Lessons in operationalizing social finance: the case of Vancouver City Savings Credit Union

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Lessons in operationalizing social finance: the case of Vancouver City Savings Credit Union

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With $16.2 billion of assets the Vancouver City Savings Credit Union (Vancity) has the largest asset base of any member of the Global Alliance on Banking and Values, a global association of ethical banks, and also has the largest asset base of Canada’s credit unions. This article analyses the social financing Vancity conducts and the disclosure of the social impact of the products and services they offer. The results suggest that they are on the path to realizing a 100% social finance portfolio but that they have not arrived there yet. In particular, their personal retail products and services still offer room for improvement. Furthermore, their reporting lacks an indicator based on comparative figures that would allow stakeholders to compare the impact of Vancity’s products and services with those of other financial institutions.

Keywords: impact investing; social bank; Vancity; credit unions; GABV; social finance institutions

Introduction

We seek to redefine wealth in a way that goes beyond profit alone to include social justice, environmental sustainability and community well-being. Our definition of wealth goes beyond the trade-offs assumed in a triple-bottom-line approach to one that creates true blended value.

(VanCity Mission Statement 2011, 19)

With over $16.1 billion in assets under management and nearly 480,000 members Vancouver City Savings Credit Union (Vancity), Vancity has the largest asset base and second-largest membership base of any credit union in Canada (Vancity 2012a). It is headquartered in Vancouver, British Columbia. The mission of Vancity states explicitly the idea of social and environmental sustainability. As the member with the largest asset base in the Global Alliance for Banking on Values (GABV), comprising about half of the GABV’s total asset base in 2011, the scale of Vancity’s operations is of particular interest for the emerging impact investing industry. Vancity’s home territory, the Canadian province of British Columbia, has been host to many of Anglophone Canada’s most interesting social finance experiments. Much of this organizational ecology has grown with and around Vancity, and their role in seeding this ecology offers replicable lessons for other social finance organizations.

As a credit union, Vancity is co-operatively owned by its member-customers. Social finance institutions (SFIs), such as Vancity, provide financial services to generate social or environmental
benefits, in contrast to the purely profit-driven motivations of their commercial counterparts (da Silva 2007; Edery 2006a). Although some SFIs are credit unions and some credit unions provide social finance services, not all SFIs are credit unions, nor are all credit unions SFIs. In British Columbia, Vancity offers products and services such as social enterprise loans, financing of renewable energy projects and social housing. In contrast to the Canadian chartered banks and many other credit unions, Vancity commits a substantial portion of its assets to social finance projects rather than including social investment as part of an ancillary corporate social responsibility (CSR) plan.

Once limited to only serving the Vancouver population, Vancity’s operations are still primarily based there but have come to include the surrounding British Columbia Lower Mainland and Victoria. As a credit union, they are primarily regulated by the Province of British Columbia and have few operations in the rest of Canada. While they hold almost a third of the $49 billion in credit union assets held by British Columbian credit unions, this is small compared with the assets held by Canada’s commercial banks (Central 1 2011). As a comparator, the smallest of Canada’s ‘Big Five’ commercial banks, the Canadian Imperial Bank of Commerce holds $352 billion in assets (Canadian Imperial Bank of Commerce 2010).

One of Vancity’s founding principles was to work in the service of Vancouver’s underserved communities (Vancity 2012b). In 1946 this meant Vancouver’s working class East Side, although in practice this service meant more than just holding deposits and lending. Indeed, their long-standing policy of distributing 30% of their earnings to members and non-profit organizations has made them a philanthropic pillar in British Columbia. However, it was between 1983 and 1986 when a group of activist members organized to take over the credit union’s board of directors that the credit union took a sharp turn in the direction of social financing (Hardin 1996). This started a process of consciously shifting more of their asset base towards financing social entrepreneurs and non-profits engaged in for-profit ventures. They were the first financial institution in Canada to provide mortgages to women and creating Canada’s first socially responsible investment (SRI) mutual fund, the Ethical Growth Fund in 1986. More innovations have followed and today Vancity offers an array of new investment opportunities that integrate social finance with their mission.

The purpose of the article is to describe social finance and its application. It draws on a case study of Vancity Credit Union and demonstrates how social finance can be implemented in the financial sector in a manner that benefits both the society and business. Furthermore, the article analyses how the social and environmental impact of social financing may be reported in a way that enables comparison between different SFIs and their conventional counterparts.

As an approach, this article starts by analysing the conceptual background of social finance and how one of the biggest social finance players in the industrialized world applies the concept. In the second section we will present an overview of how Vancity has used the social finance concept over time and how they integrate it into the core business of the credit union. The third part will focus on disclosure of intended impact. To do this we analyse Vancity’s annual reports. Finally, the article draws conclusions from how this credit union operationalizes social finance and how the social reporting affects its business.

Social finance

There are three forms of social finance: microfinance, impact investing and social banking. Social finance can be defined as ‘the application of tools, instruments and strategies where capital deliberately and intentionally seeks a blended value (economic, social and/or environmental) return’ (Harji and Hebb 2009). Microfinance, in particular, has been receiving a great deal of attention since Muhammad Yunus, one of the founders of microfinance, was awarded the Nobel Peace
prize in 2006. Microfinance has become well known as a market-based financial service used to fight poverty by providing people with access to small loans (Yunus and Weber 2007). However, microfinancing primarily occurs within developing countries.

Impact investing is defined by the Canadian Task Force on Social Finance (2010) as ‘the active investment of capital in businesses and funds that generate positive social and/or environmental impacts, as well as financial returns (from principal to above market rate) to the investor’. The contrast between impact investing and socially responsible investing (SRI) is that SRI can screen out investments for social, environmental or governance reasons whereas impact investing is based on the assumption that investments can create financial returns and address social and environmental challenges (Bugg-Levine and Emerson 2011). Impact investing tends to be connected with private and institutional investors, often including philanthropic foundations. SFIs engaged primarily in banking activities are called social banks. While Vancity is a credit union, making it a co-operatively owned institution that is regulated differently from a bank, its activities are primarily banking services. Most mainstream financial institutions usually have a CSR strategy (Schuster 2001). However, for many conventional financial institutions CSR is rather an add-on rather than being implemented in their core business. In contrast, SFIs embed social values into their governance and business operations (Cadman 2011). Weber and Remer define social banking as ‘banking that aims to have a positive impact on people, the environment, and culture by means of banking, i.e. savings accounts, loans, investments and other banking products and services, including “gift money”’ (2011a, 2). Although SFIs are still considered a niche phenomenon, they have shown impressive balance-sheet growth, market share and even financial return (Remer 2011). This is particularly true after the 2008 global financial crisis. In 2010, the total amount of the balance sheet of the members of the biggest social banking association, the GABV, was $26.2 billion (Weber and Remer 2011b). On the one hand, this is a substantial asset base. On the other, this is still a small amount relative to what mainstream financial institutions hold and a nearly negligible fraction of the total financial market.

SRI is a heterogeneous field (Sandberg et al. 2009) integrating social or environmental criteria into the set of investment indicators (Koellner et al. 2007) and includes ‘social’ screening, community investment and shareholder advocacy (O’Rourke 2003) in the investment process to guarantee higher and more sustainable financial returns. The two main goals of SRI are guaranteeing attractive financial returns by investing in securities while taking long-term sustainability into account (Weber, Mansfeld, and Schirrmann 2011) and channelling capital towards activities that have a broader social, environmental or sustainability benefit and thus foster sustainable business (Buttle 2007; Weber 2006). When viewed over time, by integrating social, environmental and governance evaluation into investment risk-analysis, many SRI representatives argue that this approach actually achieves higher financial returns than conventional investing (Sandberg et al. 2009).

A strict separation between SRI and social finance is difficult, since there is a spectrum that includes different types of social finance and mainstream finance. Chertok, Hamaoui, and Jamison (2008) distinguished between the emphasis on financial returns and the emphasis on social returns. For them conventional finance is located on the one end of the scale, while non-profit grant-making is at the other end with the social capital market in the middle (Meehan, Kilmer, and O’Flanagan 2004). Another way of viewing the spectrum is by looking at what projects people invest in. Investments may range on a scale from for-profit commercial enterprises at one end of the spectrum and operational charities with exclusively social purposes at the other end.

To clarify the role of Vancity as an SFI, it is important to have a clear definition of social finance. Different definitions of social finance come from authors such as Bugg-Levine and Emerson (2011), Emerson (2003), Harji and Hebb (2009), Chertok, Hamaoui, and Jamison
(2008), Kaeufer (2010) and Weber and Remer (2011a). However, what are common to all these definitions are two principles:

1. The principle of blended value stating that a positive social impact and a financial return may and should be achieved by social finance products and services.
2. The principle of sustainable financial return that guarantees the financial viability of SFIs.

**Social banking**

There is a great deal of diversity in the backgrounds of SFIs. In the early 1980s American financial institutions were confronted with environmental risks imposed by the US Comprehensive Environmental Response, Compensation and Liability Act of 1980, which set as a policy that the owner of a contaminated site would be responsible for the clean-up. Some lenders were held liable under this Act because they participated in the management of the businesses contaminating some site (Bacow 1998). Additionally, in Europe the regulatory situation changed in the 1980s as well to have a similar impact (Scholz et al. 1995). As a consequence, both environmental and broader sustainability criteria were used to rate borrowers in the following years. By integrating environmental and social sustainability indicators, the credit risk management of conventional banks and other financial institutions improved (Weber, Scholz, and Michalik 2010). Although social sustainability indicators were incorporated by conventional banks and financial institutions, these were not brought in as an actual investment objective.

While SRI integrates sustainability risks into lending decisions, social banking institutions provide loans for creating a social or environmental benefit (da Silva 2007; Edery 2006b). Their businesses are based on two principles: achieving a positive impact on the society, the environment and sustainable development and achieving a sustainable financial return. Although financial institutions that follow these principles have existed since medieval times, the first modern social banks were founded in the 1970s to use financing as a tool to make a social impact (Milano 2011). Many of these institutions have a philosophical underpinning, such as that of the anthroposophist German Gemeinschaftsbank fuer Leihen und Schenken (GLS), a social–environmental basis like that of the Swiss Alternative Bank, or a development model such as those used by microfinance institutions (Weber and Duan 2012). Some social banking institutions are based on community development and the advancement of the institution’s broad membership; this is the focus of the Vancity credit union.

Credit unions were founded at the end of the eighteenth century to provide middle and low-income community members the opportunity to save and borrow, fostering community economic development. The credit and savings union model spread from Europe to North America with the opening of the Philadelphia Savings Fund Society in 1816 (Milano 2011), with a major expansion and modernization following the founding of the first Caisse Populaire in Levis, Quebec in 1900. The main function of local savings banks and credit unions was, and still is, to offer their members the opportunity to save and to better educate their communities on how to use financial services. Credit unions continue to operate as democratic one-member-one-vote institutions. Serving the underbanked population is one aspect of credit unions. This also applies to commercial clients such as social enterprises and non-profits that are not in the focus of bigger corporate banks.

**Methodology**

This article asks the following questions: What are the broad lessons that can be drawn from the Vancity experience and how may they be applied to the larger development of social finance
markets? Do the indicators that Vancity reports show that the credit union generates a social and environmental impact through its portfolio?

The approach taken here to looking at the social innovations fostered or triggered by Vancity in British Columbia is a multifaceted one. One aspect is to look at Vancity in a historical context within Vancouver and British Columbia. Here we are greatly indebted to Hardin’s 1996 history of the credit union commissioned by the Vancity board. Additionally, we draw on a series of a dozen key informant interviews from participants in the British Columbian social finance sector, all but one from outside Vancity itself, to build a picture of Vancity in the broader British Columbian social finance ecosystem.

We also conduct an in-depth analysis of Vancity’s annual reports to find out whether they differ in structure and in content from those of conventional financial institutes. This analysis is based on the Annual Reports between 2000 and 2010. We analysed the business fields of the credit union with respect to indicators and qualitative descriptions of the integration of social finance. Furthermore, we calculated the growth of social finance at Vancity through an analysis of their assets and loans between 2000 and 2010.

Vancity in a broad social finance ecology
As noted earlier, there are three major forms of social finance: social banking, microfinance and impact investing. Primarily, Vancity operates in the social banking sphere. Although they have made some forays into microfinance, for the most part they have remained outside this space. That being noted, their historical role since their founding focused on the extension of banking services to and the creation of banking products for members who were otherwise ignored by mainstream financial institutions. Through a variety of organs Vancity has long been an impact investor in British Columbia. In this section we situate Vancity in the broader Canadian social finance ecosystem, examine the historical involvement Vancity has had in social finance and, most importantly, the investments they have made in British Columbia’s social finance infrastructure.

Canada’s Credit Union System, and its co-operative movement more broadly, has tended to be strongest in Western Canada and Francophone Quebec. Much of this can be seen as a reaction to the concentration of financial wealth in Toronto and Anglophone Montreal, which deprived the Prairie Provinces and British Columbia of the capital needed for economic development and financially marginalized Quebec’s Francophone population. It was in Quebec in 1900 that Alphonse Desjardins founded the first caisse populaire. This was the starting point for Canada’s credit union movement, and within Quebec has evolved into a powerful credit union federation, the Desjardins Group, holding over $190 billion in assets – more than any financial institution in Quebec (Desjardins Group 2012). Canadian credit unions outside Quebec have never achieved the same financial dominance. However, the British Columbian Lower Mainland with its dense population is sufficiently large to support an innovative social finance sector.

Unlike commercial Canadian banks, which are regulated and operate nationally, Canadian credit unions largely operate under a provincial regulatory framework. Where credit unions have a presence outside of their home provinces they usually operate as small wholly owned subsidiaries. Consequently, the contexts in which credit unions operate are largely provincial, rather than national. The second- and third-largest credit unions in British Columbia, Coast Capital Savings with $10.4 billion in assets and First West with $5 billion in assets, are both headquartered in Vancouver’s suburbs. Coast Capital, formed between 1999 and 2001, after a series of mergers between three large suburban credit unions, has a slightly higher membership base than Vancity with over 454,000 members although with a substantially smaller asset base (Credit Union Central of Canada 2012a). Overall, there are
1.7 million credit union members in British Columbia, or about one-third of the province’s population (Central 1 2011).

Initially, the rationale behind the credit union model was that loans could be provided using character rather than property to provide collateral. Efficiencies came from using trust to lower transaction costs. However, the natural trade-off was that most credit unions were ‘common bond’, meaning that there had to be some common characteristics shared of members such as an employer, trade union or religious denomination. Vancity was established as an ‘open-charter’ credit union, meaning that anyone in Vancouver could join. The fear raised by sceptics in the credit union movement was that by opening membership to Vancouver’s 350,000 residents it could grow the membership to a size too big to give the loaning committees the insight into borrowers’ character they needed to operate. The caisse populaires of Quebec were similar to open-charter credit unions, although most operated only in a single parish with a single branch. Indeed, the difference between the Desjardins Group and the British Columbian credit unions is that Desjardins is a federation of small credit unions with a strong centralized federated service offering, whereas British Columbia’s credit unions such as Vancity or Coast Capital are integrated multi-branch operations, although these are also part of weaker credit union federations at the provincial and the national level.

Provision of financial services to people who the financial system has traditionally discriminated against was vital to Vancity’s founding in 1946. This scale was far larger than a Quebec parish and especially once Vancity expanded to multiple branches in 1957. Vancity grew beyond the point where the perceived benefits of a common bond could be assumed. However, it did offer financial services to people ignored by other financial institutions. At Vancity women were eligible for loans and mortgages in their own name, a first in Canada. Similarly, in Vancouver’s working-class East side Vancity offered mortgages while other financial institutions only offered ‘agreements for sale’, an inferior financial product which made it difficult for the builders of new homes to acquire the capital they needed. In effect, many of these original financial service offerings provided both local economic development and the proofs-of-concept needed to bring other financiers to these groups of potential clients.

The development of these proofs-of-concept in the provision of mainstream financial services has been important to the development of British Columbia’s credit union infrastructure, as much of the novel innovations made by Vancity have been adopted by other credit unions. In 1966, Vancity was one of seven British Columbian credit unions that pooled resources to develop a computer system called Central Data Systems that was then used to develop Canada’s first daily interest savings account, Plan 24, in 1967. Soon after Vancity offered Plan 24 to other British Columbian credit unions, providing them with a service that commercial banks would not be offering for another 12 years and greatly improving the credit unions’ growth prospects. Similarly, in 2001 Vancity along with its subsidiary Citizens’ Bank together with Coast Capital and Surrey Metro Savings (acquired by Coast Capital the following year) created a joint venture to develop a stronger online infrastructure for their services.

Vancity’s major move into social finance started in the early 1980s when a group of members called the ‘Action Slate’, later renamed the ‘Action Team’, organized a successful takeover of the Vancity board of directors. The Action Team was primarily organized by the former provincial Member of the Legislative Assembly and New Democratic Party (social democratic) cabinet minister Bob Williams for the purpose of using Vancity’s substantive assets for social change. Although Bob Williams later left the Action Team and re-joined the Vancity board as an independent member in 2007, the shift starting in the mid-1980s was a powerful one. Prior to this, Vancity had attempted some investments that could be considered precursors to their current social finance projects, albeit without the same overarching philosophical framework.3
By 1986 the Action Slate had taken every seat on the Vancity board and has dominated the board ever since. The Action Slate viewed Vancity as a tool that could be used to leverage broader positive social change in Vancouver and quickly set about creating new programmes to achieve this. In 1986, Vancity created Canada’s first SRI fund, the Ethical Growth Fund, which soon proved that there was a market for ethically screened investments in Canada. This was the first of many projects aimed at directing Vancity’s assets towards sustainable or local economic development projects. Current arms of the broader Vancity sphere include Vancity Enterprises, the Vancity Community Foundation and the Resilient Capital Fund.

Analysis of Vancity’s 2000–2010 annual reports

Social financing involves two concepts: impact and blended value creation. SFIs should demonstrate their social or environmental sustainability impact and also support investments that produce social or environmental returns while also generating financial returns. To determine whether Vancity delivers the financial portion of this blended value we examine the credit union’s annual reports from 2000 to 2011. Following this, we conduct a content analysis of Vancity’s 2010 annual report to analyse whether the credit union also provides social or environmental value.

Starting with Vancity’s financial performance, Table 1 clearly shows strong growth trends for the credit union with respect to the number of members, employees, branches, loans, deposits, equity shares and total assets. After experiencing increasing growth from 2000 to 2007, the 2008 financial crisis saw a levelling off of growth until 2011 when asset increased to more than $16 billion (Vancity 2012a).

One important aspect of social banking is how the assets, deposits and savings are channelled into loans, their most important service. Some studies show that SFIs have difficulty channelling their increased savings and deposits towards lending when they experience rapid growth (Weber 2011). As we see in Table 2 the loans per assets as well as the loans per deposits and equity shares percentages are high. Many social banking SFIs have a lower rate and the average of the loans-per-asset percentage of the members of the GABV was 71% between 2007 and 2010, a ratio that Vancity has exceeded. A one-sample $t$-test that compared the average loan-to-asset ratio of Vancity with that of other members of GABV resulted in a significant difference and suggested a significantly higher loan-to-asset rate for Vancity ($t = -9.75$, df = 97, $P < 0.00001$).

Table 1. Vancity’s numbers of members, employees and branches from 2000 to 2010.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of members</th>
<th>Number of employees</th>
<th>Number of branches</th>
<th>Loans ($ thousands)</th>
<th>Total deposits and equity shares ($ thousands)</th>
<th>Total assets ($ thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>266,213</td>
<td>1570</td>
<td>43</td>
<td>6,054,379</td>
<td>6,191,577</td>
<td>6,889,509</td>
</tr>
<tr>
<td>2001</td>
<td>275,721</td>
<td>1622</td>
<td>41</td>
<td>6,706,487</td>
<td>6,744,487</td>
<td>7,511,889</td>
</tr>
<tr>
<td>2002</td>
<td>286,365</td>
<td>1706</td>
<td>41</td>
<td>7,071,926</td>
<td>7,610,695</td>
<td>8,223,830</td>
</tr>
<tr>
<td>2003</td>
<td>300,945</td>
<td>1916</td>
<td>43</td>
<td>7,691,599</td>
<td>8,425,665</td>
<td>9,030,061</td>
</tr>
<tr>
<td>2004</td>
<td>302,032</td>
<td>2050</td>
<td>44</td>
<td>8,535,816</td>
<td>8,950,835</td>
<td>10,453,765</td>
</tr>
<tr>
<td>2005</td>
<td>337,107</td>
<td>1995</td>
<td>50</td>
<td>9,984,474</td>
<td>10,558,155</td>
<td>11,756,319</td>
</tr>
<tr>
<td>2006</td>
<td>354,663</td>
<td>2196</td>
<td>50</td>
<td>10,888,592</td>
<td>10,221,195</td>
<td>12,281,087</td>
</tr>
<tr>
<td>2007</td>
<td>387,762</td>
<td>2372</td>
<td>60</td>
<td>12,583,832</td>
<td>11,208,389</td>
<td>14,106,527</td>
</tr>
<tr>
<td>2008</td>
<td>407,121</td>
<td>2384</td>
<td>61</td>
<td>12,280,667</td>
<td>11,933,346</td>
<td>14,531,675</td>
</tr>
<tr>
<td>2009</td>
<td>414,377</td>
<td>2228</td>
<td>59</td>
<td>11,955,802</td>
<td>12,319,752</td>
<td>14,410,528</td>
</tr>
<tr>
<td>2010</td>
<td>417,211</td>
<td>2281</td>
<td>59</td>
<td>12,495,790</td>
<td>12,692,651</td>
<td>14,468,165</td>
</tr>
<tr>
<td>2011</td>
<td>479,528</td>
<td>2459</td>
<td>59</td>
<td>13,249,105</td>
<td>13,365,800</td>
<td>16,127,117</td>
</tr>
</tbody>
</table>
demonstrates that Vancity has performed far better than the GABV in making use of its assets to create loans overall. The performance is comparable with a benchmark of Canadian credit unions that had a loan-to-asset ratio of 82.4% at the end of 2011 (Credit Union Central of Canada 2012a). However, Vancity achieves this benchmark while providing impact loans, which is not the primary objective of the other credit unions in the benchmark.

Tables 1 and 2 present data on the growth and the use of the capital; however, they do not provide information about the financial sustainability and the financial success of Vancity. Table 3 presents figures showing the earnings, returns and capital ratios for the credit union.

Table 3 suggests that Vancity has been able to maintain its financial performance over the course of the past decade. These years included the global financial crisis of 2008 and the years following, in which Vancity’s performance was comparable with that of Canada’s commercial banks. These, in turn, outperformed most Organization for Economic Cooperation and Development countries’ banks. Similarly, the capital ratio is a proxy for the financial health of financial institutions and for its ability to survive financial crises. Vancity was able to increase its capital ratio over the last 10 years.

Although some caution should be taken when comparing Vancity with Canada’s commercial banks, such as the Toronto Dominion Financial Group (TD), the most successful bank in Canada in 2010, with more than $619 billion assets under management, the comparison is still insightful. As Figure 1 shows, indicators such as compounded annual growth of Vancity’s loans, deposits and equity shares, the number of employees, branches and total assets were not as high as that

<table>
<thead>
<tr>
<th>Year</th>
<th>Loans per assets (%)</th>
<th>Loans per deposits and equity shares (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>87.88</td>
<td>97.78</td>
</tr>
<tr>
<td>2001</td>
<td>89.28</td>
<td>99.44</td>
</tr>
<tr>
<td>2002</td>
<td>85.99</td>
<td>92.92</td>
</tr>
<tr>
<td>2003</td>
<td>85.18</td>
<td>91.29</td>
</tr>
<tr>
<td>2004</td>
<td>81.65</td>
<td>95.36</td>
</tr>
<tr>
<td>2005</td>
<td>84.93</td>
<td>94.57</td>
</tr>
<tr>
<td>2006</td>
<td>88.66</td>
<td>106.53</td>
</tr>
<tr>
<td>2007</td>
<td>89.21</td>
<td>112.27</td>
</tr>
<tr>
<td>2008</td>
<td>84.51</td>
<td>102.91</td>
</tr>
<tr>
<td>2009</td>
<td>78.66</td>
<td>92.01</td>
</tr>
<tr>
<td>2010</td>
<td>83.78</td>
<td>95.50</td>
</tr>
<tr>
<td>2011</td>
<td>82.21</td>
<td>99.13</td>
</tr>
</tbody>
</table>

Table 3. Vancity’s net earnings, returns on assets and equity, and capital ratio.

<table>
<thead>
<tr>
<th>Year</th>
<th>Net earnings ($ thousands)</th>
<th>Return on assets (%)</th>
<th>Return on equity (%)</th>
<th>Capital ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>21,001</td>
<td>0.32</td>
<td>7.70</td>
<td>10.50</td>
</tr>
<tr>
<td>2001</td>
<td>25,927</td>
<td>0.36</td>
<td>9.10</td>
<td>10.40</td>
</tr>
<tr>
<td>2002</td>
<td>39,572</td>
<td>0.51</td>
<td>11.70</td>
<td>10.90</td>
</tr>
<tr>
<td>2003</td>
<td>44,472</td>
<td>0.54</td>
<td>11.60</td>
<td>11.60</td>
</tr>
<tr>
<td>2004</td>
<td>57,200</td>
<td>0.63</td>
<td>13.00</td>
<td>12.10</td>
</tr>
<tr>
<td>2005</td>
<td>47,100</td>
<td>0.46</td>
<td>10.10</td>
<td>13.80</td>
</tr>
<tr>
<td>2006</td>
<td>54,300</td>
<td>0.38</td>
<td>8.80</td>
<td>13.00</td>
</tr>
<tr>
<td>2007</td>
<td>32,800</td>
<td>0.25</td>
<td>5.90</td>
<td>12.17</td>
</tr>
<tr>
<td>2008</td>
<td>45,800</td>
<td>0.33</td>
<td>7.60</td>
<td>12.36</td>
</tr>
<tr>
<td>2009</td>
<td>53,800</td>
<td>0.38</td>
<td>8.00</td>
<td>13.52</td>
</tr>
<tr>
<td>2010</td>
<td>77,414</td>
<td>0.54</td>
<td>10.60</td>
<td>13.98</td>
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of TD. However, Vancity was stronger than TD with respect to net earnings, and the return on assets and equity. Both financial institutions managed to increase their capital ratios, something common to the entire Canadian banking sector which emerged from the financial crisis as one of the world’s healthiest (Anonymous 2010).

Analysing Vancity’s annual reports through the lens, their social and environmental impact involves looking at both the organization’s mission and the services it offers. Vancity’s mission statement explicitly defines wealth as being ‘beyond the trade-offs assumed in a triple-bottom-line approach to one that creates true blended value’ (VanCity 2011, 19). This mission statement was developed in 2008 and complements their strategy outlining that Vancity will guarantee ‘their efforts to create community benefits that are financially sustainable, provide adequate reserves to withstand a turbulent economy, and reinvest to build infrastructure for the long term’ (VanCity 2011, 19). Unlike most SFIs, Vancity explicitly emphasizes the importance of financial sustainability for achieving their social finance goals (Weber and Remer 2011a). In addition, they have developed a strategy to connect their branch network to community well-being, offering financial services to clients that can deliver blended value and foster community development.

Vancity’s vision and strategy suggest that the credit union is following the main concepts of social finance, social impact and blended returns. Whether their operations also follow this concept requires further analysis.

One important Vancity product line is their high-impact community investment loans. These loans support the areas of affordable housing, social-purpose real estate, local, natural and organic food, the environment and energy efficiency, and social enterprises and social venture. The product line grew $300 million from 2009 to 2010. In contrast to that, the Credit Union Central of Canada reports that in 2010, Canada’s credit unions contributed more than $37.5 million to their communities in the form of direct donations, financial services, sponsorships,
scholarships and bursaries (Credit Union Central of Canada 2012b). Compared to grant-based community investments, the level of impact investment that can be provided through a loan portfolio is much higher. Furthermore, Vancity offers start-up finance for mission-based businesses, not-for-profit organizations, co-operatives, social enterprises, labour organizations, first nations-owned entities and microlending (VanCity 2011, 28). Together, these account for almost 15% of Vancity’s business loan and deposit products.

For individual clients Vancity offers social finance products in addition to traditional loans. These include home renovation loans, loans for fuel-efficient vehicles, housing loans for first nations’ governments, mortgages for low-income families, loans for members of equity co-operatives to buy shares, deposit accounts to help rebuild credit histories and improved residential mortgages. However, compared with Vancity’s total consumer product portfolio their social finance products in this business field are marginal. As a share of personal loan and deposit products their social finance offerings amount to only 0.1% (VanCity 2011, 75). While commercial banks do not identify the percentage of social finance in their personal loan and deposit portfolio for comparison, 0.1% is far from being significant.

Another Vancity service that may be categorized as social finance is the Shared Success programme, which guarantees that a minimum of 30% of Vancity’s profits will be shared with the community. This corresponds with the strategy of the Credit Union Central of Canada to emphasize community involvement in their CSR strategy (Strandberg 2012). In contrast to other credit unions presented in Strandberg’s report, Vancity sets clear financial goals and reports about the achievements. The credit union distributed $650,000 in 2009 and 2010 to individuals and non-profit organizations that experience temporary financial hardship to improve their long-term financial viability. In addition, this programme offers workshops to strengthen the financial knowledge of non-profit organizations. As part of its credit card services, Vancity created the Enviro Fund, through which a minimum of 5% of annual Visa card profits are donated to environmental initiatives. Through this service in 2010, nearly $400,000 was distributed to environmental not-for-profit initiatives selected by the credit union’s employees and other community experts. Overall, in 2010, $12.5 million went to community granting programmes.

While mainstream financial institutions use environmental, social and governance (ESG) criteria for only a few specialized products, Vancity builds these into nearly all their asset management evaluations. Nearly 90% of all managed and advised assets use ESG criteria in addition to standard financial criteria. Furthermore, Vancity Investment Management (VCIM) actively used its voting shares and proxy votes for companies that are owned within VCIM client portfolios (VanCity 2011, 32). A project meriting particular attention is the Dockside Green development. This planned green community is a brownfield redevelopment project (van Bellegham and Cole 2005). It is one of the largest in the world and is a fully owned subsidiary of Vancity. It consists of mixed residential, office, retail and commercial space and combines high environmental and social standards.

The use of Vancity’s financial statement demonstrates a striking contrast with conventional banks and other social banking SFIs. Usually such financial statements follow a standardized format, a format that most SFIs also use. It is rare for any banking institutions, social or not, to connect social finance reporting directly to their financial statements. In addition to issues that are usually reported in the Global Reporting Initiative’s supplement for the financial sector (The Global Reporting Initiative 2008), Vancity reports on issues specific to social banking. To do this, Vancity provides data about the economic value they generate as a specific indicator defined as ‘the total of operating costs, employee salaries and benefits, payments to providers of capital, payments to government (gross taxes), and donations to the community and to Vancity Community Foundation’ (VanCity 2010, 14). The goal here is to have an indicator which demonstrates the direct economic impact of Vancity itself. In 2010, 82% of the revenues
were distributed to employees, capital providers, governments and the community. Vancity’s reporting goes into even greater detail as allocations to their membership and the community are reported by

- programme
- focus area (environment, climate change, poverty, social economy, others)
- percentage of profits and
- mission-based grants

Vancity is one of the few organizations that publishes the salaries of their employees compared with the minimum wage and demonstrates that their entry salaries are more than 70% higher than the minimum wages in their province. However, the average hourly wage in the financial sector in Canada was $25.87 in 2011. This is significantly higher than the entry level of $18.17 at Vancity. Furthermore, compared with the sector with the lowest wages, accommodation and food services, the financial sector pays more than 180% of the average wages (see http://www.livingin-canada.com/work-salaries-wages-canada.html). In addition to this, they report on the share of their hiring that is local (67%) and compare the salaries they offer for men and women. Because of this they demonstrate that the wages they offer women are similar to those that they offer men (92–113%). The spread between the gender wages is smaller than the average spread in Canada with 27% (Hausmann, Tyson, and Zahidi 2012). Although the five big Canadian banks introduced policies on equal payment for female and male employees, they do not publish any figures on differences between payments for male and female employees. Vancity also reports on the location of their suppliers, noting that 80% of all purchases they make are from regional suppliers.

Most of the components of Vancity’s social finance strategy are reported in the product portfolio section of the financial statement. This is in contrast to other financial reports in the industry that do not report about CSR or social finance issues in their product portfolio sections of their annual reports but instead report these separately. Vancity reports that the amount of assets managed or advised on using a social finance approach is $47 million or 32% of the total portfolio of their managed or advised assets. In TD’s Corporate Responsibility Report the bank reports that they manage $23 million in SRI funds (TD Bank Financial Group 2011, 25). This is 0.013% of all their assets under management and in actual dollars is less than the amount of the much smaller Vancity credit union. Beyond their SRI assets, Vancity uses ESG criteria in 87% of all the assets they manage or advise, amounting to $314 million in value. Corporate engagement is conducted with 14% of all company securities in their portfolio, and in 57 cases ethical policy screenings were conducted that led to the discontinuation of two relationships. This suggests that the credit union does not only use social and environmental indicators to screen lenders or investees without any consequences. Rather it demonstrates that business relationships may be discontinued because of social or environmental reasons. Vancity publishes indicators about their lending business that cannot be found in annual reports of conventional financial institutions. The credit union comprises a community investment portfolio of $1 billion and their change product portfolio for underserved client groups is 6.4% of its total portfolio. Examples of these product lines are deposits, investment products and house renovation loans. The ‘change products’ portfolio constitutes 0.1% of the personal banking portfolio, 14.9% of the business banking portfolio and 29.6% of the wealth management portfolio (VanCity 2011, 73). It is important to emphasize that these figures are all published in the credit unions’ consolidated finance statements rather than in a special CSR report. Not only is there an integration of social finance products into Vancity’s product line, their non-financial impact is reported with the same level of scrutiny and third-party verification that they require for their financial report.
Discussion and conclusion

Generally, the results suggest that Vancity follows both social finance principles identified earlier in that they generate impact and financial returns. This comes through strongly even though Vancity was not explicitly founded on these principles in the same manner as European SFIs or the microfinance organizations in many developing countries (Weber and Remer 2011a). Vancity’s mission integrates community well-being, a positive impact on sustainable development and the concept of blended value. Not only does Vancity follow this in their mission, the analysis here demonstrates that these are well integrated into the operationalization of their strategy as well.

Furthermore, Vancity offers a number of financial products and services with a social impact such as community investment loans, shared success programme or the integration of ESG criteria in nearly all their asset management decision-making. The analysis of the annual financial statement demonstrates that social finance products often comprise the greatest share of their product portfolios. Thus similar to ethical banks, Vancity’s business mainly concentrates on social banking, although in some major areas such as personal loans there is room to develop social products and services. This suggests that Vancity is moving towards the realization of a 100% social finance portfolio although it is not there yet, especially with respect to personal retail products and services.

Vancity reports on the extent of their social finance products transparently and in detail in their annual reports. Importantly, since this is part of their financial statement the information included must be verified by a third-party auditor. That being noted, the measurement of the social or environmental impacts of many products and services is still lacking. Although the amount of capital that is used for social finance gives some insight into Vancity’s potential impact, the measurement of the impact itself is still missing. Instead Vancity is reporting on its outreach rather than its impact. This approach is similar to microfinance institutions that often use outreach measurement to demonstrate their impact (Hermes, Lensink, and Meesters 2011). It misses a demonstration of the effect that social finance products and services have on the community, society and the environment. This is challenging however, as metrics to measure these impacts are still under development and are rarely used in a systematic way (Rotheroe and Richards 2007). As Vancity’s social finance programmes develop, and as the sector develops as a whole, the reporting of non-financial impacts will increase in importance and reliability.

Similar to financial reporting, impact reporting will likely become more systematic and standardized. Furthermore, both negative and positive impacts will be reported using standardized metrics. Examples of these metrics could include people re-integrated into employment, the reduction of CO2 emissions by investments in renewable energy projects or the number of children participating in educational programmes financed by Vancity. The case-based approach that is often used to demonstrate impact is insufficient for providing comparative information between different financial institutions regarding their social impact, although it is still an effective way to highlight certain parts of the business. However, as almost any financial institution is able to present case studies about the positive impacts of parts of their business, more systematic and indicator-based approaches offer a credible demonstration of impact for a variety of stakeholders, including potential new members and clients of social banking institutions.

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Notes
1. The Solidarity Funds in Quebec, created in 1983, is not seen as an SRI fund but rather as a social impact fund.
2. Resilient Capital is an example of such an innovation. Launched in 2011 this fund provides social enterprises access to capital.
3. In the late 1960s Vancity created the VCS Housing Developments Ltd subsidiary to provide affordable housing to its members in the often bubble-prone Vancouver real estate market. Similarly, in the 1970s Vancity’s failed Seed Capital programme was set up to provide start-up loans to interesting business ideas, and even though this programme was closed down much of the learning from it went into their later social enterprise development activities (Hardin 1996).

References