

# VANCITY

Vancity is a member-owned, community-based full service financial institution with more than \$13 billion in assets and serving approximately 360,000 residents of British Columbia in Greater Vancouver, the Fraser Valley, Victoria and Squamish. Its major activities include day-to-day banking, lending and investment services. Vancity owns Citizens Bank of Canada, serving members across the country by telephone, ATM, and the Internet. Vancity and Citizens Bank are guided by a commitment to driving positive change, and to improve the quality of life in the communities where they operate.

## Governance

Vancity recently consolidated the number of Board committees. Where there were multiple Board committees with responsibilities related to community leadership/corporate social responsibility (CSR)<sup>1</sup> (i.e. Community Partnership + Social Audit + Vancity Award + Ethical Policy committees), there is now one, the Community Leadership Committee.

The Community Leadership Committee is responsible for developing and overseeing the implementation of Vancity's community leadership strategy. The Committee also oversees Vancity's accountability reporting process, which ensures that the company's Statement of Values and Commitments are a focal point of Vancity's operations and accountability. The Committee has a strategic oversight focus and will be measuring the triple bottom-line impacts of community leadership programs. This Committee includes representatives from Vancity, Citizens Bank and its other business partners (subsidiaries) to ensure greater integration of community leadership across the Group. With this restructuring it is hoped that a more holistic view of operations and opportunities related to community leadership will ensue.

The Vancity Board of Directors receives a monthly performance dashboard that includes data relating to financial performance, member experience, employee experience and – for the first time - community leadership. The community leadership component includes three specific community leadership key performance indicators (KPIs): (1) member, employee and public opinions on if they feel Vancity uses its resources and expertise to benefit the community and environment; (2) total assets under management in community leadership products (lending, deposits and investments which have social or environmental benefits); and (3) progress against the Group's 2010 carbon neutral commitment. Five-year targets are set for all of these areas.

Board members are responsible for approving Vancity's Accountability Report, and receive regular updates on progress the Group is making against the established targets and action plans that are set as a result of the reporting process. Vancity has set targets and action plans (identifying specific individuals accountable to deliver on each action plan item by a set date) across the following categories: outstanding service; responsible governance; being a great place to work; leading by example; and responsible financial managers. As well, Vancity sets internal action plans to respond to the external social auditor's Management Letter. The Vice President (VP) of Finance coordinates all outstanding items and reports quarterly on progress, sometimes assessing severely outstanding items and reassessing the particular item with the Board.

The Board was also very involved in the development of Vancity's Ethical Policy and is interested to understand how it is being implemented. The Sustainability Group reports on any exceptions to the Ethical Policy that the company is considering (e.g. doing business with a supplier that does not meet the policy requirements), as well as current non-aligned relationships.

<sup>1</sup> Vancity uses the term community leadership and broader corporate social responsibility (CSR) elements to describe its social, environmental and economic performance. The company believes that community leadership, in particular, speaks to what differentiates Vancity from others.

This is an example of a CSR issue that would be discussed and decided upon at Board level.

The Board conducts regular self-assessments on how it is meeting its role. One of the findings from the last assessment was that Board members felt they did not have enough time to discuss certain issues, in particular, Vancity's Aboriginal strategy and low-cost housing initiatives. The outcome resulting from the self-assessment process was that the Board wanted more time to spend talking about these kinds of issues before the official Board meeting started, and have therefore added a new process of in-camera information discussion sessions prior to Board meetings. This illustrates Board-level engagement and oversight in community leadership and broader CSR elements.

Community leadership has also been built into the management structure of Vancity. There is a newly created role of VP of Community Leadership, created to enhance integration of community leadership across the company. The role of this VP is to effectively communicate Vancity's vision of community leadership internally and externally. The goal is to have employees truly understand community leadership and embed it into the work of the company, and engage members. The VP of Community Leadership attends monthly Board meetings and there is a separate community leadership agenda item at each meeting, as well as a separate quarterly community leadership presentation. This new VP is the Board connection and "consciousness" on community leadership. The VP of Community Leadership will also be working closely with the CEOs of Vancity's five business partners, to ensure alignment among the businesses.

Vancity's Sustainability Group is also being redesigned to focus on outreach and engagement initiatives to further community leadership integration. Internal engagement with front-line workers will be the initial push, and the Group will also be helping the lines of business, support groups (such as Finance and Human Resources [HR]) and business partners develop their own community leadership KPIs, which contribute to the well-established corporate KPIs. The Sustainability Group is also working on monitoring performance, including trying to identify the impacts on the community and the bottom-line from their community leadership initiatives. Vancity has established community leadership champions in each division of the company as a way to embed community leadership at the grassroots level.

Vancity operates in a very competitive market and believes that community leadership differentiates the company in this market. Vancity also believes that being accountable to its key stakeholders for social, environmental and financial performance makes sense from a risk perspective. This vision of the business case for community leadership is well understood within the organization, and will be pushed more internally, including to subsidiary companies. The Board helps to integrate this thinking by pushing management to ask the right questions, such as how you are integrating an environmental and/or community aspect into a new product.

## Business Processes

### *Strategic Planning:*

In the Fall of 2006, Vancity set a community leadership five-year strategic plan (2007-2011). Vancity's Statement of Values and Commitments was a basis for the strategy and the process involved the Board of Directors and staff and was influenced by the results of the accountability reporting process. The community leadership strategy process helped Vancity to identify key priorities. Three priority areas are targeted, including:

- **Protecting the environment** – with a focus on climate change;
- **Helping people build assets** – promoting access to mainstream financial products such as bank accounts and low cost loans and

- **Strengthening communities** – in particular helping build the capacity and long term sustainability of non-profit organizations, social enterprises and cooperatives.

All business units and partners are responsible for implementing the community leadership strategy and for developing objectives and measures in each on how to support community leadership.

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**Business Planning:** Vancity uses the accountability reporting process to measure its social, environmental and economic performance and to respond to key areas of concern by setting future targets and action plans. These targets are assigned to management and are integrated into organizational and departmental business plans and included into performance plans. This integration helps the company to ensure that its values, Ethical Policy and accountability reporting process inform decision-making and drive improvement throughout the Group.

All lines of business, support groups and business partners must comment on what they are doing on community leadership in their quarterly reports. Recent quarterly reports identified that there are varying levels of understanding and integration of community leadership among the different groups. During the community leadership strategy development process it was clear that there were not enough resources dedicated to help the groups fully integrate community leadership into their operations. Improving this integration is one of Vancity's key focuses going forward, and the Sustainability Group was recently reorganized in order to provide the necessary support to achieve this.

Vancity's Ethical Policy is one of the best tools to help business managers ensure that operational and capital investment decisions take CSR factors into account (see fuller description below).

Through marketing and brand tracking efforts, Vancity is also trying to better understand if customers become more loyal because of Vancity's community leadership-related products. The results of this information will help inform future planning.

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**Business Development:** Vancity integrates community leadership into different business development activities, such as mergers and product development. When Vancity is considering merging or acquiring another organization, Vancity screens potential partner organizations using a questionnaire tool that is aligned with its Statement of Values and Commitments and its Ethical Policy. Based on the level assessed, the potential partner would be subjected to different screens, involving discussions and engagement with the merger company's executives and Board members to ensure that there is alignment between the organizations. As an example, the Human Resources department is part of any Vancity assessment team. They investigate and ask questions related to management style, number and types of employee grievances, labour disputes, human rights complaints, etc. in order to guide the decision on a potential partnership.

Vancity has recently launched a new "Partnership Growth Model" whereby it partners with credit unions rather than converting them to the Vancity brand. The credit unions operate under their own brand, with their own Board of Directors, but they share core services (e.g. Finance, Treasury, IT and Governance)

Alignment to Vancity's Statement of Values and Commitments and application of the Ethical Policy are required of partners, but they are given latitude to interpret and operationalize them in the way that makes the most sense to them.

Since 2002, Vancity has been using its Ethical Policy to integrate ethical screening into existing business practices. It has developed common tools and resources, including a shared database of ethical policy screening results. This integration continues and the company has aligned its lending, investment and procurement policies with the Ethical Policy, and has implemented the policy for relationships in business banking, suppliers, treasury investment, granting and marketing.

Vancity has a number of products that illustrate the company's integration of community leadership/broader CSR elements into product development. Examples include:

- Socially responsible investment (SRI) options through screened funds and securities;
- A subsidiary focusing on socially responsible investing (Inhance);
- Access to capital for "risk groups" (e.g. ABLED Advice and Business Loans for Entrepreneurs with Disabilities);
- Special loan programs to achieve environmentally beneficial outcomes;
- Discounted financing for hybrid cars;
- Climate change mortgage; etc.

With its new community leadership strategy in place, Vancity is looking at products that foster its community leadership objectives and that are linked to financial objectives.

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**Risk Management:** Citizens Bank (a wholly owned subsidiary of Vancity) has an enterprise risk management process and conducts annual self-assessments against Basel II – a capital management framework to ensure sound governance and management practices at banks.

Enterprise risk management is less established at the credit union. However, Vancity Credit Union conducts self-assessments against Standards of Sound Business and Financial Practices developed for credit unions. This has involved a number of workshops comparing the credit union's practices against the standards, and developing associated action plans to address identified gaps. Vancity has also held training sessions with senior management and the Board of Directors to increase awareness of enterprise risk management. The company has developed an inventory of enterprise-level risks broken down by risk category as well as by key stakeholder group. The company is currently documenting the strategies in place to manage these risks and identifying and closing gaps.

When looking at reputational and operational risks, the company looks at brand and community impacts because social value is integrated into Vancity's mission. Vancity is also specifically addressing climate change risk by facilitating climate change solutions through strategic grants, innovative products, and managing the climate change risks associated with its core business.

Some of the big risks Vancity faces are around the security of its individuals in terms of robberies, and Internet security related to debit fraud. The company has mitigation measures in place such as security monitors and screens, as well as an extensive health and wellness programs to mitigate this risk (e.g. Vancity has an award-winning program to help employees manage and minimize the stress when involved in a robbery). For example, an average of 77 days is lost per claim as a result of stress following robberies/acts of violence at financial institutions. Vancity's average is five days per claim.

Vancity also has a strong self-assessment process that is undertaken with management to self-assess mitigation strategies in order to manage the risks facing the company. CSR-related challenges are incorporated into this

process.

**Project Management:** Not applicable.

**Disclosure:** Vancity integrates CSR aspects into its annual report by disclosing multi-year performance against the company's KPIs including community leadership. The annual report also introduces Vancity's community leadership strategy and describes what has been achieved under the various strategy categories: advancing climate change solutions; increasing access to financial services and home ownership; strengthening non-profits and co-operatives; and building successful social and environmental enterprises.

**Assurance:** Vancity's Director of Internal Audit reports to the Senior VP of Corporate Governance and Enterprise Risk but also has direct access to the Board of Directors and the CEO. Internal audit monitors operations and provides advice and assurance that controls are in place and risks are being managed effectively (including CSR risks and Ethical Policy implementation). Vancity also contracts audits on compliance of its procurement practices; risk areas against its code of conduct; as well as solid waste and recycling system audits every year at a random number of facilities.

Besides the audited financial statements, Vancity's biggest assurance program that is public is the independent opinion of the social auditor of the company's biennial Accountability Report. The scope of the audit covers the range of social, environmental and economic issues addressed in the report, and applies the principles of the AA1000 Assurance Standard – materiality, completeness and responsiveness to stakeholders.

## Stakeholder Engagement

**Community Relations:** Vancity uses a number of stakeholder engagement mechanisms such as surveys (e.g. annually with members and employees), focus groups, interviews, workshops, etc. to explore community leadership issues and determine how the company can improve its operations. Vancity regularly tracks stakeholder input and incorporates it into corporate decision-making. As mentioned earlier, the views of members, employees and the public are integrated into the scorecard of KPIs reviewed by the Board on a quarterly basis.

Vancity undertakes specific engagement around the accountability reporting process, including obtaining feedback from stakeholders on the report's completeness, relevance and responsiveness.

Vancity also incorporates stakeholder engagement into some of its granting programs such as the \$1 million Vancity Award, EnviroFund, and Citizens Banks Shared Interest Program. Members can nominate grant recipients and/or select the impact areas the grants will focus on.

**Investor Relations:** Community leadership and CSR elements are incorporated into Vancity's public disclosures and are frequently discussed by the CEO and other senior staff in public presentations.

## Human Resources

**Recruitment and Orientation:** Community leadership is a large part of Vancity's employment branding and advertising. Its online Careers page ([vancitycareers.com](http://vancitycareers.com)) highlights the organization's commitment to doing business in a way that strengthens its long-term success while contributing to the social, economic and environmental well-being of the community. Additionally, Vancity highlights its organizational purpose of working with people and communities to help them thrive and prosper and how employees can make a difference to communities through the work they do at Vancity. The company includes information on its various awards and achievements (e.g. for being a top employer, its recognized good governance practices, its environmental commitments [e.g. carbon neutrality], etc.) in job advertising. Vancity seeks employees with business competencies, but it is equally important that employee values align

with the values of the company.

All new employees attend an employee orientation program that is facilitated by HR. The orientation includes a number of speakers from various parts of organization, including the company CEO and Board Chair. An overview of the organization including its history and Statement of Values and Commitments is shared. A member of the Sustainability Group delivers a presentation on the community leadership strategy and how new employees can get involved in community leadership initiatives. Information on the Employee Code of Conduct is also integrated into employee orientation.

Vancity uses an annual employee engagement survey to measure the awareness and support of the company's values and its Ethical Policy. Vancity believes its values and the way the company operates against these values has a significant impact on retention and recruitment levels.

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**Training:** Vancity has various Learning and Development programs, including a leadership development program and process that incorporates the company's Statement of Values and Commitments to ensure that these values cascade throughout the organization. Ethical decision-making is also a component of leadership training.

The Vancity executive team are very visible throughout the organization through their semi-annual visits to all areas of the organization. As part of these executive visits, senior leaders review business objectives, including how they align with the company's Statement of Values and Commitments. Vancity feels it is very important that all executives communicate this with front-line staff.

As part of an HR plan to evolve the culture and drive differentiators, HR is examining ways to further embed community leadership principles into HR practices.

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**Performance Appraisal and Compensation:** Performance reviews and profit sharing are based on both financial and non-financial goals (e.g. member satisfaction, deliverables related to community leadership and the employee experience) for many employees. At the VP level, there are "performance partnerships" where community leadership objectives are directly linked to compensation. Relevant objectives and targets are set, such as the development of ethical investment products, SRI training, etc. At the end of the year the individual is rated and ranked in terms of their individual performance against the established objectives and targets, and bonuses and salary improvements are linked to how well they performed. The same is true for many senior managers at the Director level and up. For the rest of the organization it is more ad hoc, and may not be linked to compensation.

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