risk that investment capital will not be returned and that continuing losses will require more capital contribution. Rating: 3/10	Very little financial risk exposure. Ample flexibility to adopt other measures. But Aboriginal commitment not integral part of RBC mandate. Rating: 7/10	Modest financial risk associated with investment in partner. Major aboriginal commitment and service should be focus of Partner's operations. Rating: 8/10	Moderate to above-average risk associated with ATM network. Rating: 5/10	Very little financial risk exposure. Flexibility is an unknown quantity. Cooperative principles a good fit. Rating: 6/10
<b>Total Rating</b>	<b>20/40</b>	<b>27/40</b>	<b>32/40</b>	<b>10/40</b>	<b>25/40</b>

By summing ratings for each factor, the following overall ranking could be applied to the models investigated in this study:

- ① Investment Partnership
- ② RBC Royal Bank Agency
- ③ Cooperative Bank model
- ④ Original Business Concept of a stand-alone bank
- ⑤ Virtual Bank model

In view of these rankings, it is recommended that:

- ① In the short-term, NTI should focus on improving access to financial and services by:
  - Facilitating a partnership between RBC Royal Bank and Arctic Co-operatives Ltd. to implement the RBC Agency Banking Model on a pilot project basis;
  - Executing Memoranda of Understanding (MOUs) with Nunavut-based commercial lenders to offer smaller (i.e., less than \$150,000) loans on behalf of Atuqtuarvik Corporation; and
  - Research and analyse the creation of a new Personal Lending Division with Atuqtuarvik Corporation.
- ② For the longer term, pursue negotiations (and due diligence) to make a significant investment in a southern Canada-based deposit-taking financial institution, with the understanding that a 'Nunavut Division' will be created, and community banking centres be established in selected Nunavut communities along the lines of the Agency Banking Model. Allocate funding from the Trust within the strategic plan in order to make an investment consistent with:
  - NTI objectives;
  - The execution of a satisfactory agreement to extend access to financial services to Nunavut communities; and
  - Nunavut Trust profit expectations.

# Table of Contents



1	Introduction.....	1
2	Study Objectives.....	3
3	Background.....	4
4	Market Analysis.....	9
5	Original Business Concept.....	12
6	Issues.....	19
7	Other Models.....	26
8	Comparison of Models.....	42
9	Recommendations.....	44
10	Conclusions.....	45

## Appendices

- 1 Business Survey Guide
- 2 Community Focus Group Guide

## List of Figures

Figure 1	The Original Nunavut Bank Concept.....	13
Figure 2	Start-up Costs.....	14
Figure 3	Annual Operating Costs.....	15
Figure 4	Revenue and Expense Estimates.....	16
Figure 5	Breakeven Market Share Calculation.....	17
Figure 6	Revenue Estimates for an RBC Agency Bank.....	31
Figure 7	Model Ratings.....	42



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# 1 Introduction

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*“Canadians and Canadian businesses of all sizes and in all sectors and regions of Canada should have convenient access to a range of high quality financial services. In this respect, particular attention must be paid to access to financial services in rural and low-income communities...”<sup>2</sup>*

It has been recognized for years that – while full-service banking is available to residents of Iqaluit, Rankin Inlet and Cambridge Bay – Nunavummiut living in the smaller communities are restricted to patronizing businesses which offer limited financial services as an adjunct to their primary retail business. The Northern and Co-op stores are the most obvious examples of businesses that offer cheque cashing, third party drafts, cash transfers, cash back on debit cards, and loans in the form of credit on purchases, but for fees that are much more than what Canada’s major banks charge.

Deficiencies in the availability of financial services have resulted in a number of problems for individuals and businesses alike:

- The lack of a Nunavut-wide payment system makes cheque-cashing, bill-paying and money transfers difficult and/or expensive.
- There is a marked increase in the cost of doing business outside of the regional centres, because businesses are expected to carry a significant amount of cash at all times.
- A limited credit system increases the difficulty in borrowing, and is detrimental to economic development.
- The lack of a savings system results in loss of income to individuals and businesses, and the Nunavut economy as a whole loses the benefits from employing the combined savings of Nunavummiut in productive work within Nunavut.<sup>3</sup>

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<sup>2</sup> Department of Finance. Response of the Government to *Large Bank Mergers in Canada: Safeguarding the Public Interest for Canadians and Canadian Businesses and Competition in the Public Interest: Large Bank Mergers in Canada*. Ottawa: June 23, 2003; p. 9.

<sup>3</sup> These deficiencies were identified 15 years ago in a report prepared by CORE/NET Consulting Ltd. for the NWT Legislature’s Special Committee on the Northern Economy (SCONE), and are still relevant today.

Could a new deposit-taking financial institution in Nunavut address these deficiencies, thereby improving the standard of living in the smaller communities?

With this question in mind, RT Associates Ltd. was contracted in October 2003 to research and report on the advantages and disadvantages of different models of deposit-taking financial institutions that might have applicability in Nunavut. Four models were examined in an options paper:

- ① Centralized Bank model, characterized by close control, federal regulation, minimized development costs (relative to the other models), and service contracts with existing agencies to deliver products and services;
- ② Decentralized Community Banking model, characterized by a joint venture arrangement with an established major bank to finance and operate community-based banking centres;
- ③ A Trust Company model, which is similar in almost all respects to the Centralized Bank Model, except for an added focus on the provision of trustee services to clients; and
- ④ a Credit Union model, the most complex in that Nunavut-based regulatory, managerial and insurance institutions would have to be created to serve community-owned and operated credit unions.

All of these models could provide basic financial services. The authors concluded that if trustee services is a priority, then a trust company is the preferred option. If the priority is to expand services outside of Nunavut in the future, then a central bank or trust company would be the preferred model. Finally, if the priority is community-based access to financial services, then the decentralized community banking or credit union model is the preferred option.<sup>4</sup>

Following a review of the above-noted options paper, the decision was made by NTI to proceed with a more detailed study, focusing on the decentralized banking model.

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<sup>4</sup> RT Associates Ltd. *A New Financial Institution for Nunavut: Overview and Options*. A report prepared for Atuqtuarvik Corporation, January 2004.

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# 2 Objectives

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The intent of the study was to determine the feasibility of creating and implementing a deposit-taking financial institution in Nunavut to improve access to financial services, utilizing existing skills, expertise, infrastructure, services, and service delivery mechanisms where possible and practical. The rationale for such an approach is summarized by the Canadian Bankers Association:

*Bank Act reform encourages the development of new strategic partnerships and joint ventures.... Strategic alliances allow financial institutions to test new ideas and products at a lower cost than if they were to start from scratch. Furthermore, these alliances can be put together very quickly to take advantage of emerging opportunities.<sup>5</sup>*

In practical terms, what this means is that a financial institution does not have to have the resources in-house in order to provide the products and services that clients need or want. It is much easier to partner with other service providers, either initially, or for the longer term. This may also be the most prudent approach. These partnerships can continue over time, or capacity could be developed in-house, whatever is consistent with other benefits or priorities.

Specific study objectives were:

- To determine the market for financial services in Nunavut
- To determine the feasibility of implementing a deposit-taking financial institution in Nunavut, utilizing existing skills, expertise, infrastructure, services, and service delivery mechanisms where possible and practical
- To assess the capability of third parties – both Southern and Nunavut-based – to provide financial services in a timely, secure and cost-effective manner, consistent with national standards and best practices

The consultants developed a number of key questions that essentially comprise the ‘criteria’ for assessing feasibility consistent with the second study objective above:

- ① Are the cumulative savings of Nunavummiut sufficient to provide a base for a Nunavut-based deposit-taking financial institution?
- ② What is the level of interest and capabilities among potential partners?
- ③ What financial products and services could and should be offered?
- ④ What are the technical and technological issues?
- ⑤ What about growth over the longer term?
- ⑥ Does the business concept make sense?

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<sup>5</sup> Source: Canadian Bankers Association website, [www.cba.ca](http://www.cba.ca).

# 3 Background



*“Bank of Montreal representatives are saying little about why they're closing their only branch in Nunavut at a time when the bank is attracting enough business in the territory to make a profit. Management at their branch in downtown Iqaluit posted a notice last month saying they will close the Nunavut branch on November 5 [2004]. Bank officials blame a lack of business for the closure, but refused to disclose how much business they have in Nunavut.”<sup>6</sup>*

## 3.1 History

In 2003, the Royal Bank of Canada celebrated their 50<sup>th</sup> anniversary of continuous operations in Nunavut. However, it is arguable that the Royal Bank's first foray into Iqaluit (then 'Frobisher Bay') was truly a 'branch'. The Bank of Montreal is generally acknowledged to be the first to establish a bank branch in Frobisher Bay in 1958. Two employees ran it from a tent near where the Legion stands today.<sup>7</sup>

In any event, two of Canada's major chartered banks were offering some basic financial services from offices in Nunavut in the 1950s, but it is likely that officers and servicemen assigned to the large U.S. military base in Frobisher Bay were the banks' target customers. (The Bank of Montreal closed its branch when the military base was abandoned in the mid-60s, and did not return until 1995.)

The Canadian Imperial Bank of Commerce (CIBC) opened a branch in Rankin Inlet around 1990 (having served its Nunavut customers from its Yellowknife branch prior to that).

<sup>6</sup> Greg Younger-Lewis. *Bank of Montreal closes doors in Iqaluit*. Nunatsiaq News, July 9th 2004.

<sup>7</sup> Bryan Pearson, long-time Iqaluit resident, quoted in the Nunatsiaq News, July 9, 2004.

Shortly thereafter, the Royal Bank also opened a branch in Rankin Inlet, as well as a third branch in Cambridge Bay.

With the closing of the Bank of Montreal's Iqaluit branch last November, there are currently only 5 bank branches in Nunavut:

- the Iqaluit, Rankin Inlet and Cambridge Bay branches of RBC Royal Bank; and
- the Iqaluit and Rankin Inlet branches of CIBC.

## 3.2 Earlier Studies

In *Banking Services in the Northwest Territories: An Assessment*, CORE/NET Consulting Ltd.'s 1989 report to the NWT Legislature's Special Committee on the Northern Economy, the authors concluded that:

*It would be feasible to provide some level of financial services to communities having more than 200 people and a reasonable level of economic activity.*<sup>8</sup>

CORE/NET went on to propose that the creation of:

*a coordinated organization to service the needs of a number of smaller communities is more feasible than the creation of a number of independent organizations.*<sup>9</sup>

Subsequent to this CORE/NET report, the NWT Co-operative Business Development Fund commissioned a number of reports (from 1990 through 1994) which examined the feasibility, planning and implementation of a credit union system in the NWT. A focus on credit unions as a means of increasing the availability of financial services was likely chosen because:

- Given the technological and logistical constraints that existed at the time, the credit union model was the best fit consistent with CORE/NET's 1989 conclusions;
- An extensive co-operative network was already in place throughout the NWT;
- The existing banks were perceived – at the time – to be ill-adapted (i.e., too large and inflexible) to deal with the needs of small, remote communities; and
- There were substantial financial and regulatory impediments to the creation of a new bank or trust company.

The feasibility study that was conducted for the NWT Co-operative Business Development Fund in 1990 concluded that \$7 million in capitalization would be sufficient to provide an

<sup>8</sup> CORE/NET Consulting Ltd. *Banking Services in the Northwest Territories: An Assessment*. Prepared for the NWT Legislative Assembly's Special Committee on the Northern Economy (SCONE), August 1989.

<sup>9</sup> *Ibid*; pp. iii, iv.

adequate capital base, deposit insurance and initial working capital for a small credit union system<sup>10</sup>. Another acknowledged credit union development expert (Richard Eckert) concurred, and employed the \$7 million figure in a subsequent planning study<sup>11</sup>. However, coordinated development efforts by both the Government of the NWT and the NWT Co-operative Business Development Fund ultimately failed because of inability to raise the required \$7 million<sup>12</sup>.

These studies focused on the creation of a credit union system as the best way to achieve these objectives. And indeed, community interest in creating a credit union system in Nunavut has always been strong.

Arctic Co-operatives Ltd. contracted Richard Eckert – author of the 1992 report, *Planning for Credit Union Development in the Northwest Territories* – to update options for offering credit union financial services in Nunavut. In his report<sup>13</sup>, Mr. Eckert proposes a partnership involving Arctic Co-operatives Ltd., local co-op stores, NTI, and a southern credit union system as a vehicle for creating credit union branches and sub-branches (kiosks located within co-op stores) in most Nunavut communities. A couple of months later, the Fédération des Caisses Desjardins, Québec’s major credit union group based in Montreal, indicated that it was considering a branch in Iqaluit.<sup>14</sup>

In a follow-up report<sup>15</sup>, Mr. Eckert identified:

- Deficiencies in Nunavut credit union legislation; and
- The financial requirements for establishing an independent credit union system;

as major impediments to Nunavut-based credit union development. After further review, Mr. Eckert proposed working with an established southern-based credit union – i.e., a credit union incorporated in Manitoba – to establish a credit union branch in Iqaluit. This initial project could be followed by sub-branches in other Nunavut communities assuming success in Iqaluit. However, Mr. Eckert notes that although the *Manitoba Credit Union Act* permits a credit union incorporated in Manitoba to “conduct its affairs and exercise its powers in any jurisdiction outside Manitoba...” and current Nunavut legislation does not preclude extra-territorial credit unions, there is no precedent for such operations. Hence this type of business concept would require regulatory approval before proceeding.

However, a credit union need not be the only option. Changes to the federal *Bank Act* make it easier to start a bank or trust company that could also improve access to financial services for Nunavut communities. In June 2001, the federal government passed Bill C-8 to update and

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<sup>10</sup> CORE/NET Consulting Ltd. *Feasibility of a Credit Union System in the Northwest Territories*. Prepared for the NWT Co-operative Business Development Fund, Yellowknife, July 1990.

<sup>11</sup> Eckert R. *Planning for Credit Union Development in the Northwest Territories*. Prepared for the NWT Co-operative Business Development Fund, Yellowknife, July 1992.

<sup>12</sup> Greg O’Neill, Arctic Co-operative Development Fund, personal communication.

<sup>13</sup> Eckert R. *Alternatives for Providing Credit Union Service to Nunavut*. Prepared for Arctic Co-operatives Ltd., Winnipeg, May 2004.

<sup>14</sup> *Quebec credit union eyes Nunavut*. Nunatsiaq News, August 6, 2004.

<sup>15</sup> Eckert R., Doerksen R. *Concept Proposal for a Credit Union Presence in Nunavut*. Prepared for Arctic Co-operatives Ltd., Winnipeg, November 2004.

improve the framework governing Canada's financial services sector.<sup>16</sup> Of particular interest are the changes to increase competition and promote efficiency in the sector, namely:

- Lowered capital requirements to start a financial institution (from \$10 million to \$5 million);
- A new definition of the “widely held” ownership rule for banks, which provides new opportunities to enter into strategic alliances and joint ventures;
- Flexibility for credit unions to create a national presence to better compete with large institutions;
- Allowing financial institutions to create holding companies to organize their business activities, offering the potential for greater operational efficiency and lighter regulation; and
- Permitting financial institutions to make a broader range of investments to take advantage of new business opportunities and technologies.

## 3.3 Concluding Thoughts

From this background work, we can conclude that:

- Studies have already been undertaken which demonstrate the feasibility of making a broad range of financial services available to smaller communities. The magnitude of the financial requirements have no doubt changed, but so have community populations and income levels.
- Significant technological advances have been made since the publication of these early studies. In particular, advances in automated teller machine (ATM) technology, debit card utilization and internet banking have ‘changed the landscape’ as far as the provision of financial services is concerned. Efforts currently underway to implement broadband internet protocols in Nunavut only reinforce the need to look at how technology could be used to make financial services widely available.
- A credit union system is not the only option. The history and strength of co-operative development within Nunavut notwithstanding, recent changes in federal legislation make bank or trust company options more viable.

What this means is that, for the first time in the history of Canada's financial services sector, it is possible for an organization like Nunavut Tunngavik Inc. or one of its subsidiaries, to

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<sup>16</sup> In general, Bill C-8 was a complete package of reforms, consisting of new laws, guidelines and statements of government policy. Four key themes were promoted: better protection for consumers, increase competition, improve the regulatory environment and promote the growth of the sector. Source: Financial Consumer Agency of Canada website - [http://www.acfc-fcac.gc.ca/eng/financialservices/new\\_reforms.asp](http://www.acfc-fcac.gc.ca/eng/financialservices/new_reforms.asp).

create and own its own financial institution as an investment opportunity that could address the need for better access to financial services, particularly in Nunavut's smaller communities.

Ideally, a new deposit-taking financial institution in Nunavut would mean:

- Customers are able to speak their own language in conversing with financial service providers;
- More officials are travelling into Nunavut communities to educate residents on how to access and effectively use financial products and services;
- The ability to establish personal and business credit ratings, which in turn could facilitate loans for major purchases, or to finance new businesses; and
- Better access to financial products and services at the community level, through combination of basic banking services, internet banking, and where warranted, full-service branch banking.

Establishing a new financial institution in Nunavut does not mean abandoning sound lending practices in issuing loans – people will still have to meet the test of credit worthiness. It also does not mean replacing the existing service providers – it only makes sense to utilize existing skills, expertise, infrastructure, services, and service delivery mechanisms where possible and practical.

The balance of this report addresses ways of improving access to financial services across Nunavut. The decentralized community banking model is explored in Chapters 4 and 5. Alternative business concepts are presented in Chapters 6 and 7. Study team recommendations and conclusions follow in Chapters 8 and 9, respectively.

*The history and strength of co-operative development within Nunavut notwithstanding, recent changes in federal legislation make the bank or trust company option a more viable proposition.*

*These legislative changes make it possible for an organization like Nunavut Tunngavik Inc. or one of its subsidiaries, to create and own its own financial institution.*



# 4 Market Analysis



The purpose of the market analysis was to involve communities and key stakeholders in the assessment of the current environment for financial services and the determination of financial product and service needs. In addition, a key study question needed to be addressed: Are the cumulative savings of Nunavummiut sufficient to provide a base for a Nunavut-based deposit-taking financial institution?

## 4.1 Methodology

- ① A Survey of Nunavut businesses, with business contacts obtained from the *Inuit Business Registry* and the Government of Nunavut's *Nunavut Community Business Inventory*. The business survey form is included as Appendix 1.
- ② Community Surveys: NTI's Community Liaison Officers (CLOs) in 10 communities were recruited to organize focus groups in their respective communities, using an agenda prepared by the consulting team. The focus group guide is included as Appendix 2.
- ③ Discussions with personnel from the Canadian Bankers Association were arranged, primarily to address the need for data with which to estimate Nunavut's deposit base.

## 4.2 Survey Results

With respect to the survey of Nunavut businesses, only 30 responses were received from 166 businesses contacted, even after several rounds of call-backs. There were the usual reasons: out-of-service telephone lines, business owners too busy, lack of interest, or business owners out of town.

Of the 10 CLOs asked to facilitate focus group sessions, responses from four (Pond Inlet, Pangnirtung, Kugluktuk and Arviat). Surveyors were subsequently hired in two communities (Iqaluit and Cape Dorset) to collect information in one-on-one interviews with residents.

Consequently, survey results were not extensive, but general trends and themes emerge. **Business owners** in the regional centres are generally satisfied with their current banking services and access to them. They appreciate the personal contact with managers and staff. Conversely, **business owners in the smaller communities** find it very expensive and time-consuming to travel to a regional centre to conduct their banking business. They desire personal contact at the community level, and easier access to the financial services they need and use.

Regardless of community size, business owners complained that travelling to a regional centre to do banking is time consuming and expensive. They were also concerned that there was no regional authority for mortgage approval, resulting in significant delays in obtaining approvals.

It is noteworthy that 47% of all business owners who responded to the survey use Internet banking on a regular basis.

**Residents in the regional centres** are more aware of the financial products and services that are available, and believe they have good access to those services. **Residents in smaller communities**, in general, are less aware of what financial services are available, and rate their access to known services as only average, or in some communities, very poor.

Community residents thought that Internet banking is a good idea, but should not replace personal service in language of choice.

## 4.3 Nunavut Deposit Base

According to the Canadian Bankers Association, the total personal and commercial deposits of the 3 territories combined was about \$1.53 billion last year. We did two extrapolations for the Nunavut portion - one based on population, and one based on GDP. On a population basis, Nunavut's portion would be \$450 million; by GDP, Nunavut's portion would be \$220 million.

From this data, **\$250-300 million** is our estimate of the total personal plus commercial (i.e., business or corporate) deposits of Nunavummiut. This does not include deposits of the territorial and municipal governments, nor the Nunavut Trust.

Most of this wealth – as well as the need for a more diverse array of financial products and services – is concentrated in the 3 regional centres. Nunavut's smaller communities are largely comprised of young people with little savings or disposable income.

## 4.4 Financial Products and Services

The basic functions of the financial sector include:

- the **payments function**, which involves creating an efficient means of handling payments for goods and services;
- the **savings function**, in which savings are accumulated through appropriate interest rates which encourage people to save; and
- the **loan function**, which ensures that savings do not sit idle, but instead are used for productive purposes.<sup>17</sup>

Within each function, there are a variety of products and services that can be offered to customers, for example:

- **Payments:** chequing accounts, bank cards, credit cards
- **Savings:** savings accounts, term deposits
- **Loans:** personal loans, business loans, lines of credit, mortgages

From the survey of businesses, the least accessible (and therefore most desirable) financial products and services (irrespective of community) are:

- ① Insurance
- ② Trust Services
- ③ Cash Withdrawals
- ④ Money Transfers
- ⑤ Term Loans

From the community surveys, the list of desirable financial products and services include:

- ① Personal Loans
- ② Personal Line of Credit
- ③ Debit Card Access to Cash
- ④ Money Transfers
- ⑤ Insurance

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<sup>17</sup> CORE/NET Consulting Ltd. *Banking Services in the Northwest Territories: An Assessment*. Prepared for the NWT Legislative Assembly's Special Committee on the Northern Economy (SCONE), August 1989; p. i.

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# 5 Original Concept

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The original business concept for improving access to financial services in smaller communities in Nunavut is based on the decentralized community banking model introduced in the Options Paper. It would be implemented as a ‘stand-alone’ bank majority owned by NTI or its designate, and incorporated under the federal *Bank Act*.

The concept would be implemented as a series of ‘**Community Banking Centres**’ – a desk, telephone, customer service rep and full-service machine, located inside a Co-op or Northern store – in the Nunavut communities, linked to a main office in one of the regional centres. A branch in Rankin Inlet or Iqaluit would be considered at some point in the future

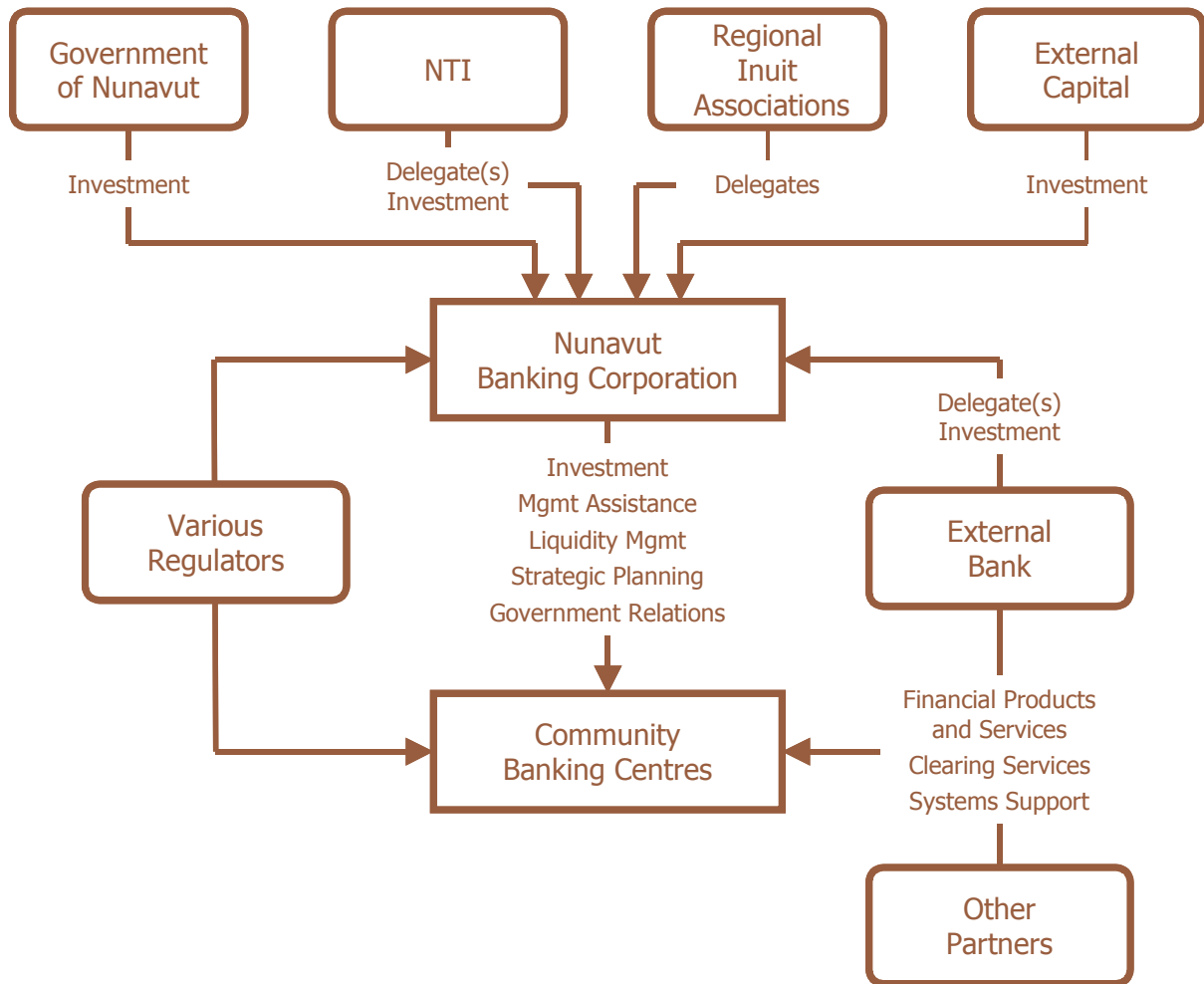
The umbrella organization for a Nunavut Bank would be the **Nunavut Banking Corporation**, a holding company in which all partners would invest. This holding company would own the community banking centres, and provide overall planning and management services. Investment partners would include NTI, the Regional Inuit Organizations, the Government of Nunavut, and external capital from funding agencies (e.g., Aboriginal Business Canada, DIAND) and a major chartered bank or trust company.

Various **regulatory bodies** would oversee the operations of a Nunavut Bank in order to ensure public confidence in a competitive financial system consistent with their respective mandates. Regulators include: the Office of the Supt of Financial Institutions (OSFI); Canada Deposit Insurance Corp (CDIC); and the Canada Payments Association (CPA).

As one of the study objectives was to utilize existing skills, expertise, infrastructure, services, and service delivery mechanisms where possible and practical, **other partners** involved in service delivery could include Arctic Co-operatives Ltd. (ACL), the Baffin Business Development Corporation (BBDC), other regional loan funds, and the Nunavut Business Credit Corporation (NBCC).

The original business concept is illustrated in figure 1.

**Figure 1: The Original Nunavut Bank Concept**



## 5.1 Start-up Costs

The capital contribution that would be required to establish a bank based in Nunavut would not be less than \$10 million (see figure 2). Factors that would appear to contribute to this higher capital requirement are:

- A minimum capital reserve requirement of \$5 million.

- Generally higher costs to establish and provide services in Nunavut than elsewhere in Canada.
- A substantial increase in regulatory compliance costs experienced by all financial and banking institutions in the past few years. Both OSFI and CDIC will be very diligent in their review of a Nunavut Bank application and will require very detailed business plans and supporting documentation. Given the required expertise of lawyers, accountants, financial advisers and consultants and the time involved in the approval process (perhaps as long as a year), the total cost of seeking regulatory approval could be close to \$1 million. And even then there is no assurance that regulatory approval would be granted.
- The substantial costs associated with having sufficient technology and equipment to maintain base level banking. From discussions with Peace Hills Trust Company (who outsource most of their information technology and systems support requirements), there are substantial information technology equipment and infrastructure costs that would be required of a Nunavut Bank even if most information technology/systems support requirements are outsourced. In addition, there are substantial other capital costs such as acquisition of space for the Community Banking Centres, leasehold improvements, office equipment and furniture. Initial capital equipment and infrastructure costs would likely be \$3- \$4 million.

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### Figure 2: Start-up Costs

Application Preparation, Regulatory and Approval Costs	\$1,000,000
Equipment and Infrastructure	4,000,000
Minimum Capital Reserve Requirement	5,000,000
Total Start-up Costs	\$10,000,000

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## 5.2 Annual Operating Costs

The operating costs of the Nunavut Bank would be substantial. Based on discussions with bank officers in Nunavut, the costs of operating a branch in Nunavut can run more than double the cost of operating a branch in the South. Salaries, office premise and equipment costs, communications and transportation costs – all such costs are much more expensive in

Nunavut. Operating costs would likely be in the range of \$3-3.3 million per year once the Bank is fully operational<sup>18</sup>. A breakdown of operating costs would include:

- Salaries, benefits and associated recruitment and training costs for all executive management, bank staff and Board of Directors would likely cost between \$1.25 - \$1.50 million per year in the initial years.
- Outsourcing costs to a major financial institution or other third parties for information technology and systems support, as well as products and services support would probably cost between \$700,000 to \$800,000 (with the higher end of the range more likely given the additional IT problems generally associated with dealing with remote locations). Peace Hills Trust Company currently pays about \$500,000 per year to CGI for its information technology and systems support requirements, in addition to maintaining some of its own systems. First Nations Bank pays a fee of \$400,000 per year to the TD Bank for its products and IT/systems support, a figure which is discounted because of TD Bank's ownership interest.
- Additional operating costs such as occupancy costs, marketing, travel, professional services, regulatory and compliance costs, and general miscellaneous costs could total another \$1.0 million.

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### Figure 3: Annual Operating Costs

Staffing (including Recruitment and Training)	\$1,500,000
Product/Service Support and Information Processing	800,000
Other Costs <sup>19</sup>	<u>1,000,000</u>
Annual Operating Costs	<u>\$3,300,000</u>

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In summary, start-up costs would likely be in the range of \$10 million, and annual operating costs would likely be in the range of \$3-3.3 million per year. Given the strong likelihood of significant operating losses in the initial years, it is anticipated that a Nunavut Bank would need an initial capital base probably closer to \$15 million. In this increasingly heightened regulatory environment for financial institutions, it is probable that OSFI and CDIC would have little tolerance for any financial institution failure and would be extremely circumspect and demanding in their capital requirements for a Nunavut Bank.

<sup>18</sup> Operating cost estimates are derived from discussions with First Nations Bank, Saskatoon, and Peace Hills Trust Company, Edmonton.

<sup>19</sup> Other Costs include: leasehold improvements, office costs, regulatory costs, marketing, travel, professional services (e.g., auditing, legal)

## 5.3 Revenues and Expenses

Potential revenue opportunities for a Nunavut Bank would be largely dependent upon its ability to access deposits to generate revenues from lending spreads and from the sale of ancillary financial products to many of its customers.

A primary source of deposits would, of course, be Nunavut residents. However, as reported in the previous chapter, Nunavut has a relatively small deposit base of \$250-300 million. A Nunavut Bank would have to compete vigorously with RBC and CIBC to attract a meaningful market share of these deposits, and would likely need the strong support of NTI, the Government and other major businesses in Nunavut in order to accomplish this. Hence, reasonable deposits expectations for a Nunavut Bank over the first 3-5 years would be between \$60 million (a 20% share of the total deposit base) and perhaps as high as \$120 million (a 40% market share)<sup>20</sup>. With a 40% share of the total deposit base, a Nunavut Bank could expect gross operating losses of \$700,000 per year (see figure 4). With only a 20% market share, gross operating losses would approach \$2.2 million per year.

### Assumptions

- 2% spread between interest paid and interest earned, net of loan loss provision;
- \$1 of non-interest revenue<sup>21</sup> for every \$4 of net interest revenue; and
- Two market share scenarios: 20% market share, equivalent to about \$60 million in deposits; and 40%, equivalent to about \$120 million in deposits.

**Figure 4: Revenue and Expense Estimates**

	20% Market Share	40% Market Share
Interest Revenue	\$1,200,000	\$2,400,000
Non-interest Revenue	300,000	600,000
Total Revenue	1,500,000	3,000,000
Annual Operating Costs	3,300,000	3,300,000
Amortization of Capital and Start-up Costs	400,000	400,000
Gross Profit (Loss)	(\$2,200,000)	(\$700,000)

<sup>20</sup> First Nations Bank, operational since 1997, has about \$93 million in deposits as of December 31, 2004.

<sup>21</sup> Non-interest revenue items include: transaction fees, charges or commissions for the sales of other financial products, and miscellaneous charges.



## 5.4 Breakeven Market Share

To achieve a breakeven position, a Nunavut Bank would require a 49% market share if the total deposit base in Nunavut is \$300 million. However, if the total deposit base is only \$250 million, then a Nunavut Bank would require a 59% market share to breakeven. The breakeven market share calculation is shown in figure 5.

### Figure 5: Breakeven Market Share Calculation

From figure 4, Annual Operating Costs plus Amortization Costs	\$3,700,000
Total Interest + Non-interest Revenue must therefore Equal	\$3,700,000
Non-interest Revenue = 25% of Interest Revenue	

If Interest Revenue is 'x', then $1.25x =$	\$3,300,000
$x =$	\$2,960,000
From assumptions, Interest Spread =	2%
2% of what deposit base =	\$2,960,000
$\$2,960,000/0.02 =$	\$148 million
\$148 million as % of \$300 million =	49%
\$148 million as % of \$250 million =	59%

## 5.5 Advantages

The original business concept of a Nunavut Bank, with 100% ownership by NTI and other Nunavut constituents, has the advantage of being subject to Nunavut-focused control over the extent and quality of banking and financial services, as well as the decision-making processes with respect to such services. In other words, control would be consistent with NTI objectives.

A Nunavut Bank would have the strongest level of commitment to providing banking and financial services throughout Nunavut.

A Nunavut Bank would have a strong Nunavut-based lending focus and strong Nunavut-based management and loan personnel presence compared to the existing banks.

A Nunavut Bank would have a positive impact on capacity building and economic development activities in smaller communities, which in turn would improve quality of life, money management skills and business success.

## 5.6 Disadvantages

It is probable that a Nunavut Bank would be prohibitively expensive to create, and would consistently lose money because of a failure to obtain a breakeven market share in light of competition from existing banks. In particular, customer loyalty (at least among business clients) to the RBC Royal Bank appears quite strong.

There is a fairly complicated 2-part application process for establishing a bank or trust company under the new federal legislation (see sidebar).

OSFI and CDIC have substantially increased compliance requirements in recent years, decreasing the probability of obtaining a strategic alliance with a financial partner. This and other more specific issues are explored in the next chapter.

### *Establishing a New Bank or Trust Company*

*The first part of the application process involves an assessment and review of the applicant's ownership, management, financial strength and 3-year business plan by the Office of the Superintendent of Financial Institutions (OSFI). Upon successful completion of this review (and submission of a \$20,000 fee), Letters Patent of Incorporation are issued by the federal Minister of Finance.*

*The second part involves an on-site review by the OSFI of the applicant's operational and risk management systems and controls, plus confirmation that the applicant has at least \$5 million in capital. When these requirements are met, the applicant is issued an Order to Commence and Carry On Business.*

*Source: Office of the Superintendent of Financial Institutions. Guide for Incorporating Banks and Federally Regulated Trust and Loan Companies. October 2001.*

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# 6 Issues

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There are a number of specific issues associated with the original business concept of a stand-alone Nunavut Bank. These specific issues are presented in this chapter.

## 6.1 Staffing

Recruiting, training, retaining and bonding qualified and competent staff is an issue regardless of the nature of the business contemplated. However, staffing is a particularly difficult issue in the case of establishing a stand-alone bank, because a balance will likely be required between the demands on the key stakeholders to provide personal service and create jobs, and the need to minimize operational costs through an optimal application of the technology that replaces staff (e.g., Automated Teller Machines [ATMs] and internet banking procedures).

All management and staff for the Nunavut Bank should be located within Nunavut. To deliver the commitment and services expected of it, as well as satisfy substantial operating and regulatory compliance responsibilities, would require at least the following personnel:

- **Chairman** of the Bank (an active promoter of the Bank, maintaining a high public relations profile with the Nunavut communities, NTI, the Governments of Nunavut and Canada, and all major businesses and NGOs)
- **President and CEO** of the Bank to oversee all banking operations and ensure a strong operational relationship with the Bank's strategic alliance partner and other major service providers
- **Vice President and Chief Financial Officer** to oversee all financial and administrative activities of the Bank, including the establishment of the Community Banking Centres, and work very closely with the Bank's alliance partner and other major service providers
- **Controller and Chief Compliance Officer**, to implement financial management controls and systems and oversee all regulatory compliance responsibilities<sup>22</sup>.

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<sup>22</sup> Both First Nations Bank and Peace Hills Trust indicated this would require one full-time position even for a small financial institution.

- **Vice President, Retail Banking**, to implement and have primary responsibility for all retail banking and lending activities at the Nunavut Branch(es) and Community Banking Centres.
- **Vice President, Commercial Lending**, to implement, and have primary responsibility for, the banks commercial lending activities.
- **Branch Manager(s)**, responsible for management of the Bank's main branches (e.g., in Iqaluit and/or Rankin Inlet)
- **Additional Administrative Staff**: 10 – 12 individuals dedicated to personal and business customer services. This includes at least one Community Service Representative in each Community Banking Centre.

## 6.2 Infrastructure

For the purposes of this report, 'infrastructure' means **physical** (e.g., buildings and furnishing) and **technology** (i.e., systems and procedures) assets. In the original business concept, the authors assumed that financial services would be provided at the community level using a variety of alternatives ranging from full-service branches, to 1-2 person 'kiosks', to stand-alone ATMs in convenient locations. As the degree of appropriate technology (that is available and can be economically implemented) increases, the need for physical infrastructure decreases.

Criticism has been levelled at banks in recent years with respect to the closing of branches in favour of ATMs, but the reality is that ATMs are not only more cost-effective than staffed branches, but reach a larger population of clients as well.

Nevertheless, the costs associated with implementing and operating a network of full functional ATMs in Nunavut's smaller communities are prohibitive. Current acquisition costs are estimated to be \$75,000 for a full-service ATM capable of accepting deposits, dispensing cash, and facilitating bill paying. This figure does not include installation costs. Further, as noted in the previous chapter, the costs of administering and maintaining this network of ATMs is also expensive.

## 6.3 Risk Management Challenges

While recent legislation changes have made it somewhat easier, in some aspects, to start a new financial institution in Canada, the increased focus on risk by regulators and the marketplace has substantially increased the risk management effort and resources required by banks to remain compliant. The existing Canadian banks are in the midst of intensive risk management process and system enhancements to meet regulatory requirement deadlines for the end of 2005. Any group contemplating the creation of a new financial institution must be aware of significant risk management infrastructure investments required to enter the industry.

Financial institutions are tasked with risk management requirements from at least three regulatory fronts:

- ① Office of the Superintendent of Financial Institutions (OSFI);
- ② Basel Committee on Banking Supervision's new Capital Accord (Basel 11);  
and
- ③ CEO/CFO Certification.

### OSFI

OSFI is the primary regulator of federal financial institutions and pension plans in Canada. Their mission is to safeguard policyholders, depositors and pension plan members from undue losses. They advance and administer a regulatory framework that contributes to public confidence in a competitive financial system. This is achieved by evaluating an institution's risk profile, financial condition, risk management processes and compliance with applicable laws and regulations. The level and frequency of supervisory scrutiny (OSFI audits) will depend on the risk assessment of the institution.

OSFI's activities can be divided into two broad functions: regulation and supervision. Regulation involves providing input into the developing and interpreting legislation and regulations, issuing guidelines and approving requests from federally regulated financial institutions as required under the various financial institution legislation. Supervision involves assessing the safety and soundness of federally regulated financial institutions, providing feedback to institutions and using supervisory powers to intervene in a timely manner to achieve OSFI's mandate.

OSFI has many regulations specific to the creation of a new financial institution, which must be satisfied prior to the issuance of a bank license and an order to commence.

Financial institutions are expected to implement an OSFI-compliant *Risk Management Framework*, perform annual risk assessments of their significant business activities, assess the quality of their risk management around risks, and ensure that risks are managed to an acceptable risk level. The financial institution will require a Risk Management department with trained and experienced risk management staff, familiar with all components of the risk management framework.

## Basel II

The Basel II accord governs how much capital financial institutions should set aside to cover the risks involved in their investments, loans, and day-to-day operations. The Basel II international accord requires banks to implement specific risk management metrics and methodologies to enable them to assess market, credit, and operational risks for use in capital requirement formulas.

Canadian banks are spending tens of millions of dollars and scrutinizing every aspect of their operations around the world in gigantic technology and business process overhauls to prepare for January 1, 2007, the deadline for implementing international agreement requiring new risk management procedures. A new financial institution must include the Basel II accord risk metric requirements in their overall risk management methodology to ensure compliance to capital requirement guidelines.

## CEO/CFO Certification

Due to well-published failures of large publicly held companies in recent years, United States and Canada, have enacted legislation to renew public trust in the stock market. This legislation is known as the Sarbanes-Oxley act in the U.S. and M152-109 in Canada. While wholly owned Canadian banks are not required to comply this year, industry experts feel that OSFI will require all Canadian banks to perform CEO/CFO Certifications shortly.



*The Office of the Superintendent of Financial Institutions (OSFI) is the primary regulator of federally chartered financial institutions and federally administered pension plans, reporting to the Minister of Finance. It was established in 1987 by an Act of Parliament.*

*In addition to monitoring and regulating the activities of federally-incorporated financial institutions, the OSFI also provides guidance to financial institutions on investment and lending policies and administration, in order to ensure stability and security, manage risks, and maintain consumer confidence in Canada's financial services sector generally.*

For example, CSA Certification M1 52-109 will require the CEO and CFO to *personally* certify the reliability and accuracy of both the financial and non-financial information contained in report.

In order for the CEO and CFO of the bank to be able to personally certify as to the adequacy of the internal controls for financial reporting, a robust risk management framework must be designed and implemented for material business processes. Detailed process flows, process risk assessments, and process controls must be developed, implemented, documented and monitored. All ongoing changes to material bank business functions or systems – *both internal and outsourced* – must include a risk impact analysis with the appropriated process control upgrades where required. The CEO/CFO responsibility for controls extends out to the external service providers where business functions have been outsourced and the bank is responsible for ensuring that the service providers certify the soundness of their internal controls for bank processes.

Extensive documentation is required. Bank management is responsible for the design and testing of the controls. Internal and external audit testing and signoff of controls is required. External auditors will likely be required in the near future to notify the legislators of any material control weaknesses found.

## 6.4 Outsourcing Challenges

A new financial institution for Nunavut will not have the account base nor transaction volumes required to offset the capital costs associated with the development of proprietary business systems. A new Nunavut bank's business functions would thus have to be "outsourced" to external partners through contractual arrangements. While a new bank could avoid certain capital costs by outsourcing many of its business functions, it does not avoid the responsibility for the management of the risks associated with these functions. Without proper contractual due diligence, a bank may find that it has diminished its ability to manage risk, or protect their customers once a business function is outsourced.

Because outsourcing can increase an institution's dependence on third parties, the OSFI is understandably concerned that the financial institution's risk profile may increase in proportion to the degree of dependence on third parties. As a consequence, OSFI has recently strengthened its B10 – *Outsourcing of Business Activities, Functions and Processes* – regulations. The new B10 regulation requires rigorous risk management due diligence for all aspects of the outsourcing life cycle; from the selection of potential service providers, through required service contract clauses, to the daily monitoring of performance and resolution of issues. Risk assessments should be performed on any new service providers to

assess not only their ability to reliably provide the required services, but also to protect the bank data, the customer privacy (PIPEDA), continue service in the effect of natural disasters, etc.

OSFI recognizes that outsourcing arrangement will exhibit varying degrees of materiality and expects that the robustness of a banks management of outsourcing risks would be commensurate with the materiality of the arrangement.

Compliance to the OSFI B10 Regulations would require a Vendor Management department/group with trained and experienced staff to manage all the bank's outsourcing relationships on a daily basis. Significant effort and due diligence is required to provide OSFI with assurance as to the safety and soundness of the institution's outsourcing practices.

Perhaps more importantly, B10 Regulations impose significant responsibilities on the third party service provider. In the case of a new bank, it is doubtful that a potential service provider would want to assume such risk.

## 6.5 Financial Challenges

From discussions with First Nations Bank and Peace Hills Trust Company, it would appear that an initial investment of \$15-20 million would be required for start-up costs, adequate capital reserves, working capital and to cover operating losses expected during the first few years of operations. In view of the requirement to obtain at least a 49% share of Nunavut's total deposit base just to breakeven, it is likely that losses from early years would not be recovered.

Implementation of the original business concept of a stand-alone Nunavut Bank would not only require NTI foregoing a return on its investment, but significant subsidies and/or guarantees on part of Government of Nunavut as well.



## 6.6 Concluding Thoughts

Apart from the major financial challenges, significant effort and due diligence will be required by a new financial institution in order to provide OSFI with assurances as to the safety and soundness of the institution's risk management framework. It would be difficult to attract the necessary skilled resources develop and implement a risk management framework for a new bank when all of North America is experiencing a shortage of qualified risk management professionals due to the immense work effort impact of the new CEO/CFO Certification regulations.

In addition, there is a distinct possibility that a new bank would have to heavily rely on outsourcing of the vast majority of its operations and would require any service providers to assume onerous new risk management certification responsibilities at a time when they are hard pressed to meet their own internal Certification project timelines.

Improving access to financial services throughout Nunavut is a desirable outcome. However, implementing the original business concept of a Nunavut Bank – even in 'mid-sized' communities – will involve proportionally lower savings and income pools, high transaction costs, and substantial risk.

The study team concluded that alternative business concepts – which involve less cost, less risk and/or opportunities to exploit larger savings pools – should be investigated.

# 7 Other Models



Alternative business concepts discussed in this chapter include:

- ❶ RBC Royal Bank Agency Banking Model;
- ❷ Investment Partnership;
- ❸ Virtual bank model; and
- ❹ Cooperative bank model.

## 7.1 RBC Royal Bank Agency Banking

The basic premise of the Agency Banking Model is that NTI (or its designate), Arctic Co-operatives Ltd. (ACL), and RBC Royal Bank would execute a Joint Participation Agreement whereby:

- RBC would agree to extend certain banking and financial services into Nunavut communities selected by NTI and ACL;
- ACL would act as a financial agent for RBC in all communities selected to receive the extended banking and financial services;
- NTI would seek financial assistance from the Government of Nunavut to provide human resource support, and could become a Co-Agent with ACL if that were desirable.

Implementation of the Agency Banking Model is not dependent on the participation of RBC Royal Bank and/or ACL. Other chartered banks have agencies (e.g., the CIBC in remote Northern Ontario communities). In addition, the model could work with Agent or Co-Agent other than ACL (e.g. Northern Stores, or any designated agent in a community who would be approved by NTI). However, RBC first proposed the agency concept to NTI, and ACL has shown a keen interest in this financial services delivery model, so discussions have proceeded with these two organizations.

The key features of the RBC Agency Banking Model include:

- Deposits to, and withdrawals from, RBC Personal and Business Bank Accounts, using an RBC 'Client Card' and Moneris© Point-of-Sale debit card reader;
- On-site cheque cashing and bill payment;
- On-site service provided by a Customer Service Representative in the client's language of choice;
- Internet Banking, depending on the community internet service capability; and
- Access to RBC's broad range of financial services and products, including VISA cards, investment products (Guaranteed Investment Certificates, RRSPs, Mutual Funds, Investment Accounts), personal and business loans.

Payment/transaction charges imposed by the Agency would be set at competitive rates, with maximum charge limits. As human resource capacity improves within each Financial Agency, the potential exists for the Customer Service Representatives to provide certain financial services directly to clients (e.g. sale of investment products).

In initial discussions with RBC, it was agreed that RBC and the Agent would share the costs of operating the Agency.

RBC pays for:

- Leasehold Improvements
- Agent Training
- Signage
- Floor Safe
- Fax Machine
- RBC Stationery

The Agent pays for:

- Staffing
- Rental of a Moneris© machine
- Office Supplies [other than RBC Stationery]
- Utilities
- Courier
- Insurance



*Moneris Solutions is Canada's largest processor of debit and credit card transactions. The company is jointly owned by RBC Royal Bank and the Bank of Montreal.*

*Deposits to a client's account would be processed as a 'credit' to their RBC account; withdrawals would be processed as a 'debit' to their account.*

## Role of RBC Royal Bank

In addition to paying a portion of the Agency's operating costs, RBC would also provide the underlying RBC-branded banking and financial services and products, train all Agency personnel, as well as ensuring continuous service and marketing support to each Agency. All account openings, credit card and/or personal/business loan applications, financial product

information and purchase requests would be directed by the Agent to one of RBC's regional branches for processing (either Cambridge Bay, Rankin Inlet, or Iqaluit).

RBC's Regional Branch Managers will ensure that Agency operations are meeting mutual expectations, and it is contemplated that there would be a Regional Branch in attendance at each Agency from time to time as appropriate.

RBC's Nunavut-based operations will in turn be supported by RBC's Agency Banking and Aboriginal Banking Divisions in Toronto, and RBC's Commercial and Personal Banking Operations in Winnipeg.

## Role of ACL

ACL has indicated that they would be very interested in acting as an Agent or Co-Agent in providing banking and financial services to Nunavut communities. As Agent or Co-Agent, ACL would:

- Provide the facilities and premises required for the Agency within ACL's existing store locations in Nunavut;
- Hire or reallocate the personnel required to operate each Agency;
- Maintain a cash balance to accommodate transactions (which, at peak times during the month, may need to be as high as \$100,000); and
- Promote the benefits of the Agency concept in each of the designated communities and use its strong community relationships to help local residents increase their knowledge of banking and financial matters.

We also understand that the Agent would have limited liability exposure with respect to banking activities. However, it would appear that the Agent would be liable for any cheques that are cashed by the Agency that subsequently aren't cleared because of insufficient account funds.

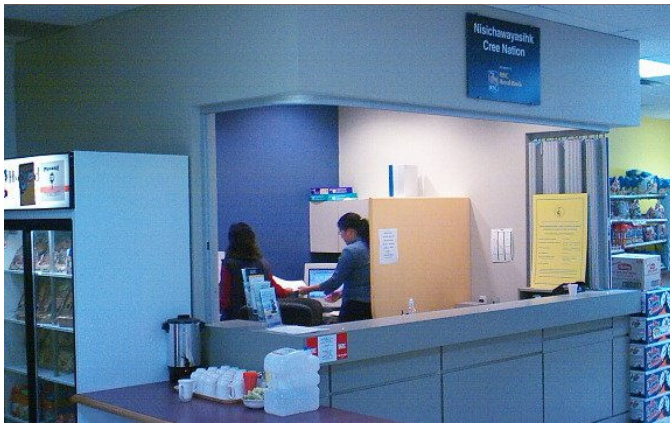
ACL has a significant presence in almost every Nunavut community, and is committed to increasing the local capacity of members in each of those communities. From this perspective, ACL's objectives for improving community access to banking and financial services – as well as enhancing the financial management capacity of community residents – is very similar to that of NTI.

While other potential Agency partners, such as Northern Stores, could still make the Agency Banking Model a feasible, ACL's 'community needs' objectives make it a more preferable partner than Northern Stores, whose more stringent profitability objectives may not allow it to consider extending financial services to the smaller Nunavut communities.

ACL also advised us that though their preference would be to work with a credit union, they would certainly be prepared to act as an Agent for a bank or trust company if that were the most feasible approach to bringing banking and financial services to the smaller Nunavut communities.

## Role of NTI and/or Atuqtuarvik Corporation

Given the nature of the discussions to date between RBC and ACL, NTI and Atuqtuarvik Corporation are seen more as catalysts than active participants. If ACL were to decide not to participate as an Agent, NTI or Atuqtuarvik Corporation could itself decide to act as the Agent in designated communities, or to take responsibility for selecting an Agent in each of the designated communities. Alternatively, NTI or Atuqtuarvik Corporation and ACL could agree to act as Co-Agents of the Agency Banking Model, with ACL providing facilities and in-store personnel and NTI providing certain financial, community/human resource and lending support to both ACL and RBC.



*An RBC financial agency can be a cost-effective way to introduce basic financial services in remote communities.*

NTI's endorsement of the RBC Agency Banking Model would be very important in achieving community acceptance. In addition, NTI's strong objectives and programs associated with enhancing capacity building in the outlying Nunavut communities might also be applied directly to activities associated with Agency operations. One consideration that might be given to help ensure that each Agency is providing acceptable and consistent level of services would be the establishment of an NTI-appointed *Financial Agency Ombudsman* who would be

responsible for monitoring operations, receiving and resolving complaints, and ensuring open lines of communication between communities, ACL and RBC.

## Advantages

The RBC Agency Banking Model could be implemented with only modest start-up costs, and could achieve potential profitability within a 12-24 month horizon depending on the number of communities, and size of the communities that would be involved in the roll-out process.

NTI and ACL would have considerable influence over the provision and delivery of banking and financial services, including:

- Selection of communities to be serviced by the Agency.
- Selection of the facilities, personnel and hours of operation in each Agency centre.
- Continuous input into how the provision of financial services can be improved upon within the scope of the Model.

- Control over the Financial Agency business objectives and day-to-day operational activities at the Financial Agency Centre (including the local customer service relationships).
- Control over the important grass roots efforts to enhance personal financial management capacity within each community.

There is a good support network in place already, i.e., existing RBC branches for day-to-day business, combined with high-level support from RBC's Agency Banking and Aboriginal Banking Divisions.

The financial and business risks to NTI associated with the Agency Banking Model are insignificant relative to the financial and business risks associated with establishing a new bank or trust company.

Agencies could increase the overall demand for business loans from Atuqtuarvik Corporation, which lending could be done in conjunction with RBC or independent of RBC.

The implementation of the RBC Agency Banking Model should not have much, if any, adverse impact on the existing competitive banking landscape in Nunavut. With the imminent departure of the Bank of Montreal from Iqaluit, the only other retail banking competitor in Nunavut is the CIBC with branches in Iqaluit and Rankin Inlet. The extension of banking services to Nunavut's smaller communities should not impact CIBC's current retail banking services.

## Disadvantages

The Agency Banking Model will not create additional retail banking or lending competition, as RBC is already the leading and dominant banker in Nunavut.

'Influence' not the same as control.

Efforts to enhance personal financial management capacity within each community, i.e. people's understanding and use of banking, will be left to NTI.

## Revenue Potential

Potential revenues will be heavily dependent on the volume of transactions processed by each Agency. RBC reports that the gross revenue from Agencies that have been established in communities of 1,200 – 1,400 people ranges between \$30,000 and \$50,000.

### Assumptions

- \$7,000 per year ‘stipend’ from RBC
- Set Fee Schedule for all transactions (see sidebar)
- 200 new accounts opened in Year 1; 50 net new accounts per year, Years 2-5
- 50% of new accounts are ‘Royal Direct’
- Average 4 transactions per month per account
- Breakdown of transactions: 20% deposits, 40% INTERAC® withdrawals, 15% cheque cashing, 10% bill payments, 15% other

Using these assumptions, annual gross revenue for a ‘typical’ Agency is estimated to be about \$28,000 in the first year, increasing steadily to about \$50,000 in the fifth year, as shown in figure 6.

### *Agency Fee Schedule*

<i>\$2.25</i>	<i>New Account Opened</i>
<i>\$4.75</i>	<i>Bonus for ‘Royal Direct Service’</i>
<i>\$0.75</i>	<i>INTERAC® deposit</i>
<i>\$0.90</i>	<i>INTERAC® withdrawal</i>
<i>\$5.00</i>	<i>Facilitated Product Sale</i>
<i>3.00%</i>	<i>Cheque Cashing or Cash Withdrawal (to a max fee of \$10)</i>
<i>\$1.50</i>	<i>Bill Payments</i>
<i>\$5.00</i>	<i>Transfer Funds</i>

*Source: RBC Royal Bank*

**Figure 6: Revenue Estimates for an RBC Agency Bank**

	Year 1	Year 2	Year 3	Year 4	Year 5
# of Accounts	200	250	300	350	400
# of Transactions	9,600	12,000	14,400	16,800	19,200
Stipend from RBC	7,000	7,000	7,000	7,000	7,000
Fees for Opening Accounts	925	1,156	1,388	1,619	1,850
Transaction Fees:					
Interac Deposits	1,440	1,800	2,160	2,520	2,880
Interac Withdrawals	3,456	4,320	5,184	6,048	6,912
Cheque Cashing	7,200	9,000	10,800	12,600	14,400
Bill Payment	1,440	1,800	2,160	2,520	2,880
Other Transactions	7,200	9,000	10,800	12,600	14,400
Total Transaction Fees	20,736	25,920	31,104	36,288	41,472
Total Revenue	28,661	34,076	39,492	44,907	50,322

## Profit Potential

There is insufficient operating information at this time to make a considered estimate of the profit potential of an Agency. RBC personnel advise that certain of its existing Agencies that serve a population base similar or somewhat less than those that would be initially targeted in Nunavut have been meeting profit expectations. In addition, ACL believes that the addition of an Agency will provide certain synergistic and competitive operating benefits to each respective store, as well as enhance ACL's local community relations profile.

The profit potential for any Agency will obviously be dependent on the population base and the potential volume of banking/financial transactions. However, it is significant to note that profit potential was not the only decision rule for ACL in establishing an Agency. ACL indicated that the smaller communities could also receive Agencies – subject to approval by RBC – under merely breakeven operating scenarios.

In general, the RBC Agency Banking Model would be profitable:

- In communities with a population of at least 1,200;
- Reasonable growth in new accounts consistent with the estimates present in table x above;
- Shared or subsidized counter space available for banking operations; and
- Customer Service Representative(s) who have other duties with the agent which can cover part of their wages/benefits.

Given the revenue potential in a typical Agency, it is likely that the implementation of this model would not generate profits commensurate with RBC's overall banking targets. Nevertheless, RBC personnel perceive the roll-out of the Agency Banking Model in Nunavut to be an important strategic undertaking that would reinforce RBC's presence as the leading and most committed banker in Nunavut, as well as enhancing RBC's reputation in the national Aboriginal banking community.

## Concluding Thoughts

While it is unlikely that RBC would provide an absolute guarantee that it would not withdraw its services, the risk of RBC's unilateral withdrawal of services is not great. In discussions with RBC personnel to date, they reiterated their commitment to Agency Banking and indicated they would not embark on any such activities in Nunavut with a short-term horizon despite the poor profit potential.

However, it is merely an extension of the current system, and does not provide access to a capital pool (i.e., the collective savings of Nunavummiut) that could be put to productive use to further the economic development of Nunavut. All those types of decisions would be made by RBC. It does not address the longer-term vision of Nunavummiut being more in control of their collective financial affairs as the Nunavut economy grows and matures over the next 10-15 years.



## 7.2 Investment Partnership

The Investment Partnership model would entail NTI making a significant investment in a deposit-taking financial institution based in southern Canada, in consideration for which:

- NTI should receive representation on the Board of the financial institution in which the investment is made;
- The candidate financial institution should commit to working with NTI and Arctic Co-operatives Ltd. to bring services to Nunavut communities;
- The candidate financial institution should enter into a *Memorandum of Understanding* with NTI, outlining how the respective parties will work together on various financial endeavours both in and outside of Nunavut; and
- An implementation plan which would be similar to that of the RBC Agency Banking Model, with the additional provision that a regional office of the candidate financial institution be located in Nunavut, to carry out local and regional banking and financial activities in addition to supporting Agency Banking activities throughout Nunavut.

The costs associated with the Investment Partnership Model would include the capital cost of the investment in the target deposit-taking financial institution, together with any additional costs that might be associated with participating and implementing an Agency Banking Model within Nunavut. As noted previously, the costs that NTI would incur for the Agency roll-out would not be that significant, particularly with a strong partner like ACL.

A condition of the investment by NTI would be having its input and pre-agreement on the banking and financial services delivery mechanism that would be implemented. If the Agency Banking Model is chosen as the most practical delivery model to outlying Nunavut Communities (as we suspect it is), then NTI (and ACL) would also have similar controls and responsibilities to those noted in the RBC Royal Bank Agency Banking Model description in subsection 7.2 above.

Although NTI could conceivably invest in any small bank or trust company currently operating in southern Canada, potential candidate partners should include **First Nations Bank**, based in Saskatoon, and **Peace Hills Trust Company**, Edmonton, Alberta. As Aboriginal Financial Institutions committed to Aboriginal peoples, both First Nations Bank and Peace Hills Trust Company should be more sensitive to the needs and concerns of Nunavummiut, and would likely be more responsive to working with NTI and other partners on a delivery mechanism that addresses those needs and concerns.

## Advantages

Although more expensive than the Agency Banking Model, investing in an existing deposit-taking financial institution would be significantly less costly than the original business concept of a Nunavut Bank. And in addition to satisfying the primary objective of improving access to financial services throughout Nunavut, this model offers NTI the opportunity for revenue from the investment itself.

NTI's partnership relationship with another deposit-taking financial institution should also provide NTI with significant access to an investment and funding partner with respect to investment and project activities both in and outside of Nunavut.

NTI should, as a major investor, stakeholder and Director, have a significant influence on the ongoing activities of the partner deposit-taking financial institution within Nunavut.

The implementation of the Investment Partnership Model would add significantly to the competitive banking landscape in Nunavut. Banking and lending services would likely increase considerably in the community chosen to be the Nunavut Regional Office, as well as throughout Nunavut where the Investment Partner would have an operational reach through its strong relationship with NTI and Atuqtuarvik. The presence of another deposit-taking financial institution in Nunavut would therefore provide the Nunavut business community with access to another important lender and provider of business banking services.



*First Nations Bank of Canada is a domestic chartered bank headquartered in Saskatoon. The Bank offers a full range of personal and business banking services - with a primary focus on Aboriginal clients and customers. First Nations Bank is the first Canadian bank with exclusive Aboriginal common share ownership. It was founded in 1997 as a strategic alliance of the Saskatchewan Indian Equity Foundation Inc., Federation of Saskatchewan Indian Nations and the Toronto-Dominion Bank.*

*Source: First Nations Bank 2002 Annual Report*

## Disadvantages


The Investment Partnership Model is less flexible than the Agency Banking Model, as the investment commitment may not allow NTI as much opportunity to easily change or modify the delivery mechanism.

There is a ‘flipside’ to the perceived advantage of having another major lender in Nunavut: what would be the impact on existing RBC and CIBC clients? Would RBC and/or CIBC reduce or withdraw their existing services in Nunavut? This issue is raised because most Inuit businesses surveyed currently bank with RBC Royal Bank, and all indicated that they were very satisfied with the service that they receive from the Royal Bank. Admittedly, a small number of businesses responded to the survey, but if it is assumed that they are a representative sample, there could be a significant impact on the Nunavut business community as a result of RBC in particular reducing or withdrawing its services. On the other hand, the anticipated growth in demand for debt capital in Nunavut should provide ample opportunity for a new market entrant without adversely impacting the existing two lenders.

## Concluding Thoughts

An investment in any southern-based bank or trust company gives NTI some level of control; some say in how loans and other investments might be made in Nunavut; some sharing of costs in the short-term; and access to a larger pool of savings and opportunities outside of Nunavut.

A partnership with either First Nations Bank or Peace Hills Trust Company seems inherently to be a good fit, but a partnership with any southern Canada-based deposit-taking financial institution that brings improved financial services to Nunavut communities consistent with NTI’s long-term goals and objectives is worthy of further consideration.



**PEACE Hills TRUST**

PEACE Hills TRUST  
*"Building the Future with Pride and Tradition"*

*Peace Hills Trust is a full-service financial institution. Its main focus is to serve the financial needs of the First Nations and their members, corporations, institutions, and associations both on and off reserve, but it also provide financial services to non-native clientele. It currently has 8 branches across Canada, from Kelowna, B.C. to Fredericton, NB.*

*Source: [www.peacehills.com](http://www.peacehills.com)*

## 7.3 Virtual Bank

A “virtual” bank interacts with its customers via Internet access: it has no physical branches (except for a head office). ING DIRECT is an example of a virtual bank. It is a completely branchless bank. This keeps their overhead costs low and allows ING to offer higher interest rates on savings than major chartered banks.



*You've probably seen one of their ads on television. ING DIRECT is a virtual bank – it has no branches. ING deals with its clients either via telephone or the internet, although clients can access their savings through any ATM displaying the INTERAC© symbol.*

ING DIRECT offers four basic financial services: savings accounts, personal lines of credit, mortgages and insurance (life and auto). As the majority of ING's clients have savings accounts, ING – which used to have ATMs in Canadian Tire stores across Canada – decided to remove them. ING management looked at a number of different factors including total usage by ING DIRECT clients as well as the costs associated with operating the machines. As ING DIRECT aims to offer high value products to its clients while maintaining low overhead costs, it was determined that the ATMs were too costly based on the requirements of the majority

of its clients. Indeed, they found that less than 6% of their clients actually use their card in any given quarter and of those, the average usage is four times per month. By removing their own Automated Teller Machines (ATMs), they found that they actually provided greater accessibility to their clients by allowing them to withdraw funds at any machine they wish across Canada displaying the INTERAC© symbol. And unlike other banks, ING DIRECT does not charge any fees for a cash withdrawal transaction.

Implementation of broadband internet access across Nunavut greatly facilitates consideration of the virtual bank model. However, there are issues which limit the practicality of this model for Nunavut:

- ① It is unlikely that ING DIRECT would offer services in Inuktitut or Inuinnaqtun.
- ② It was noted that ING DIRECT eliminated their ATM machines because debit card access to cash was not a priority for its clients. However, Nunavut community survey respondents placed a high priority on debit card access to cash.

- ⑤ A virtual bank exists because of the Internet. The presumption is that a virtual bank's clients not only have access to the Internet, they prefer it that way. Even with impending broadband internet implementation in Nunavut, not all Nunavummiut will have Internet access, which significantly limits the achievement of the objective of improved access to financial services with this model.

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### The Origins of ING DIRECT

On November 5, 1990, Nationale-Nederlanden, Netherlands largest insurance company, and NMB Postbank, Netherlands third largest bank, announced an agreed merger. The merger was completed in 1991 and the transaction was structured through the incorporation of a new holding company, Internationale Nederlanden Group (ING).

The strategic objective of the merger was to become Netherlands' integrated financial services market leader by providing access to a wider range of distribution channels for Nationale's insurance products and strengthening NMB Postbank's base for further expansion at home and abroad. ING grew organically with key acquisitions in the U.K., U.S., Belgium, Germany and Poland. This growth expanded not just its geographical reach, but also provided it the scale and knowledge to offer a wider array of products and services it provides to its customers at home and abroad. Since then ING has grown to representation in over 65 countries.

Source: CIBC. *CIBC's Submission to the Department of Finance on Matters Raised in the Response of the Government to Large Bank Mergers in Canada*. December 2003; p. 6.

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## 7.4 Cooperative Bank

*Cooperative banking is sort of a closed circuit system, grounded on the principle of mutual help among bona fide members of the organization. It aims to maximize socioeconomic benefits of the members through resource pooling and sharing. In contrast, commercial banking is an open system, the thrust of which is to provide a full range of financial services to satisfy all banking requirements of the individual client, whether or not he is a cooperative member.*<sup>23</sup>

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<sup>23</sup> Quiñones B. *Cooperative Banking: A Viable Approach to Microfinance; A Case Study in the Philippines*. [http://www.uni-koeln.de/ew-fak/aef/PDFold\(revised\)/Qu-coop.pdf](http://www.uni-koeln.de/ew-fak/aef/PDFold(revised)/Qu-coop.pdf)

As noted above, cooperative banking is all about members of an organization helping each other financially through resource pooling and sharing. It is a popular banking model in European countries, and in less developed countries such as India and the Philippines.

In Canada, the cooperative bank concept was promoted by some credit unions, which, restricted to operating within provincial boundaries, saw cooperative banking as a means to achieve a greater national presence and the resultant increased efficiencies. By being able to offer financial products across provincial boundaries, credit unions could achieve: the reduction of cost duplication, better capital allocation, the ability to raise capital, and the ability to introduce new products and services to better serve more sophisticated consumers.

In the late 1990s, a group of credit unions put forward the idea of establishing cooperative banks in Canada to the Task Force on the Future of the Canadian Financial Services Sector. In its report published in September 1998, the Task Force recommended legislative changes to allow for the establishment of cooperative banks, but did not make specific recommendations<sup>24</sup>. The federal government continues to consult with members of the financial community on the merits of cooperative banking.

Cooperative banks operating around the world are variations or adaptations of three basic models<sup>25</sup>:

- ① National Cooperative Bank Model
- ② Federated Cooperative Bank Model
- ③ Individual Cooperative Bank Model

## The National Cooperative Bank Model

Under this model, the federal government would prepare legislation to allow two or more credit unions to roll over their assets into a federal cooperative bank. In essence, they would become one integrated institution with a single identity or brand. The former offices of the credit unions would then become "branches" of the new cooperative bank.

In return for contributing their assets to the bank, the credit unions would become members of the bank and be allocated a number of shares proportionate to their contribution to the new bank's assets. However, each member credit union would get only one vote and would name one director to the bank's board. The profits and losses would be allocated by the bank to the local credit union members according to their number of shares. The cooperative bank would be regulated as a single federal institution; as such, it would produce consolidated financial statements. In the longer term this model could operate on a truly national scale.

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<sup>24</sup> *change challenge, opportunity*. Report of the Task Force on the Future of the Canadian Financial Services Sector. Ottawa: Department of Finance, 1998; p. 197. [http://finservtaskforce.fin.gc.ca/index\\_e.htm](http://finservtaskforce.fin.gc.ca/index_e.htm)

<sup>25</sup> Information on cooperative bank models is from the federal Department of Finance. See their website, <http://www.fin.gc.ca/activty/consult/coop-1e.html>, for more information.

## The Federated Cooperative Bank Model

This model, inspired by the Rabobank in the Netherlands, envisages a situation whereby each credit union in the group would become a local cooperative bank and the cooperative banks together would own a central cooperative bank.

By becoming banks, the local credit unions would be allowed to serve the general public and would no longer be restricted to serving members. However, they would still be operated under cooperative principles. Members would be rewarded by benefits, such as better rates or lower charges than those applied to non-members. Multiple memberships in local cooperative banks would not be permitted.

The central cooperative bank would also function as the local cooperative banks' principal banker, balancing differences in liquidity between the individual banks and raising capital on the capital markets where necessary. It would also supervise the management and administration of the local banks.

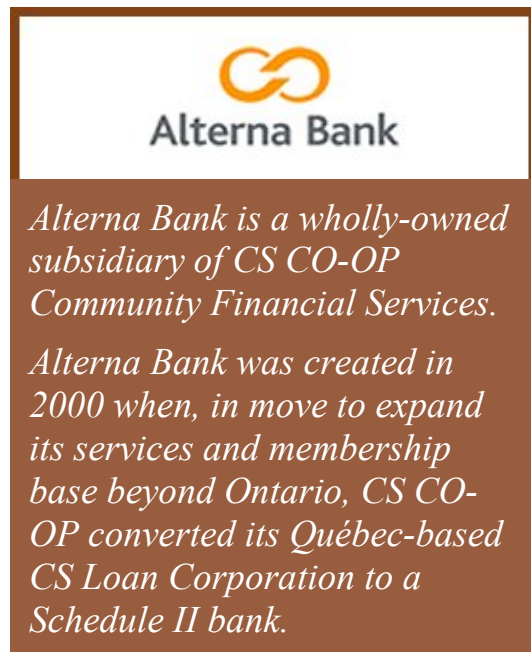
## The Individual Cooperative Bank Model

According to this model, individual credit unions would convert to individual cooperative banks with their own identities, brands, products, etc. The common shares of individual cooperative banks would be designated as membership shares, redeemable for a fixed value.

The individual cooperative banks would apply the one member, one vote principle. The members would elect the directors of the board and would have a voice at the annual meeting.

The cooperative banks could service persons other than their members, and these non-member users could be eligible for patronage returns (based on use of the bank's services) at a rate equal to or less than the rate at which the surplus is distributed to members.

Individual cooperative banks would be regulated as single federal institutions. In Canada, an example of an individual cooperative bank is the Alterna Bank



## Alterna Bank

Alterna Bank is a wholly-owned subsidiary of CS CO-OP Community Financial Services, a cooperative credit union that first opened its doors in 1908. CS CO-OP has been conducting business based on cooperative principles for nearly 100 years, whereby decisions are made based less on corporate profits and more on the needs of its members. Originally created as a

credit union for the benefit of federal civil servants, membership has gradually expanded beyond the civil service, with about 150,000 members in Ontario and \$1.1 billion in assets.

The organization's goal was to be able to provide those services to all Canadians but, as a provincially chartered credit union, was unable to do that. To remedy this, in October 2000, CS CO-OP converted its Québec-based CS Loan Corporation to a Schedule II bank – renamed Alterna Bank, a federally licensed bank that can operate anywhere in Canada. Alterna has 2 full-service branches in Québec, and is co-located with CS CO-OP at 20 locations in Ontario.

Alterna Bank is operated with cooperative principles in mind. That is:

- Co-operatives are voluntary organizations, open to all persons able to use their services.
- Co-operatives are democratic organizations controlled by their members.
- Members contribute equitably to and democratically control the capital of their co-operative.
- Co-operatives are autonomous, self-help organizations controlled by their members.
- Co-operatives provide education and training for their members and inform the general public.
- Co-operatives serve their members most effectively by working together.
- Co-operatives work for the sustainable development of their communities.<sup>26</sup>

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## :New Bank on the Block!

A BANK WITH A COOPERATIVE  
PHILOSOPHY WHERE PROFITS ARE  
RETURNED TO CLIENTS THROUGH  
SERVICE IMPROVEMENTS, COMPETITIVE  
INTEREST RATES, AND LOWER FEES?

### Too good to be true?

Sometimes the best services and products are  
the most difficult ones to promote successfully.



Source: Séguin Labelle Communication Inc. :*Strategist*. Issue #8, Summer 2002.

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<sup>26</sup> Source: Alterna Bank website, <http://www.alterna.ca>.



## Advantages

The cooperative bank philosophy would be a good fit, given the strong history of the cooperative movement in Nunavut.

There are good air links between Iqaluit and Ottawa, where CS CO-OP Community Financial Services has its head office.

## Disadvantages

Without an ownership position, NTI would have little influence or control in key decisions respecting financial products and services, hiring, roll-out schedule, etc.

Efforts to enhance personal financial management capacity within each community, i.e. people's understanding and use of banking, will be left to NTI.

Rabobank has observed that the average interest margin of bank in countries with a sound cooperative banking system is much lower than in countries which do not have one. The cooperative banking model depends on a large deposit base to provide a low cost source of funds. It is then assumed that these lower cost funds translate into reduced pricing on lending products.<sup>27</sup> Nunavut does not have a large deposit base, so there would not likely be any cost advantage compared to any of the other models, e.g., Agency Banking Model.

## Concluding Thoughts

In the absence of federal legislation to support the development of a national or federated cooperative bank model, our choice is limited to the individual cooperative bank model, as exemplified by Alterna Bank.

On first examination, it would appear that the cooperative bank philosophy would be popular with Nunavummiut, and quite likely to be widely supported. This will no doubt be an important factor to consider in deciding among models generally.

However, the implementation of the cooperative bank model in Nunavut would likely be similar to that of the Agency or Investment Partnership models, i.e., through 'community banking centres' operated (for purposes of cost effectiveness) within an Agent's existing premises. Given the relatively small size and scale of Alterna Bank's parent company, CS CO-OP Community Financial Services, a cooperative banking agency in Nunavut would likely have a similar cost structure and roll-out schedule as that envisaged in a partnership with First Nations Bank or Peace Hills Trust Company.

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<sup>27</sup> CIBC. *CIBC's Submission to the Department of Finance on Matters Raised in the Response of the Government to Large Bank Mergers in Canada*. December 2003; p. 13.

# 8 Comparisons



The main factors in choosing from among the models are:

- ① The degree of improvement in access to financial services;
- ② The degree of control over service delivery that could be exercised by NTI;
- ③ Implementation cost; and
- ④ Risk and other factors inherent in the model.

In figure 7, these factors are summarized and rated for each model.

**Figure 7: Model Ratings**

	<b>Original Business Concept</b>	<b>Agency Banking Model</b>	<b>Investment Partnership</b>	<b>Virtual Bank</b>	<b>Cooperative Bank</b>
Improved Access to Financial Services	Access increased considerably but still dependent on support of third party strategic alliance partner. Rating: 8/10	Personal banking access increased considerably; business banking access increased moderately. Rating: 7/10	Access increased considerably. Banking services tailored to the Aboriginal market. Rating: 9/10	Access only increased for those with reliable Internet access. Rating: 2/10	Personal banking access increased considerably; business banking access increased moderately. Rating: 7/10
Level of Control	Nunavut-based owners would control and direct Nunavut activities except those provided by strategic alliance or third party service providers. Rating: 8/10	Influence on location and operations of Agencies, but little influence over RBC activities. Rating: 4/10	Major shareholder and director influence on Nunavut activities and voice in general financial institution activities Rating: 7.5/10	No influence Rating: 0/10	Some influence on location and operations of Agencies, but little influence over co-op bank partner. Rating: 3/10

**Figure 7 Continued**

	<b>Original Business Concept</b>	<b>RBC Royal Bank Agency</b>	<b>Investment Partnership</b>	<b>Virtual Bank</b>	<b>Cooperative Bank</b>
Implementation Cost	Extremely high Investment Capital Costs (\$12 – 15 million) and continuing exposure to high operating losses.  Rating: 1/10	Modest investment and support cost associated with implementing and operating Agencies.  Rating: 9/10	Significant capital investment, but with reasonable prospects for an investment return. Shared Agency costs.  Rating: 7.5/10	Costs for ATM network probably have to be assumed by NTI  Rating: 3/10	Modest investment and support cost associated with implementing and operating Agencies.  Rating: 9/10
Risk and Other Factors	Exclusive Nunavut focus, but significant risk that investment capital will not be returned and that continuing losses will require more capital contribution.  Rating: 3/10	Very little financial risk exposure. Ample flexibility to adopt other measures. But Aboriginal commitment not integral part of RBC mandate.  Rating: 7/10	Modest financial risk associated with investment in partner. Aboriginal commitment and service should be the focus of Partner's operations.  Rating: 8/10	Moderate to above-average risk associated with ATM network.  Rating: 5/10	Very little financial risk exposure. Flexibility is an unknown quantity. Cooperative principles a good fit.  Rating: 6/10
<b>Total Rating</b>	<b>20/40</b>	<b>27/40</b>	<b>32/40</b>	<b>10/40</b>	<b>25/40</b>

By summing ratings for each factor, the following overall ranking could be applied to the models investigated in this study:

- ① Investment Partnership
- ② RBC Royal Bank Agency
- ③ Cooperative Bank model
- ④ Original Business Concept of a stand-alone bank
- ⑤ Virtual Bank model

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# 9 Recommendations

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There are two recommendations for further action towards the overall goal of improving access to financial services in Nunavut communities:

- ① In the short-term, focus on improving access to financial and services by:
  - Facilitating a partnership between RBC Royal Bank and Arctic Co-operatives Ltd. to implement the Agency Banking Model on a pilot project basis;
  - Executing Memoranda of Understanding (MOUs) with Nunavut-based commercial lenders to offer smaller (i.e., less than \$150,000) loans on behalf of Atuqtuarvik Corporation; and
  - Research and analyse the creation of a new Personal Lending Division with Atuqtuarvik Corporation.
  
- ② For the longer term, pursue negotiations (and due diligence) to make a significant investment in a potential partner such as First Nations Bank or Peace Hills Trust company, with the understanding that a ‘Nunavut Division’ will be created, and community banking centres be established in selected Nunavut communities along the lines of the Agency Banking Model. Allocate funding from the Trust within the strategic plan in order to make an investment consistent with:
  - NTI objectives;
  - The execution of a satisfactory agreement to extend access to financial services to Nunavut communities; and
  - Nunavut Trust profit expectations.

# 10 Conclusions



*“Nunavut needs its own financial institutions. Infrastructure such as this would greatly benefit Nunavut residents and help build up our Territory. With Nunavut’s up and coming mining projects and reserves in petroleum products, Nunavut will be a major player in Canada’s economy and we need to be prepared.”<sup>28</sup>*

Before *Bank Act* Reform, no shareholder – whether an individual or a group – could own more than 10 percent of the shares of a bank. To encourage the creation of more banks, the government changed the ownership rules to allow one individual or one organization to own up to 100 percent of the voting shares of a small bank<sup>29</sup>. In practical terms, this change allows all types of organizations to launch or acquire a bank. It also means that **organizations or individuals can band together to start up their own bank to provide financial services that meet the specific needs of their community or communities.**

Central to the original business concept was the idea of ‘Community Banking Centres’ in the smaller Nunavut communities, as the vehicle for delivering financial services. Improving access to financial services through the implementation of Community Banking Centres remains a sound concept.

However, implementing community banking through the original concept of a stand-alone bank is not feasible because:

- Start-up costs will approach \$12-15 million.
- Operating costs are large relative to the potential market share, resulting in annual losses on the order of \$1-2.2 million per year.
- The risk issues will make it difficult – if not impossible – to obtain a partner to provide financial products and services on contract.

In view of these major shortcomings with the original business concept, it is recommended NTI encourage and support RBC Royal Bank and Arctic Co-operatives Ltd. to implement the Agency Banking Model on a pilot project basis in selected Nunavut communities.

<sup>28</sup> Comment received in response to the Community Survey on Access to Financial Services.

<sup>29</sup> A small bank has shareholder equity of less than \$1 billion; a medium-sized bank has shareholder equity of between \$1-5 billion; and a large bank has shareholder equity of over \$5 billion. Source: Canadian Bankers Association; [www.cba.ca](http://www.cba.ca).

For the longer term, it is recommended that NTI pursue negotiations (and due diligence) to make a significant investment in a potential partner such as First Nations Bank or Peace Hills Trust company, with the understanding that a ‘Nunavut Division’ will be created, and community banking centres be established in selected Nunavut communities .

An investment in First Nations Bank or Peace Hills Trust Company probably provides the best growth opportunities over the longer term, both within Nunavut, and in markets outside of Nunavut.

Regardless of which model is ultimately implemented, it must be recognized that improving access to financial services in Nunavut communities will only be successful if Nunavummiut have the knowledge and capability to take advantage of the financial services that are offered.

Consequently, an important part of any implementation plan will be financial training and education. Another will be the creation of Inuktitut terminology for various concepts related to electronic banking.<sup>30</sup>



*“A training component will be one of the recommendations for the smaller communities. I have no doubt that the subject will come up and will be part of the plan.”*

Paul Kaludjak, NTI President, quoted in the August 27 2004 edition of the *Nunatsiaq News*. Photo: Inuit Tapiriit Kanatami <http://www.itk.ca>

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<sup>30</sup> Source: Nunatsiaq News, August 27, 2004

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# Appendices

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- 1 Business Survey Guide
- 2 Community Focus Group Guide

## Appendix 1: Business Survey Guide

Nunavut is serviced by the major banks in only the three largest communities – Iqaluit, Rankin Inlet and Cambridge Bay. No financial institutions exist in the smaller communities, and residents are restricted to patronizing businesses offering limited financial services. Arctic Co-operatives and Northern Stores are the most obvious examples of businesses that offer financial services such as cheque cashing, third party drafts, cash transfers, cash back on debit cards, and loans for purchases.

The desire for more accessible financial services in the smaller communities is strong, and recent changes in federal legislation make it easier to consider establishing a new bank or trust company. As a result, Nunavut Tunngavik Inc., together with Atuqtuarvik Corporation and Arctic Co-operatives Ltd., are studying the feasibility of a new deposit-taking financial institution (such as a bank, trust company or credit union) in Nunavut. The overall objective of the study is to improve access to financial services across Nunavut. The final solution is yet to be determined, but will be structured to meet the needs of all Nunavummiut.

RT Associates Ltd. has been contracted to investigate the bank or trust company option as a means of improving access to financial services at the community level. We would appreciate your participation in this study by providing your thoughts on financial services and access to financial services. This should take no more than 30 minutes.

### Part 1: Questions about Currently Used Financial Services

- #1 What do you think I mean by the phrase “financial services”? \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_



#2 Please identify the financial services that you currently use. [INTERVIEWER: CHECK PRODUCTS AND SERVICES IDENTIFIED BY INTERVIEWEE, THEN ASK ABOUT DEGREE OF SATISFACTION WITH ACCESS TO THOSE IDENTIFIED]

	USE NOW	SATISFACTION		
		Good	Average	Poor
Operating Line of Credit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Long term loans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mortgages	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Current Account	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Savings Account	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Direct Debit to Accounts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cash Machine Access	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Payroll Services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investments (GICs, term deposits, RSPs, bonds)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Internet Banking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credit Card(s)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Money Orders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Money Transfers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Safety Deposit Box	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Stock Brokerage Services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Insurance (life, disability, liability)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Trust Services (trust and pension fund management)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

#3 For those services for which satisfaction with access is POOR, please tell me why.

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#4 For those services for which satisfaction with access is POOR, do you have any thoughts on how access to these services could be improved?

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**Part 2: Questions about Other Financial Services**

#5 Are there financial products and services that you currently don't have access to, that you would like to receive? . [INTERVIEWER: CHECK PRODUCTS AND SERVICES IDENTIFIED BY INTERVIEWEE, THEN ASK ABOUT DEGREE OF NEED]

	NEED NOW	DEGREE OF NEED		
		High	Average	Low
Operating Line of Credit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Long term loans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mortgages	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Current Account	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Savings Account	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Direct Debit to Accounts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cash Machine Access	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Payroll Services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investments (GICs, term deposits, RSPs, bonds)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Internet Banking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credit Card(s)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Money Orders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Money Transfers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Safety Deposit Box	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Stock Brokerage Services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Insurance (life, disability, liability)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Trust Services (trust and pension fund management)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>





## Appendix 2: Community Focus Group Guide

Nunavut is serviced by the major banks in only the three largest communities – Iqaluit, Rankin Inlet and Cambridge Bay. No financial institutions exist in the smaller communities, and residents are restricted to patronizing businesses offering limited financial services. Arctic Co-operatives and Northern Stores are the most obvious examples of businesses that offer financial services such as cheque cashing, third party drafts, cash transfers, cash back on debit cards, and loans for purchases.

The desire for more accessible financial services in the smaller communities is strong, and recent changes in federal legislation make it easier to consider establishing a new bank or trust company. As a result, Nunavut Tunngavik Inc., together with Atuqtuarvik Corporation and Arctic Co-operatives Ltd., are studying the feasibility of a new deposit-taking financial institution (such as a bank, trust company or credit union) in Nunavut. The overall objective of the study is to improve access to financial services across Nunavut. The final solution is yet to be determined, but will be structured to meet the needs of all Nunavummiut.

RT Associates Ltd. has been contracted to investigate the bank or trust company option as a means of improving access to financial services at the community level. We would appreciate your participation in this study by providing your thoughts on financial services and access to financial services. We have some questions to help get the discussion going, and focus group participants should spend no more than 15-20 minutes discussing each question.

### Questions for Discussion

- #1 After an explanation about the purpose of the focus group, and introductions around the table, start off by asking focus group participants what they think the phrase “financial services” means.
  
- #2 Please identify the financial services that the majority of focus group participants currently use. [CHECK PRODUCTS AND SERVICES IDENTIFIED BY PARTICIPANTS, THEN HAVE A DISCUSSION ABOUT THE DEGREE OF SATISFACTION WITH **ACCESS** TO THOSE PRODUCTS AND SERVICES. FOR THOSE PRODUCTS FOR WHICH ACCESS IS **POOR**, IDENTIFY REASONS WHY.]

	USE NOW	SATISFACTION		
		Good	Average	Poor
Chequing Account	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Savings Account	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mortgage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other Long term loan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Personal Line of Credit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Debit Card	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credit Card(s)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Internet Banking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investments (GICs, term deposits, RSPs, bonds)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Money Orders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Money Transfers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Safety Deposit Box	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Stock Brokerage Services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Insurance (life, property, auto)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Trust Services (trust and pension fund management)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

#3 For those services for which satisfaction with access is POOR, have a discussion about how access to these services could be improved.

#4 From the list of financial products and services in Question #2, identify those that the majority of focus group participants do not have access to. [CHECK PRODUCTS AND SERVICES IDENTIFIED in the 'NEED NOW' column, THEN HAVE A DISCUSSION ABOUT THE DEGREE OF NEED FOR THOSE PRODUCTS AND SERVICES. FOR THOSE PRODUCTS FOR WHICH NEED is **HIGH**, IDENTIFY REASONS WHY.]

	NEED NOW	DEGREE OF NEED		
		High	Average	Low
Chequing Account	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Savings Account	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mortgage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other Long term loan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Personal Line of Credit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Debit Card	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credit Card(s)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Internet Banking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investments (GICs, term deposits, RSPs, bonds)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Money Orders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Money Transfers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Safety Deposit Box	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Stock Brokerage Services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Insurance (life, disability, liability)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Trust Services (trust and pension fund management)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
#5	For those services for which need is identified as HIGH, have a discussion about how these products and services could or should be provided.			
#6	Ask participants what they think would be the <b>impact</b> on them, their families and their community, from improved access to needed financial products and services.			
#7	The ability to provide financial services on a cost-effective basis in many communities will probably rely heavily on the use of technology (examples: ATM machines, internet banking, video conferencing equipment). Ask participants how comfortable they would be using technology to do their banking, rather than dealing face-to-face with a banker.			
#8	Banks operate by taking deposits (savings) from people, and lending these savings to others in the form of loans. The success or failure of a small new bank may depend on having enough money on deposit from people's savings to operate. How can we encourage residents of Nunavut to save money? (EXPLORE DELIVERING MONEY MANAGEMENT COURSES, SAVINGS PLANS THROUGH WORK, PURCHASING BONDS THROUGH PAYROLL DEDUCTIONS AND AUTOMATIC RRSP CONTRIBUTIONS)			
#9	End the focus group by asking for any other thoughts or comments that participants would like to share with the group.			