A NEW FINANCIAL INSTITUTION
FOR
NUNAVUT

OVERVIEW & OPTIONS

August 2004

Introduction

Full-service branches of one or more of Canada's major banks are available to residents of Iqaluit, Rankin Inlet and Cambridge Bay. However, Nunavummiut living in the smaller communities are restricted to patronizing businesses which are not financial institutions, but nevertheless offer limited financial services. 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.

The 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.

What would be the economic impact within Nunavut if payment, savings and credit systems were more accessible?

Options

Overview

Deposit-taking financial institutions take money from individuals or corporations in the form of deposits or similar financial instruments that are repayable at some time in the future. Three types of deposit-taking institutions are of interest:

- i banks;
- ii trust companies; and
- iii Credit unions.

Bank

A **bank** is a financial institution that operates under federal legislation – the *Bank Act*. A bank can accept deposits from, and make loans to, individuals, corporations and other organizations. The recent legislative changes also allow banks to provide other financial products and services to its customers, such as investment products and financial management services. The First Nations Bank of Canada is an example of a bank created as a joint venture between the Federation of Saskatchewan Indian Nations and the Toronto-Dominion Bank.

First Nations Bank

First Nations Bank of Canada is a domestic chartered bank head-quartered 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.

First Nations Bank operates branches in Saskatoon, Saskatchewan, Walpole Island, Ontario and Chisasibi, Québec. Services are also available through a network of community banking centres, through all TD Canada Trust branches in Canada, and through TD Canada Trust electronic banking channels.

Source: First Nations Bank 2002 Annual Report

Trust Company

A **trust company** is a financial institution that operates under either provincial or federal legislation and conducts activities similar to those of a bank. However, a trust company can administer estates, trusts, pension plans and agency contracts, which banks are not permitted to administer. These institutions are regulated under the federal *Trust and Loan Companies*

Act and are authorized to accept deposits from individuals, corporations and other organizations.

Peace Hills Trust Company is an example of a trust company which is owned and operated by aboriginal people.

Peace Hills Trust Company

Peace Hills Trust is Canada's first First Nation's trust company, wholly owned by the Samson Cree Nation of Hobbema, Alberta.

Peace Hills Trust was federally incorporated under the Trust Companies Act [now called the Trust and Loan Companies Act] of Canada, November 19, 1980 and is registered in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, the Yukon, and the Northwest Territories.

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 provides financial services to non-native clientele. It currently has 8 branches across Canada, from Kelowna, B.C. to Fredericton, NB.

Source: www.peacehills.com

Credit Union

A **credit union** ("caisse populaire" in Quebec) is a cooperative non-profit association that is owned and operated by its members. Ownership and corporate governance are based on co-operative principles. A credit union's primary commitment is to serve its members' financial needs. Affiliations with trust companies, insurance companies and investment dealers (through the co-operative movement) allow most credit unions to offer a full range of financial services to its members.

Membership is the most distinctive feature of the credit union system. It involves sharing, being part of a community (whether geographic, ethnic or work-related), and enjoying such shareholder privileges as:

- Being able to seek election to the credit union's board of directors.
- Sharing in the distribution of earnings.
- Having a say in the credit union direction at the local level (and, through their local credit union delegate, each member also has a say in provincial and national direction).

Credit unions are not-for-profit businesses. This doesn't mean that they aren't profitable. After expenses are paid and reserves set aside, surplus earnings are returned to members in the forms of higher dividends, lower loan rates and free or low-cost services. In addition, having “shareholder members” enables credit unions to relate products and services to member requirements.

Aboriginal involvement in the creation and management of credit unions appears to be concentrated in the Province of Québec. As of 2001, there were 6 caisses populaires managed by aboriginal groups, with $100 million in deposits and over $4 million in equity. [Kettleson and MacPherson, 2001; p. 38] However, for the purposes of this study, the authors elected to interview the CEO of the Anishinabek Nation Credit Union, the first credit union owned by aboriginal people in Ontario.

Anishinabek Nation Credit Union

The Anishinabek Nation Credit Union received its charter from the government of Ontario in May 2000. The Head Office is in Garden River First Nation, near Sault Ste. Marie, Ontario.

The Credit Union grew from the vision of Chief Joseph Hare of the M’Chigeeng First Nation, who in the late 1970s identified the need to establish a financial institution controlled by the First Nation. Chief Hare promoted his idea initially to adjacent First Nation communities, and ultimately at the grand councils held by the Anishinabek Nation, where the idea for a credit union was proposed and supported. The Anishinabek Nation Credit Union’s slogan is: “Put Your Money Where Your Nation Is.”

Source: *Aboriginal Co-operatives in Canada Case Studies*, 2001.

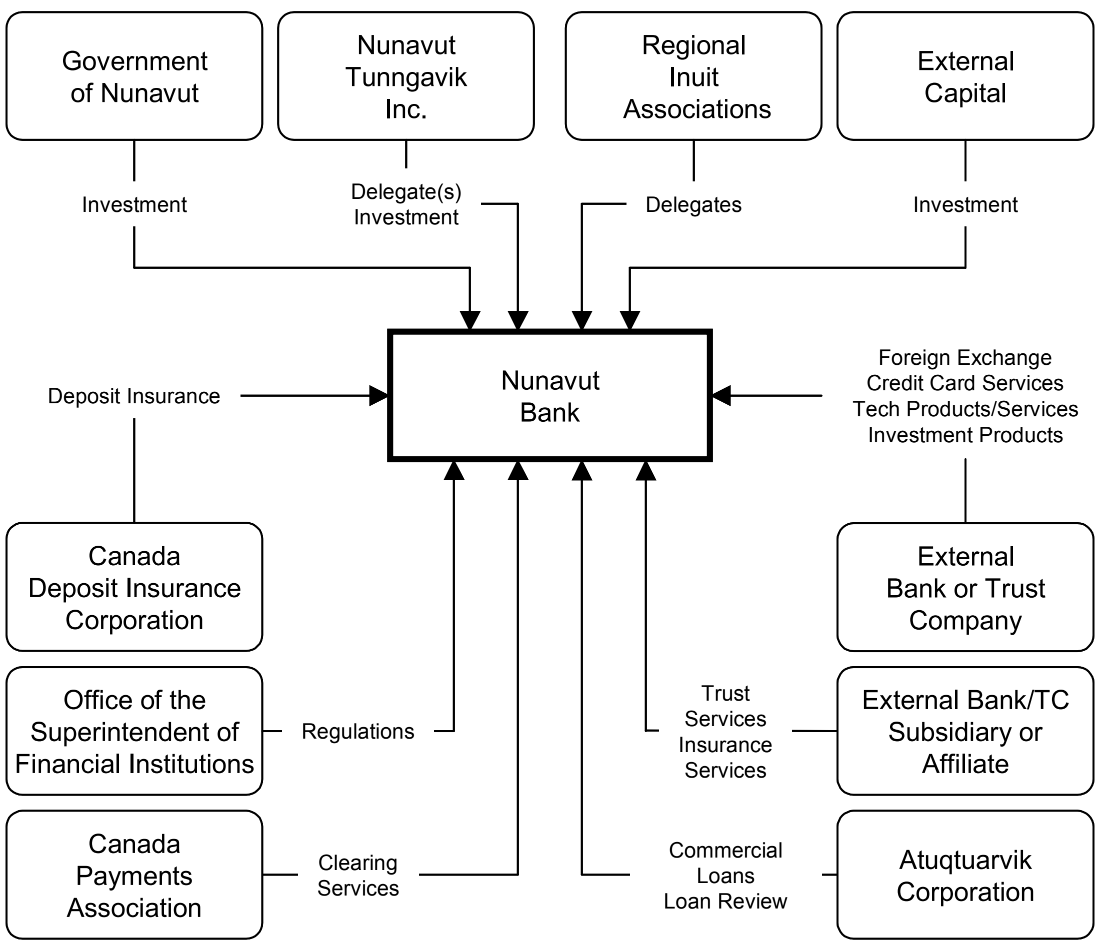
Bill C-8 made provision for credit unions to create a national presence to better compete with large institutions. However, little has been done to date to further this objective. Most credit unions are established under provincial legislation, and serve the residents of a sub-region of a province. A credit union created by Nunavummiut would most likely be incorporated under the Nunavut *Credit Unions Act*.

Models

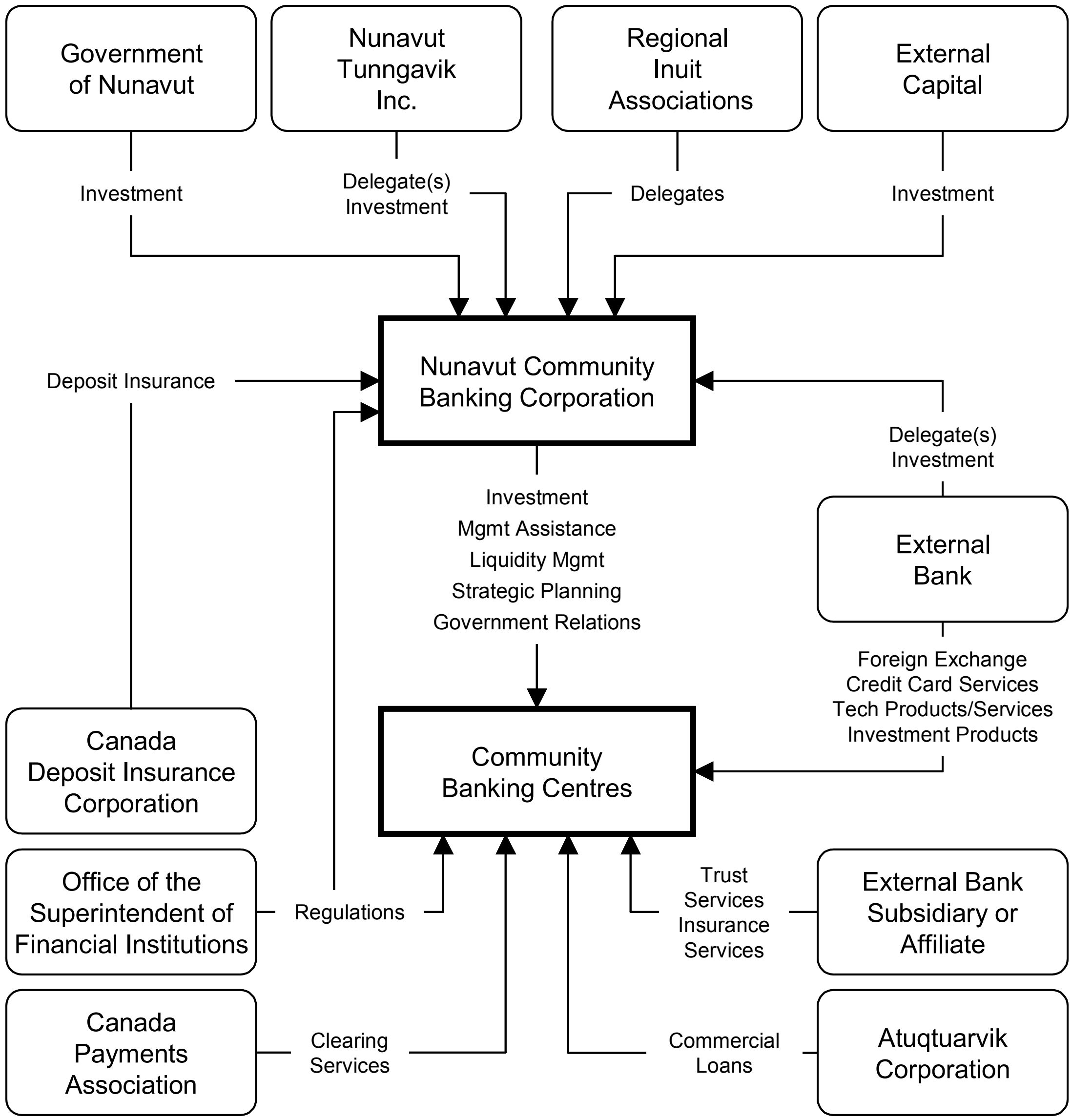
Overview

In order to make it easier to visualize and understand the options, representative models have been created. These models are derived from Eckert's work in the 1992 report, *Planning for Credit Union Development in the Northwest Territories*, and adapted to portray the relationships and requirements unique to each type of deposit-taking financial institution under consideration. The models are not meant to be definitive implementations of each option, but rather, are designed to highlight the similarities and differences between the options. Four models have been created: two bank models (centralized and decentralized); a trust company model; and a credit union model.

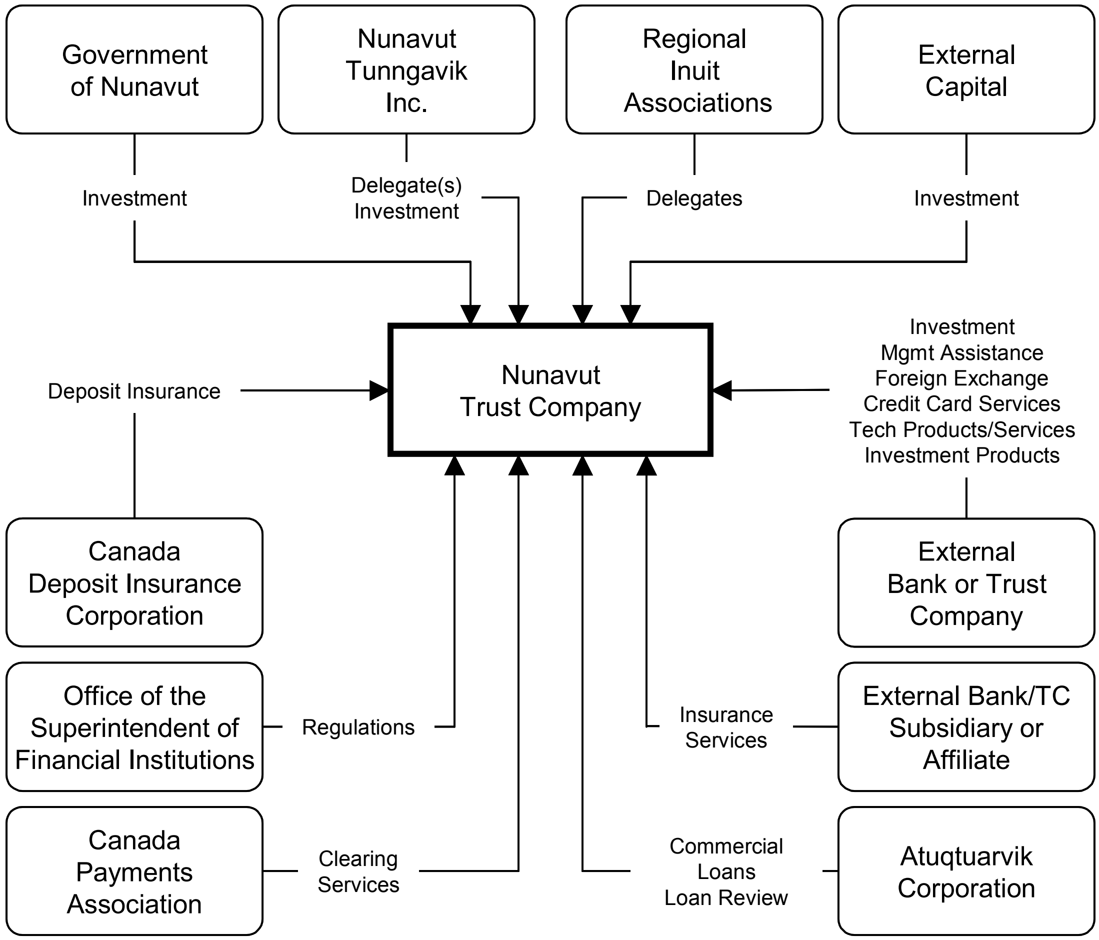
Centralized Bank Model



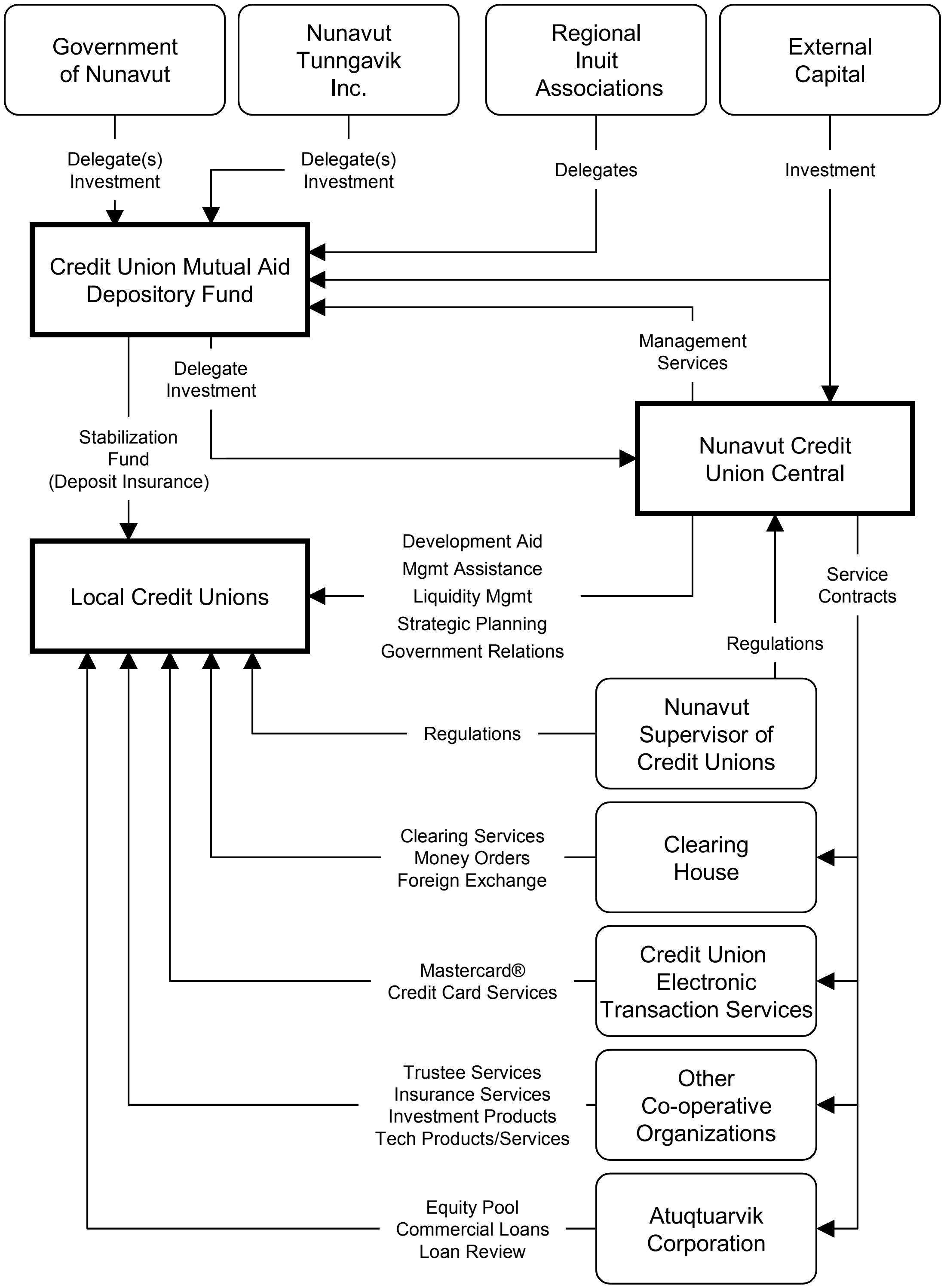
Decentralized Community Bank Model



Trust Company Model



Credit Union Model



Adapted from: Eckert R. *Planning for Credit Union Development in the NWT*, 1992

Development Issues

Overview

There are various issues in three categories:

- i development issues;
- ii operational issues; and
- iii implementation issues.

This categorization is consistent with the logical sequence of planning for a new financial institution, although it is recognized that ***all*** issues will need to be addressed earlier rather than later in business planning.

Regardless of which option is preferred, development issues include:

- ownership and share structure;
- financing;
- products and services to offer;
- potential partnerships; and
- the regulatory framework.

Products and Services

The basic functions of the financial sector include:

- i the **payments** function, which involves creating and efficient means of handling payments for goods and services;
- ii the **savings** function, in which savings are accumulated through appropriate interest rates which encourage people to save; and
- iii the **loan** function, which ensures that savings do not sit idle, but instead are used for productive purposes. [CORE/NET 1989; p. i]

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

The number and variety of products and services to be offered will vary directly with the degree of involvement of a major bank (in the case of the Bank or Trust Company models) or Co-operative partners (in the case of the Credit Union model). Regardless of the model chosen, initial product and service offerings should be kept simple (e.g., chequing and savings accounts, term deposits, lines of credit) until capacity is built within the financial institution.

Partnerships

> *Bank Act reform encourages the development of new strategic partnerships and joint ventures. Lines of business that once had to be contained within a bank, such as issuing credit cards, can now be transferred into a company that is separate from the bank but under a common holding company. This new credit card company could enter into a strategic alliance with another company, and the combined entity could offer credit card customers enhanced services and benefits. 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.* [Canadian Bankers Association website]

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 – while capacity is developed in house consistent with other benefits or priorities – or for the longer term. This also may be the most prudent approach.

In the case of the Credit Union model, partnerships are encouraged. Two or more Credit Union Centrals joint venture to provide more efficient clearing services; certain co-operative organizations specialize in offering specific services (e.g., investment products or insurance) across provincial boundaries; liquidity management is a responsibility shared by the local credit union, provincial Central, and national Central. The co-operative movement, generally, is one big partnership.

In the case of the centralized bank or trust company models, partnerships may be more difficult to come by. The banks that currently have branches in Nunavut (CIBC and Royal Bank) will want to protect their respective market shares. Other established banks may or may not want to expand into Nunavut through a partnership.

The decentralized Community Bank model, on the other hand, may present an opportunity to one of the established banks to expand its services into the smaller communities (i.e., expanding the market through a sharing of risk and reward with the Nunavut Community Banking Corporation, without compromising existing Iqaluit, Rankin Inlet and/or Cambridge Bay markets.)

Regulatory Framework

Bank and Trust Company Models

Since new banks and trust companies are incorporated under federal legislation (the *Bank Act* and *Trust and Loan Companies Act*, respectively), the regulatory framework is well established. Apart from the legislation itself, there are two important components in the regulatory framework for banks and trust companies:

1. **Office of the Superintendent of Financial Institutions.** 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 the financial services sector generally.
2. **Canada Deposit Insurance Corporation.** The Canada Deposit Insurance Corporation (CDIC) The Canada Deposit Insurance Corporation (CDIC) is a federal Crown Corporation. It was created in 1967 to provide deposit insurance and contribute to the stability of Canada's financial system. For the purposes of this study, CDIC is considered to be a regulatory body because CDIC has recently developed a set of rules called *Standards of Sound Business and Financial Practices*, to which its member institutions are subject. As part of its examination process, OSFI assesses an institution's compliance with these standards by reviewing the self-assessment material prepared by the institution.

Credit Union Model

All credit unions and caisses populaires are provincially incorporated as their activities do not extend beyond their respective provincial borders. Consequently, the sector is almost exclusively regulated at the provincial level for prudential soundness and market conduct. However, the legislative and regulatory framework for credit unions and caisses populaires generally parallels that of federal financial institutions, such as banks.

Even though the legislation governing credit unions is in place in Nunavut (the *Credit Union Act*), the regulatory framework itself does not exist. As Eckert pointed out, four specific regulations would be required to be established by the Government of Nunavut:

- i the overall regulatory framework;
- ii the Standard By-laws;
- iii the Credit Union Mutual Depository Fund; and
- iv the Nunavut Credit Union Central. [Eckert 1992; p. vii]

In addition, the Government of Nunavut would be required to create the infrastructure (e.g., staff, management, systems and procedures, communication systems, etc.) to implement and manage this regulatory framework.

Operational Issues

Overview

Operational issues include:

- management;
- staffing;
- systems and procedures;
- liquidity;
- infrastructure;
- deposit insurance;
- clearing services; and
- the role of other organizations.

Management

It is obvious that, regardless of the option or model chosen, sound management is essential. The (CIDC) Canada Deposit Insurance Corporation's *Standards of Sound Business and Financial Practices* describe what constitutes sound practices for CDIC member institutions, with particular emphasis on governance and risk management. They stress that responsibility for the quality of processes, policies, procedures, controls and internal reporting belongs to senior management on a day-to-day basis and rests ultimately with the institution's board of directors. Member institutions are required to report on their adherence to the Standards. Those found to be in breach of the Standards are subject to a range of sanctions – from higher deposit insurance premiums to terminating their deposit insurance policy, which prevents them from accepting future deposits. [CDIC 2003 Annual Report]

A member institution is "in control" if it can demonstrate that its operations are:

- subject to effective governance by its board of directors;
- being managed in accordance with ongoing, appropriate and effective strategic, risk, liquidity, funding and capital management processes; and
- being conducted in an appropriate control environment.

It must also demonstrate that:

- processes are in place to identify significant weaknesses or breakdowns relating to those matters; and
- appropriate and timely action is being taken to address them. [CDIC 2003 Annual Report]

Examples from the credit union indicate similar requirements and provisions with respect to management.

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 this case, 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., ATMs and internet banking procedures).

Systems and Procedures

It is difficult to conceive of a financial institution operating without systems and procedures sufficient to efficiently execute its operational requirements. The models presented in this report all assume that service contracts are drafted with external organizations to provide (and in some cases, manage) the required systems and procedures, at least during start-up and through the formative years.

For example, the First Nations Bank has entered into a **Master Services Agreement** with the TD Bank Financial Group, pursuant to which the TD Bank performs services, including financial accounting and reporting, head office and divisional support, corporate secretarial and treasury services. Payments to the TD Bank for its services are on market terms and conditions. [First Nations Bank 2002 Annual Report]

Reliance on service contracts for the provision of systems and procedures need not extend through the longer term. There are 3rd party vendors of 'self-contained' systems which are adequate to the task, and are marketed complete with installation, training, and on-going technical support. For example, Kootenay Savings Credit Union decided two years ago to switch from the B.C. Central-sponsored 'QDataWest' system to the 'iWealth Banking System' (marketed by a Wisconsin-based company) and has since developed its own in-house technical support team.

Liquidity

Each credit union is required by provincial regulations to maintain **liquidity** ranging from 8 per cent to 10 per cent of total assets, most of which is maintained in a liquidity pool at the provincial central. To make excess liquidity available to other provincial credit union systems, each provincial central places 2 per cent of provincial system assets in a segregated fund under the control of a custodian. The custodian has access to the funds for national purposes on terms set by the CUCC. [Department of Finance 2003]

Another liquidity issue involves access to sufficient financial resources to protect depositors' funds. For example, the First Nations Bank has entered into agreements under which the TD Bank has agreed to provide the Bank with credit facilities for purposes of managing liquidity and interest rate risk. The credit facilities are established at market terms and interest rates. [First Nations Bank 2002 Annual Report]

A credit union example: The (CIDC) Canada Deposit Insurance Corporation of Ontario (the stabilization fund for the Ontario credit union system) has a $75 million line of credit with a major bank, in addition to its required deposit insurance reserve fund. The line of credit is secured by a loan guarantee provided by the Government of Ontario. [Deposit Insurance Corporation of Ontario 2002 Annual Report; p. 14]

Infrastructure

For the purposes of this report, 'infrastructure' means physical (e.g., buildings and furnishing) and technical (i.e., systems and procedures) assets. The degree of required initial infrastructure development is directly related to the nature of the model that is ultimately chosen. The Central Bank and Trust Company models require the least physical and technical infrastructure to implement. Conversely, it is apparent that the decentralized Community Bank and Credit Union models would require the most, because of the community-based components.

At the same time, there are probably trade-offs available between physical and technical infrastructure. In creating the Community Bank and Credit Union models, the authors have 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. The 'community banking centre' – whether implemented through the decentralized Community Bank model or the Credit Union model – is an attempt to strike a 'happy medium' between the full-service branch and the stand-alone ATM. (Automated Teller Machine)

Role of Other Organizations

As a result of recent changes to the *Bank Act*, financial institutions are able to outsource some of the business activities or functions that previously had to be undertaken in-house. Reasons for doing this include: access to technological innovation, access to expertise, cost control, and competitive pressure. For a newly-created financial institution, outsourcing can be a means to efficiently acquire the technology, expertise and other resources sufficient to provide a desired level of service almost immediately. Indeed, all of the models presented in this report rely on outsourcing, through service contracts with other banks, bank subsidiaries, and other identified organizations.

However, because outsourcing can increase an institution's dependence on third parties, the Office of the Superintendent of Financial Institutions is understandably concerned that the financial institution's risk profile may increase in proportion to the degree of dependence on third parties. The OSFI has responded to this potential threat by issuing a revised *Guideline on Outsourcing of Business Activities, Functions and Processes* for all federally regulated financial institutions.

In other words, the greater the degree of outsourcing contemplated, the greater the degree of federal regulation. Under the Credit Union model, financial institutions would not be obligated to follow the OSFI's outsourcing guidelines, but it would be prudent to do so.

Deposit Insurance

A newly-created bank or trust company is *required* to become a member of (CDIC) Canada Deposit Insurance Corporation..

The premiums charged for CDIC's deposit insurance coverage is set in accordance with CDIC's *Differential Premium By-law*. Member premiums vary according to the classification category in which a member is placed. Classification is based on a number of quantitative and qualitative criteria or factors. Quantitative factors include capital adequacy, earnings, asset quality and asset concentration, while qualitative factors include the examiner's rating and adherence to CDIC Standards. More than 90% of CDIC members are in Categories 1 or 2.

CDIC's 2002 Premium Rates

Category 1:	1/48th of 1% of Insured Deposits
Category 2:	1/24th of 1%
Category 3:	1/12th of 1%
Category 4:	1/6th of 1%

Source: Canada Deposit Insurance Corporation 2003 Annual Report

In the case of the First Nations Bank, , membership in CDIC was approved because the TD Bank Financial Group guaranteed the First Nation Bank's deposit liabilities to the extent that they are required to be insured pursuant to the *Canada Deposit Insurance Corporation Act*.[1]

Individual credit unions are not required to become members of the (CDIC) Canada Deposit Insurance Corporation. However, this doesn't mean that funds deposited with credit unions are not insured. They are. Credit unions are provincially regulated, and, in each province, one or more organizations exist to protect the deposits of credit union members. This organization may be called a deposit insurance or deposit guarantee corporation or stabilization fund, or, in the case of the *Credit Union Act* of Nunavut, a Mutual Aid Depository Fund. Further, under the *Cooperative Credit Associations Act*, CDIC is authorized to extend financial accommodation to central credit union facilities to meet their short-term requirements for liquid funds needed to discharge the maturing debt obligations of its member credit unions. So although individual credit unions are not members of CDIC, CDIC nevertheless can facilitate stability and protection at the provincial level.

The amount of deposit insurance coverage varies by province. Deposits are fully guaranteed, with no limits on the amount of coverage provided, in Saskatchewan, Manitoba and Alberta. Deposits in Nova Scotia and Newfoundland and Labrador are insured to a maximum of $250,000, while Ontario and British Columbia guarantee deposits to a maximum of $100,000 per account. Quebec, New Brunswick and Prince Edward Island guarantee deposits to the

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[1] A guarantee fee of 1/22nd of 1% of the insured deposits as at April 30, 2001 and 2002 was paid by the First Nations Bank to the TD Bank in fiscal 2002 and 2001, respectively. [First Nations Bank 2002 Annual Report]

same level as bank deposits – $60,000. In addition, Newfoundland and Labrador, Nova Scotia and Prince Edward Island offer protection for registered retirement savings plans and registered retirement income funds.

Normally, deposit protection funds are built up and maintained at required levels primarily by premiums or assessments levied on individual credit unions. The amount of the contribution is set as a proportion of some financial characteristic, be it shares and deposits; or shares, deposits and liabilities; or deposits and borrowings; or gross revenues or interest income; or total assets. However, it is likely that – at least for the first 10-15 years of credit union activity in Nunavut – the number of individual credit unions would not be sufficient to generate significant premiums for the Mutual Aid Depository Fund, and therefore a significant portion of initial capitalization funding would have to remain in the Mutual Aid Depository Fund to provide the desired deposit protection.

Clearing House Services

The payments system is comprised of a series of networks - including the cheque payment system, credit card systems, the automated bank machine (ABM) network and the debit card network. Every day, Canadians use these networks to pay for goods and services by cheque, cash, credit card or direct debit. [Canadian Bankers Association website]

In the case of the Bank and Trust Company models, CPA (Canada Payments Association) membership is necessary in order to obtain an institution number for processing cheques and electronic payment transactions. Provincial credit union Centrals have developed their own clearing services, but in recent years have – in the interests of effectiveness and efficiency – joint-ventured to provide this service across provincial boundaries. In the Credit Union model described in this report, it was assumed that clearing services could be obtained under a service contract with Credit Union Electronic Transaction Services (CUETS), a joint venture between the Alberta and Saskatchewan Credit Union Centrals.

Implementation Issues

Overview

All manner of issues will arise prior to and during implementation of the chosen option or model. Implementation issues are really beyond the scope of this report, but it is worthwhile to briefly mention the application process.

Application Process

There is a fairly complicated 2-part application process for establishing a bank or trust company under the new federal legislation:

1. The first part 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.
2. 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. [OSFI 2001]

An application to incorporate a credit union in Nunavut is less stringent. Subsection 5.1 of Nunavut's *Credit Union Act* provides that:

> An application for incorporation of a credit must be made to the Supervisor by memorandum of association in the prescribed form, and
> (a) must state
> (i) the name of the credit union,
> (ii) the place where the registered office of the credit union is to be situated, and
> (iii)the names and addresses of the subscribers to the memorandum;
> (b) be signed by not fewer than 10 subscribers desiring to be associated together, one of whom shall be designated as the provisional secretary; and
> (c) be accompanied by
> (i) a copy of the standard by-laws under which the credit union shall operate, signed by the subscribers,
> (ii) an affidavit verifying the signature of the subscribers, and
> (iii)the prescribed registration fee.

As Eckert pointed out, the regulatory framework to give effect to the provisions of the *Credit Union Act* is not yet in place, so any other requirements for incorporation are unknown at this time. However, it would be reasonable to expect that the Supervisor of Credit Unions would expect no less than that of the OSFI in terms of the review and approval process, that is, knowledge of the applicant's ownership, management, financial strength and 3-year business plan.

Factors

Overview

The main factors to consider in deciding between the options are:

- Product/Service focus;
- Target markets;
- Technology;
- Control; and
- Development costs.

Product/Service Focus

Limited financial services are available in most Nunavut communities, albeit provided by non-financial organizations. A new deposit-taking financial institution should – at a minimum – provide chequing and savings accounts, term deposits, and access to better credit facilities. After that, decisions to provide a broader range of financial products and services involve more complex factors such as capacity and technological capability, as well as benefit-cost considerations.

All of the models presented in this report are based on the provision of basic financial services. However, if the ability to provide trustee services should be an important part of the overall mix of financial services, then a trust company would be the preferred option.

Target Markets

An examination of the objectives and strategies of both the First Nations Bank and Peace Hills Trust Company indicates a focus on niche markets at the national level. A critical success factor for a central bank is to develop a diverse ownership and a diverse customer base.

The implication here is clear:

- If the key stakeholders envision a longer term marketing strategy which extends beyond Nunavut borders (for example, to consider markets in the NWT, Yukon, Nunavik and Labrador), then a central bank or trust company would be the preferred model.
- If the key stakeholders envision a focus on regional and community markets within Nunavut over the longer term, then a decentralized community banking or credit union system would be the preferred model.

Technology

Successful implementation of the Community Bank model (and to a lesser extent, the Credit Union model) is predicated upon access to the appropriate technology to service intended markets, within acceptable cost parameters. We assume that such technology is available now, or – given current broadband internet studies – in the near future. Obviously the decentralized Community Bank model is less attractive if this is not the case.

Development Costs

Development costs include: application fees, capitalization requirements, research and development costs, start-up costs. A crude ranking of development costs, from least to most, would probably be[2]:

1. Central Bank model
2. Trust Company model (because of the cost of procuring and maintaining trustee services)
3. decentralized Community Bank model
4. Credit Union model

[2] This ranking is based solely on the results of the research and interviews conducted for this study. To conclusively consider cost as a factor in the decision-making process requires a feasibility study.

Conclusions

From the studies conducted in the early 1990s, we know that there are two compelling reasons for creating a new deposit-taking financial institution:

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

Four models have been created in order to elaborate the institutional options available to achieve the above two objectives:

- i a Centralized Bank model;
- ii a Decentralized Community Bank model;
- iii a Trust Company model; and
- iv a Credit Union model.

The models are not meant to be definitive implementations of each option, but rather, are designed to highlight the similarities and differences between the options. Each of the models has advantages and disadvantages in terms of any more specific objectives or priorities that key stakeholders may have. There has been an attempt to explain some of these advantages and disadvantages, in an effort to assist the decision-making process. In addition, some of the critical issues that will be faced by decision-makers in developing and/or implementing any of the models have been identified. Examples from the research or interviews have been given in some cases to illustrate a particular advantage or disadvantage, or how a particular issue was addressed at the time.

Finally, the authors have attempted to assist the decision-making process by framing some of the key factors that should be considered in evaluating the models. The main factors identified in this report are:

- Product/Service focus;
- Target markets;
- Technology;
- Control; and
- Development costs.

Summary of Features

Factor	Institution	Notes	Advantage	Disadvantage
Incorporation	**Bank**	**Incorporated under federal legislation; complicated process leading to incorporation**		√
	Trust Company	**Incorporated under federal legislation; complicated process leading to incorporation**		√
	Credit Union	**Can be incorporated federally, but incorporation under Nunavut *Credit Unions Act* would be less complicated**	√	
Ownership	**Bank**	**Joint venture with an existing bank is possible; Statutory requirements govern ownership; generally any entity owning more than 10% of any one class of shares must be approved by the federal Minister of Finance**		√
	Trust Company	**Joint venture with an existing bank is possible; Statutory requirements govern ownership; generally any entity owning more than 10% of any one class of shares must be approved by the federal Minister of Finance**		√
	Credit Union	**Owned by its members**	√	
Capitalization	**Bank**	**A minimum of $5 million in paid up capital is a statutory requirement**	√	
	Trust Company	**A minimum of $5 million in paid up capital is a statutory requirement**	√	
	Credit Union	**No statutory requirements, but it would be prudent to emulate the capitalization requirements of banks and trust companies**		√

Factor	Institution	Notes	Advantage	Disadvantage
Capability to Offer a Full Range of Products and Services	**Bank**	**Range of products limited only by available resources; the exception is trustee services**		√
	Trust Company	**Broader range permitted than with banks; however would require sufficient resources – or affiliation with a southern-based trust company – to offer a full range of services**		√
	Credit Union	**Is permitted by legislation; individual credit unions are encouraged to affiliate with other co-operative associations to offer a full range of services**	√	
Deposit Insurance	**Bank**	**Membership in Canada Deposit Insurance Corp (CDIC) is mandatory; limit on individual accounts is $60,000**		√
	Trust Company	**Membership in CDIC is mandatory; limit on individual accounts is $60,000**		√
	Credit Union	**membership by individual credit unions in CDIC is not mandatory; however membership in a central affiliation of credit unions is required; limits on individual accounts is set by provincial Central**	√	
Profit Sharing	**Bank**	**Dividends may be declared and paid consistent with share ownership**		√
	Trust Company	**Dividends may be declared and paid consistent with share ownership**		√
	Credit Union	**Members control profit-sharing**	√	
Regulation	**Bank**	**by Office of the Superintendent of Financial Institutions (OSFI)**		√
	Trust Company	**by OSFI**		√
	Credit Union	**by Nunavut Supervisor of Credit Unions**	√	

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