European Network of Credit Unions

June 21, 2022

Platform on Sustainable Finance
European Commission

Re: **Report on Social Taxonomy/Platform on Sustainable Finance**

Dear Sir/Madam:

The European Network of Credit Unions (ENCU) appreciates the opportunity to provide our comments on the Report on Social Taxonomy (Report) which outlines the consideration of extending the Taxonomy Regulation to social objectives.

Credit unions (and credit cooperatives or savings and loan associations) are cooperative depository institutions that are consumer-owned, not-for-profit financial cooperatives that promote financial inclusion in underserved European communities by offering their members affordable and easily understandable financial products. There are approximately 1,900 credit unions in the European Union (EU) with more than EUR 28 billion in total assets and 9 million physical person members.[1] ENCU represents members from Estonia, Ireland, Poland, Netherlands, Republic of North Macedonia, Romania, Croatia, and Ukraine. ENCU is also affiliated with the World Council of Credit Unions Council which is the leading trade association and development organization for the international credit union movement. Worldwide, there are over 85,000 credit unions in 118 countries with USD 2.1 trillion in total assets serving 274 million physical person members.[2].

We support the Platform's objectives of aligning the structure of a suggested social taxonomy more closely to the existing environmental taxonomy. Further, extending the Taxonomy Regulation to social objectives would be beneficial in allowing credit unions to continue their important role in achieving social sustainability. We also support the Platform's focus on avoiding creating a reporting and administrative burden that does not defeat the purpose of social investing.

To that end we offer the following insights in to the structure and operations of the credit union model which we believe could be informative on these important policy issues.

[1] *See* "Credit Unions in Europe;" http://creditunionnetwork.eu/cus_in_europe.
[2] World Council of Credit Unions, *2020 Statistical Report* (2021), *available at* http://www.woccu.org/publications/statreport.

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Credit unions are member-owned, democratically governed, not-for-profit cooperative financial institutions generally managed by volunteer boards of directors with a specified mission of promoting thrift and providing access to credit for provident purposes to their members, especially those of modest means.

Precisely because of their cooperative structure, credit unions behave differently from investor-owned financial institutions and that difference in behavior produces substantial benefits to the world's millions of credit union members, to non-members, and the economy as a whole.

Two features of the cooperative structure are crucial in generating substantial benefits to society: 1. their total focus on member value and service; and 2. their tendency for risk aversion. Because of a credit unions' strong member focus, driven by their democratic governance structure, credit unions have every incentive to not only "pass on," but also to leverage the benefits of their corporate structure rather than diverting it in some form of expense preference[3] or payments to a stockholder.

The cooperative structure also discourages excessive risk taking by credit unions. Because they take on less risk, credit unions tend to be less affected by the business cycle and can therefore serve as an important counter cyclical economic force in local markets, softening the blow of economic downturns in local economies. In addition, credit unions' member focus and the absence of a strong profit motive allow them to offer significant advantages to their members of modest means.

This structure is significant in that we know that it results in numerous direct social benefits to the community. Credit unions are community-based institutions with field of membership restrictions and do not operate on a cross-border basis. This means that all the earnings flow back into the local communities that they serve.

In the United States the benefits of this structure have been documented. The Credit Union National Association in 2018 calculated that the nation's credit unions delivered direct financial benefits to members totaling $11.8 billion and since 2007 and those financial benefits have totaled $101.8 billion[4]. Furthermore, several independent researchers have found that credit unions have a moderating influence on bank pricing: raising bank deposit interest rates and lowering bank loan rates.11 Based on this research, CUNA estimates that bank customers saved $4.6 billion in 2018 from more favorable bank pricing arising from the presence of credit

[3] "Expense preference" refers to managerial behavior that places the preferences of managers (inflated salaries and benefits, perquisites, lavish offices, etc.) ahead of the otherwise recognized goals of the firm. In an investor owned firm, expense preference behavior would result in sacrificing profit (investor value) for managerial preferences.

[4] *See* Credit Union National Association, *Credit Union Not-For-Profit-Tax Status: History, Benefits, and Public Policy Tax Coniderations*, (April 2019) *available* at https://news.cuna.org/ext/resources/NewsNow/2019/04-2019/CUTaxStatusWhitePaper_April19.pdf.

unions in their local markets[5]. Since 2007, those non-member financial benefits have totaled approximately $39.4 billion. Finally, In addition to the benefits credit unions provide member and non-members, they have a positive impact on the economy as a whole. Indeed, CUNA has calculated that in 2017 credit unions contributed $121 billion in value added or economic activity to the U.S. economy[6].

As far as a methodology, we would urge you to look at the efforts of Donore Credit Union in Ireland. Donore Credit Union developed a methodology to place a number documenting the social dividend that their credit union generated. Their study, along with their methodological approach demonstrated that their efforts generated an enormous social dividend during the 2018 - 2019 financial year in excess of EUR 25 million. For every EUR 1 equivalent invested into Donore Credit Union, in the region of EUR 10 of social value was created[7]. This is an astounding number that could only be accomplished by the unique cooperative model afforded by a credit union.

Speaking directly to the third objective of the social taxonomy which focuses on inclusive and sustainable communities and societies which focuses on the impacts of activities on communities and the wider society, we urge consideration of the role of credit unions in the financial sector. The credit union not-for-profit cooperative model Credit generally provides direct financial benefits to members through lower loan rates, higher saving rates, and fewer, lower fees than comparable for-profit banking institutions. The Credit Union National Association (CUNA) estimates that credit unions provided $12,557,606,745 in direct financial benefits to the 127,848,853 members in the United States during the twelve months ending December 2021[8].

These financial numbers, however, only begin to tell the story of the impact that credit unions have on their members. Not-for-profit, member-owned credit unions are consumers' best financial partner and advance the communities they serve. Data shows that, on average, credit union members are more financially resilient than other consumers. Credit union members are also significantly more likely than non-members to use financial education and counseling services. This means that credit union members are more likely to engage in practices that improve their financial well-being and report that the financial institution they own has improved their financial well-being.

[5] Id.
[6] Id.
[77] *See* Donore Credit Union, *Social Return on Ivestment Study* (June 2020) *available at* https://www.donorecu.ie/images/library/documents/27022020-124055.pdf. Further information on the methodology utilized in the Study can be viewed at https://www.donorecu.ie/social-return-on-investment.
[8] *See* Credit Union National Association, *CUNA U.S. Membership Benefits Report* (December 2021) *available at* file:///C:/Users/APrice/Downloads/MembBenefits-National-D21.pdf.

A recent survey of credit unions documented the success credit unions have on they communities and societies[9]. Notably, the survey found impact in the following areas:

1. Consumer Financial Well Being: Credit Unions improve financial well-being for all:
   - Credit union members are two times more likely than nonmembers to say they have received personalized financial education and/or counseling;
   - Credit union members have clearly acted on the advice they received: Those who don't use credit unions are nearly two times more likely than members to say that they haven't established a financial buffer to meet unexpected expenses; and
   - Credit union members are 1.5 times more likely than nonmembers to say they are "very positive" their financial institution has improved their financial well-being.
2. Financial Well-being & Women: Credit unions significantly improve financial well-being among women:
   - Women who are credit union members are nearly two times more likely than nonmembers to say they have received financial personalized financial education and/or counseling;
   - Women who don't use credit unions are nearly two times more likely than women who are members to say that they haven't established a financial buffer to meet unexpected expenses; and
   - Women credit union members are 1.5 more likely than nonmembers to say they are "very positive" their financial institution has improved their financial well-being.
3. Financial Well-being & People of Color: Credit unions significantly improve financial well-being among people of color
   - People of color who are credit union members are nearly two times more likely than nonmembers to say they have received personalized financial education and/or counseling;
   - People of color who don't use credit unions are over two times more likely than their counterparts who are credit union members to say that they haven't established a financial buffer to meet unexpected expenses; and
   - People of color who are credit union members are 1.4 times more likely than nonmembers to say they are "very positive" their financial institution has improved their financial well-being.
4. Financial Well-being & Rural Residents: Credit unions significantly improve financial well-being in rural America

[9] *See* Credit Union National Association, *Credit Unions Lead in Improving Financial Well-Being for All available at* https://www.cuna.org/advocacy/priorities/credit-unions-improve-financial-well-being.html.

- Rural residents who are credit union members are 1.8 times more likely than nonmembers to say they have received personalized financial education and/or counseling;
- Rural residents who don't use credit unions are nearly 1.5 times more likely than rural residents who are members to say that they haven't established a financial buffer to meet unexpected expenses; and
- Rural resident credit union members are over two times more likely than nonmembers to say they are "very positive" their financial institution has improved their financial well-being.

5. Financial Well-being & Educational Attainment: Credit unions significantly improve financial well-being among those without college degrees
   - Those without college degrees who are credit union members are nearly two times more likely than their nonmember peers to say they have received personalized financial education and/or counseling;
   - Those who don't have a college degree and don't use credit unions are 1.7 times more likely than their peers who are credit union members to say that they haven't established a financial buffer to meet unexpected expenses; and
   - Those with lower levels of educational attainment and credit union membership are 1.5 times more likely than their counterparts who are nonmembers to say they are "very positive" their financial institution has improved their financial well-being.

Access to affordable, reliable and self-sustainable financial services improves lives on many different levels. Credit unions work to expand services to people of all income levels. This makes credit unions uniquely positioned to drive how the financial services industry can better foster financial inclusion. Credit unions model places the interests of their members top of mind, prioritizing personable, altruistic service. The "people helping people" philosophy is at the cored of their "DNA" which operates to the social benefit of all. Financial inclusion and the nexus with sustainable communities is embodied by the credit union cooperative model.

To this end we urge the consideration of designating financial institutions such as credit unions as their own social taxonomy without the need for reporting beyond their current regulatory framework. At a minimum any additional reporting should be included within their existing reporting framework. The concern over additional regulatory is quite prescient in credit unions because of their not-for-profit model. Credit unions are highly regulated financial institutions with their own reporting that already requires significant reporting and auditing mainly for the purposes of safety and soundness and consumer protection, among other reasons. We are concerned that a separate reporting requirement may cause confusion and cause significant costs to be incurred. We would urge any reporting requirements for credit unions to be controlled and governed by their prudential regulator at the national level.

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Credit unions often have limited financial and staff resources because of their relatively small size (average of EUR 20 million in total assets throughout the EU) and are typically run by volunteer boards and volunteer employees which exacerbates the impact of any new reporting requirements. Credit unions often have to rely on outside firms and vendors to provide solutions for their reporting needs. Those systems often require a substantial amount of resources and labor and often come at a steep price. To that end we urge consideration of a proportional approach or simplified reporting on not more than an annual basis for small and non-complex financial institutions. Designating credit unions as their own social taxonomy without the need for additional reporting is thus an ideal solution.

ENCU appreciates the opportunity to submit our comments in connection with the Report. Should you have any further questions, please feel free to contact me at aprice@woccu.org or +1 850-766-5699.

Sincerely,

Andrew T. Price
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