THE GLOBE AND MAIL

How Canadian credit unions are plotting to grab a bigger slice of your investment dollars

Bank buildings tower over the corner of Bay Street and Adelaide Street in Toronto.

GLORIA NIETO/THE GLOBE AND MAIL

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Credit unions are known in Canada for their high-interest savings accounts, mortgages and insurance products. Now, they've set their sights on a much bigger slice of the investment industry while becoming more formidable competitors to Canada's big banks.

Last week, Credential Financial Inc., Qtrade Canada Inc. and NEI Investments announced they will be banding together to launch a new independent wealth-management firm known as Aviso Wealth. The new firm will be jointly owned by Desjardins Group and a limited partnership comprised of five provincial credit union centrals and CUMIS Group Ltd. (which is partly owned by Co-operators Life Insurance Ltd.). Both Desjardins and the limited partnership will each hold a 50-per-cent stake.

Newly launched Aviso Wealth will implement a business plan that will improve wealth-management services – an area that historically has not seen strong uptake by credit union clients – at over 300 firms in Canada.

"Many credit unions have clients who are banking clients but they are not necessarily doing their investment services with a credit union, with many going to other institutions for their investment needs," says Bill Packham, chief executive officer of Aviso Wealth. "With the newly integrated business, we will be able to further assist the credit unions in building out their presence with their members in the wealth-management-services arena, including greater access to digital advice platforms, broader product offerings in socially responsible funds and the ability to become more price competitive on an ongoing basis."

Upon regulatory approval of the merger, the firm will have more than 500,000 clients across the country with approximately $55-billion in combined client assets under administration and management. This new scale and size will allow credit unions to become a considerable force in the wealth-management industry with wider product offerings and the ability to drive down the cost of investing for Canadians.

"By bringing these three firms together, we now have the flexibility to up the ante on what we can offer our members with a much broader offering than before," says Dilys D'Cruz, vice-president of wealth at Meridian Credit Union, one of the largest credit unions in Canada with $17-billion in assets under management. "We will be able to do much more than what we would have been able to offer by ourselves. From a mutual-fund perspective, to a pricing perspective, to a robo-adviser perspective – all these individual companies have their own unique offerings that they have been able to bring together under one roof and, in turn, help us service our members in the way they need to be serviced."

Investors can expect to see lower costs over the next 12 to 18 months, which is how long it is expected to take to merge the three firms into one. In an internal document outlining the company's future initiatives, Aviso Wealth hopes to lower the cost of investments in mutual funds to the level of the major banks, a level below the management-expense ratios of independent fund managers. For example, a management-expense ratio on Series A equity fund could be between 0.35 per cent to 0.50 per cent higher at an independent fund manager or life insurer, according to Strategic Insight.

As well, the firm hopes to be able to offer more in-house investment services for clients such as enhanced digital offerings through discount brokerages, robo-advisers or a hybrid model that would include a combination of services from both a digital platform and a financial adviser.

Lowering of fees could entice investors to stay in-house for their investment needs at the credit union, rather than shop around for cheaper alternatives. Currently, $21.1-billion in mutual funds are held at credit unions, but only $3.5-billion is held in independent funds such as Fidelity and CI Financial, leaving an opportunity of $17.7-billion on the table for Aviso.

As a combined firm, Aviso will be better positioned to compete with the banks who already have a massive footprint within the investment portfolios of many Canadian investors. At the end of September, 2017, the banks accounted for just under half of total mutual-funds sales, with assets under management of $706.2-billion, according to the Investment Funds Institute of Canada.

"It's an important milestone for our industry, a boon for credit unions and their members, and a significant shift in the competitive landscape, " says Martha Durdin, president and CEO of the Canadian Credit Union Association.

Merging into something bigger

Upon completion of the merger, Aviso Wealth will continue to utilize its three biggest brands – Credential, Qtrade and NEI Investments – but will merge a number of overlapping areas among the three.

Wealth distribution

Currently, both Credential and Qtrade run independent investment dealers for both securities-licensed and mutual-fund-licensed financial advisers. Upon regulatory approval, these platforms will merge under the Credential Financial brand and house 245 investment advisers and 1,908 mutual-fund reps.

Asset management

Both Qtrade and NEI Investments will combine their mutual-fund platforms to manage more than $7.8-billion in assets. NEI Investments, which consists of NEI Ethical funds and NEI Northwest Funds, will be the main brand and house Qtrade's mutual-fund lineup, which consists of OceanRock Investments, and its socially responsible funds that use the Meritas brand.

Online and digital

Both Credential and Qtrade run independent discount brokerage platforms for DIY investors.

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