



COMPETITION

Members are the Winners

Competition is a given in today's financial services environment, but determining the most effective ways to compete can be a real challenge.

It's natural to look to the world of sports—the ultimate example of competition—for clues. After all, sports are about competition. And what credit unions wouldn't benefit from the challenge to work as a team, optimizing their strengths and taking advantage of the opposition's weaknesses? From early childhood many of us competed in games or sports like soccer, baseball or track and field. Healthy competition is something people naturally take from the playground into the business world. The literal playing field differs from the figurative in a number of key ways.

Sports teams can rely on set rules, a clear understanding of the key players, a referee and a specific and

guaranteed prize. But in the business environment, the rules change constantly; the competition is fluid and unpredictable, referees are not always available and the prize—increased credit union membership—and what it takes to win it, seem to change on a near-daily basis.

So how can credit unions thrive in an increasingly competitive environment where members—and their needs—are ever more diverse?

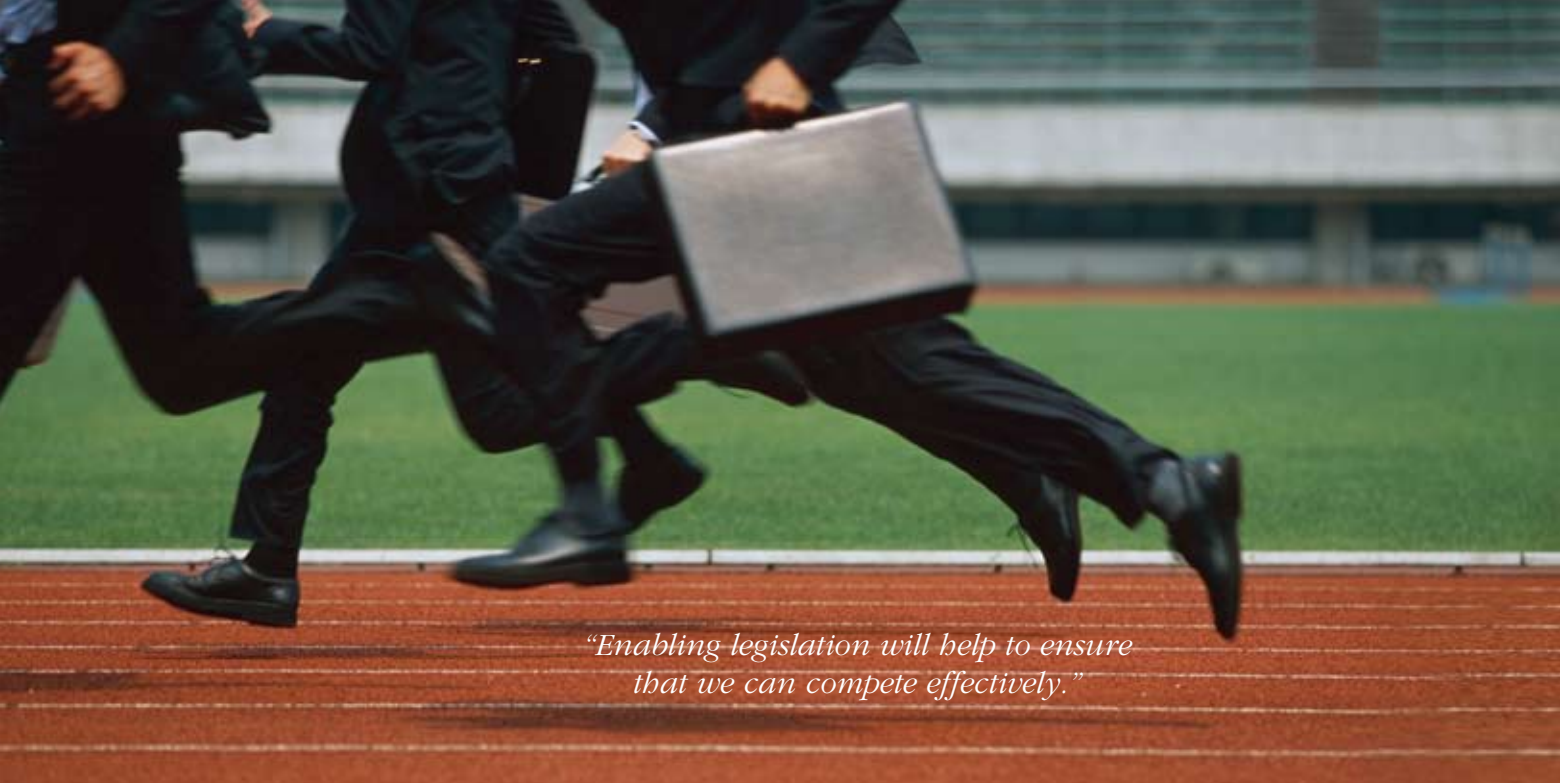
It's a question that credit union leaders from around the world cited as one of their most pressing concerns in the 2006 World Council of Credit Unions Annual Survey and one that's shared by the regulators who govern them. But it's a challenge that credit unions are finding innovative ways to address.

Before citing some specific strategies credit unions around the world are using to remain competitive, let's

discuss what we mean by competition and some general solutions for leveling the playing field.

In a nutshell, the competition credit unions face today includes everything from banks and a multitude of financial service providers (mortgage brokers, retail stores and insurance companies just to name a few) to payday lenders and loan sharks. The world wide web adds a new twist: it eliminates geographical boundaries, making it possible for members to rate and service shop from the comfort of their own homes or offices.

Tactics for success also cover a broad spectrum. David Grace, World Council senior manager of member services explained, "Potential strategies for competing in today's tightening marketplace include finding opportunities for efficiency gains, nationally adopted branding strategies and a focus on service."



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Grace stressed that price isn't always the determining factor when it comes to choosing a financial services provider. “In many markets, the value proposition that credit unions offer has prompted consumers to cross over from focusing on price to making decisions based on trust.”

Reinvention is another valuable strategy. Grace suggested that credit unions focus on three areas: “First, constantly reinvent yourselves before shifting circumstances force you to; second, conquer denial by challenging your workforce to consider how emerging trends might affect the credit, and third, systematically remake the managerial process of brand building, decision making and resource allocation.”

Reinvention is important for all organizations, the best known example is the Microsoft Corporation, a master of reinvention. Think of the wide variety of products and services they've offered throughout their history. Reinvention and “outside-the-box” thinking have allowed Microsoft to rise to—and remain—at the top of Fortune 500 companies.

With that understanding in place, let's take a look at how credit unions are dealing with competition around the globe.

Great Britain

The Association of British Credit Unions, Ltd. (ABCUL) faces competition on a number of levels.

One major source of competition is door-to-door money lenders, called “doorstep” lenders, who serve those of modest means—the same market as British credit unions. These seemingly reputable national organizations charge interest rates up to 177% and make it easy for consumers to become addicted to the never-ending cycle of debt.

Another is community development finance institutions (CDFIs), which provide some personal lending services but were formed primarily for small business lending. Originally positioned to meet the needs of those of the poor—a tactic that won them government support—the CDFIs haven't backed their promises with concrete action.

“ABCUL is making the case that credit unions provide a broader range of cost-effective services to a more diverse membership than the CDFIs do. The UK Government has recognized this and the unique role credit unions can play by allocating £30m of the £34m available from their Financial Inclusion Fund to ABCUL's members. And we're successfully

lobbying the government Financial Inclusion Task Force to provide the bulk of government funding through credit unions,” said Mark Lyonette, ABCUL CEO.

Although the banking sector has not traditionally been a major source of competition for credit unions in Great Britain, that is changing as credit unions add services. Most credit unions in Great Britain still rely on volunteers and primarily serve those of modest means, but nine of the largest credit unions will soon offer a full range of financial services.

“The banking sector did not see credit unions as any sort of competition because we served the less profitable portion of the financial services sector. That's changing,” said Marlene Shiels, CEO, Capital Credit Union.

Ireland

Irish credit unions find themselves at a crossroads as competitive forces challenge them to revisit regulatory requirements.

One of the biggest challenges can be traced to escalating home values and the Credit Union Act of 1997. Over the past 10 years, property values have increased by 300-400% in many parts of Ireland. Unfortunately, the



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Act, which restricts the loan book by permitting only 20% of it to be lent out over five years and 10% over 10 years, has caused most credit unions to not provide home loans. As the value of the average mortgage loans has risen, banks have stepped in to take advantage of the Act’s irregularity.

“Banks are targeting all debt to be consolidated into mortgage debt. This reduces the immediate impact on the consumer but increases their interest payments in the long term,” said John O’Halloran, head of legal and secretariat services at Irish League of Credit Unions (ILCU). “Credit unions are losing members who choose to pay off their credit union loans with these mortgage loans.”

Credit unions are also missing out on opportunities as members are opting for overdrafts and credit cards—services that credit unions don’t offer—instead of traditional personal loans. To combat this, the ILCU is researching a new revolving type of loan product and is in discussion with its regulatory body to evaluate restrictions on loans over five and ten years. Liam O’Dwyer, ILCU chief executive officer, explained, “We are looking at ways to meet the needs of our members, while working with our regulatory body to loosen requirements on longer term loans.

Networking with our colleagues from other credit union systems helps us address these challenges and explore alternatives.”

United States

In the United States, credit unions in Maryland and Ohio are successfully taking on predatory lenders and other usurious financial services providers. “Our real solutions for credit unions are going a long way to combat predatory lenders and provide an affordable service for members who are struggling to make ends meet,” said Mark Mayer, Filene Research Institute executive director.

One solution is the Stretch Pay Program, an idea that Maryland borrowed from the Ohio Credit Union League. The Stretch Pay Program allows credit unions to give out small loans of \$500 or less without a credit report. Members may receive up to 12 stretch pay loans a year at an interest rate of 28%—less than half the typical rate of check cashers and payday lenders. Participants pay a \$35 annual application fee, which goes into a pool to pay for losses experienced by participating credit unions.

Dan Mica, CEO of Credit Union National Association (CUNA) spoke about competition with a different

point of view. “In the U.S., competition is perceived as a very good thing, and it pervades every aspect of American life, from sports to prices. But competition can have its limits, and that’s where cooperation picks up.”

Mica noted, “As cooperatives, it is vital that credit unions have the right mix of membership to support services to fulfill the needs of all their members, no matter what walk of life they come from. Let’s be clear about something—credit unions are in business to serve their members, not to necessarily beat the competition. In fact, beating the competition is a means to an end, making sure members have an opportunity to avail themselves of credit union services.”

How can credit unions embrace the flexibility to offer members the other services they need? Mica believes effective legislation is the key. “We have been pushing legislation in the U.S. Congress and at the state level to update and improve the credit union charter, working with regulators to cultivate a regulatory framework that better matches the operating environment and developing programs and services that help credit unions best deal with the changing financial services marketplace.”

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Mica also stressed that credit unions must expand their paradigm of what the competition includes. “Frankly, it is every single player in the market in which credit unions offer services to their members. That includes, but is not limited to, mutual funds, mortgage brokers, insurance companies, stock brokerages, investment houses, banks, payday lenders, check cashers, thrifts. It’s all around.”

To remain competitive, credit unions must understand what the credit union and the credit union member of the future “look” like. Today the U.S. is losing 350 credit unions annually—primarily through mergers. Assets are growing, but only at the same rate as other financial service providers, and growth has slowed to about 1.8 million members each year. CUNA is holding discussions about the meaning of the relatively slow growth in credit union membership and the impact of the decline in the number of credit unions.

Canada

Competition within Canada’s financial marketplace is not as heightened as elsewhere. David Phillips, interim CEO of Credit Union Central of Canada, noted, “That doesn’t mean Canadian credit unions are not formidable competitors. In Canada, there

are six very large financial institutions, and they are all concerned about competition laws. Credit unions have 16% of the market share, and banks see this as a good thing for them—and it’s also a good thing for us. We don’t have to go head-to-head; instead we can focus on providing the services our members need. We are, however, seeing that more and more mortgage brokers are strong competitors for Canada’s credit unions.”

Poland

Poland is one of the international credit union system’s youngest and fastest growing credit union movements. With a population that is almost 30% unbanked, the country offers huge opportunities for growth. The credit union movement is working diligently to serve members, especially those of modest means and the lower middle class.

One way is through education. The country’s anti-usury laws and interest rate caps were designed to fend off loan sharks and doorstep lenders, but have not been entirely successful. “It was a good plan, but these lenders found a loophole: they still charge the mandated percentages, but they have fees that create usurious rates,” said Grzegorz Bierecki, CEO of the

National Association of Cooperative Savings and Credit Unions. Credit unions are spreading the word that they offer a cost-effective lending alternative.

Credit unions are one of the major resources for savings products, offering competitive terms and conditions for deposits. However, banks are increasingly looking to this market segment as a potential source of revenue, and credit unions will have to continue to find ways to differentiate themselves.

One thing that will help credit unions better serve members and compete in the marketplace is the new amendment to the housing law scheduled to be passed in October. Because of the amendment, credit unions will be able to provide long-term loans for mortgages and other purposes. The bill also allows for investment funds to be provided to members at better terms. “Choice means growth for credit unions in Poland and options for members,” said Bierecki.

Australia

Cuscal is also no stranger to reinvention; it launched a new market identity in December 2005 to reflect an emphasis on expanded business opportunities. Their business now

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includes non-credit union customers through expanded services that will position Cuscal to gain new business in financial services provision.

John Gilbert, Cuscal CEO, explained, “The key drivers for this change include the continuing consolidation of the credit union sector, the need to expand business offerings to non-credit union financial service providers, grow revenues for the business and continue improving returns for shareholders.” Changes to Cuscal's corporate structure now allow non-credit unions to become shareholders and the business to acquire non-credit union customers.

This new focus has necessitated a review of the brand, company culture and business procedures. Through a brand and operations review, the Cuscal board and executive agreed to transform the brand and re-position the business for growth by including income from non-credit unions.

Gilbert continued, “While this is a major shift in Cuscal's business focus, the company is cognizant of its heritage. Our history and commitment to the credit union core values (cooperation, moral integrity, trust, financial prudence, caring for members and social responsibility)

will ensure that new growth and business are competitive, yet focused on customer needs.”

The implementation of the new Cuscal brand is more than simply changing the brand imagery and corporate symbols. It also required fundamental change in terms of Cuscal's people and their service delivery, organizational reporting and profitability measures, internal and external communication, product development and delivery and even recruitment.

From a movement perspective, over the last five years the external influences driving the Australian credit union sector have been extreme, placing significant pressure on all participants to change.

A powerful response to these influences occurred in July of this year when Australian credit unions and mutual building societies united to protect the choice and competition in banking through a new industry association, Abacus. The new organization was formed as a joint venture with Cuscal's association arm and Australia's Permanent Building Societies. It will champion the role of both credit unions and permanent building societies in the retail market.

Caribbean

Originally designed as a complement to banks, credit unions in the Caribbean have begun to position themselves more competitively in recent years. “Enabling legislation will help ensure that we can compete effectively,” said Melvin Edwards, Caribbean Confederation of Credit Unions’ (CCCU) representative to the World Council board.

Credit unions in Trinidad and Tobago, Jamaica and Barbados are all in the process of coming under Central Bank prudential supervision, while credit unions in Belize made the switch earlier this year. World Council's Model Law for Credit Unions is playing a prominent role in these reforms, as is CCCU. In addition, Edwards stressed the importance of improved management, technology and member-driven products and services.

“Investment in technology, boards, and capital requirements are crucial, as is proper management. We've effectively used mergers in the past; now we need to explore how joint ventures, credit union service organizations, shared branching and education can help us remain competitive,” Edwards said.

Credit Union Members— The Real Winners

There's no escaping the impact of competition or the positive impact it can have on our credit unions. After all, while dealing with competitive forces can be stressful and time-consuming, it can also help us do what we do best: meet the needs of our members. And frankly, it's a force that the credit union industry should embrace. Competition requires us to develop innovative, member-driven products, encourages efficiency and unique collaborative opportunities and pushes us outside our comfort zones. The real winners in the game are the credit union members. 🌐

—by Kimberly Johnston
Marketing & Communications Officer, WCCCU