

exploring marketplace opportunities

John Levis

Australian Commercial Marketing

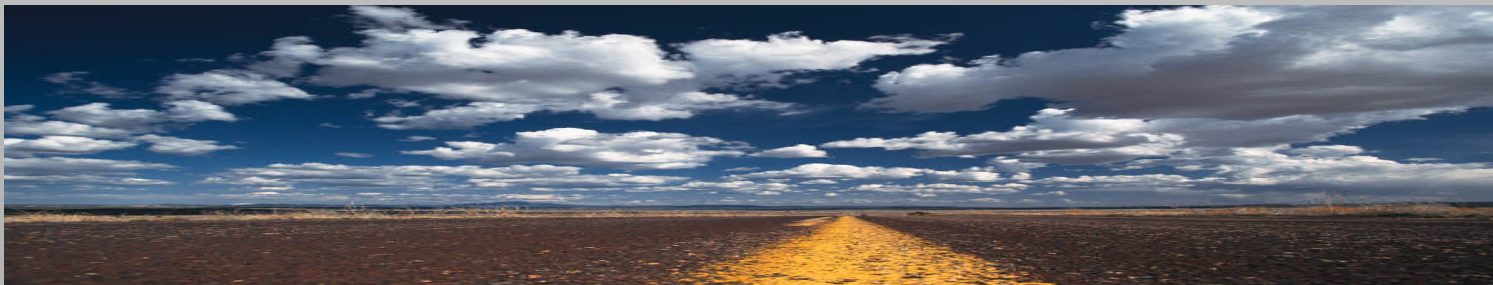
preliminaries

- Opportunity is ... an 'attitude' ... an 'outlook' ... a 'state of mind'
- Ascendancy goes to those with the greatest alertness to, and thirst for, strategic opportunity
- Mutual ADIs are at a defining point ... we must now become master opportunists



preliminaries

- Capitalising upon opportunity necessarily involves:
 - Stepping beyond routine, comfort zones, known horizons
 - Vision, courage and commitment
 - Selfless and persistent effort
 - A respect, but not fear, of change and risk





the last decade

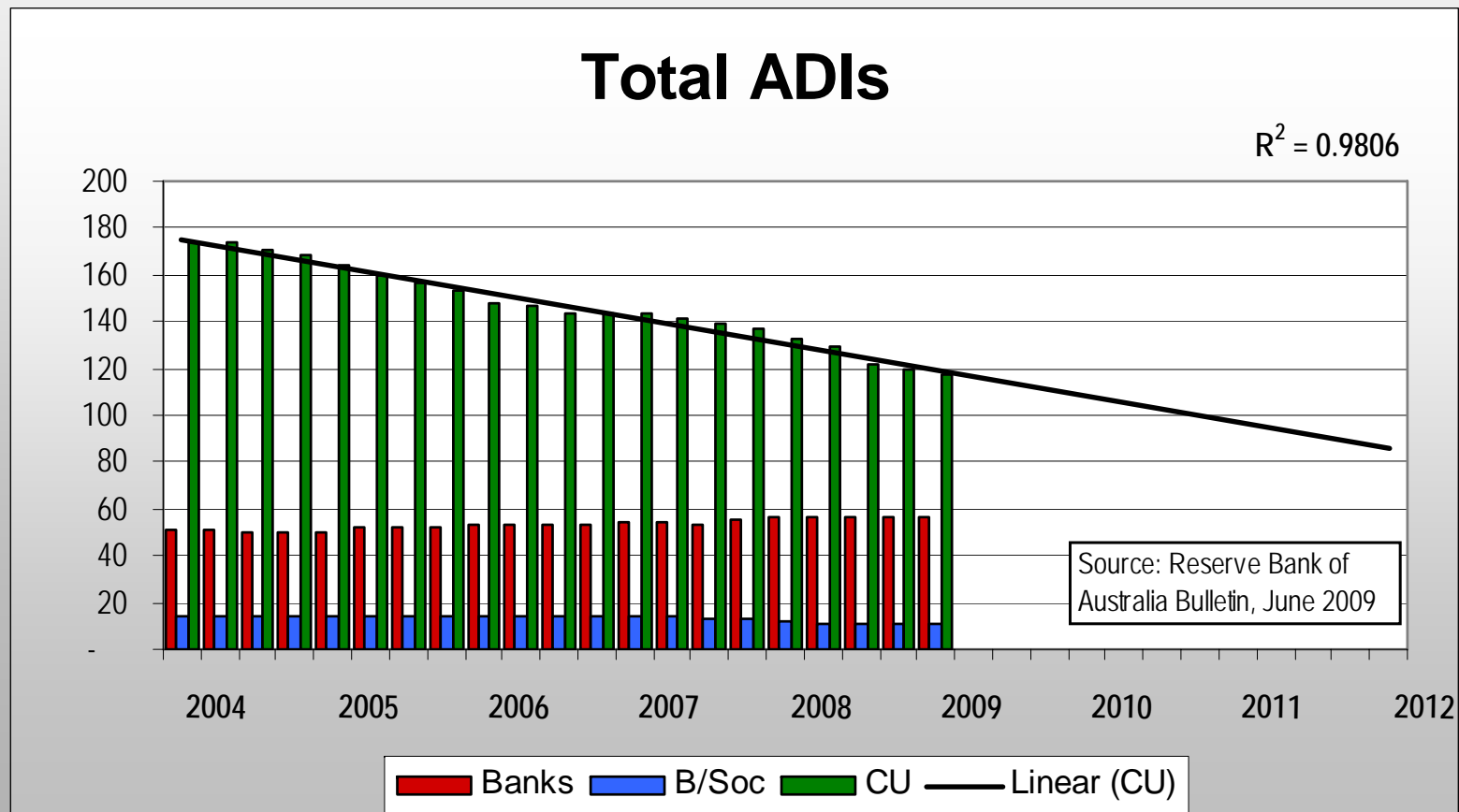
- Credit unions and building societies, 10 years on from the Wallis Inquiry reforms:

	June 1998	June 2008	Change
Entities	261	144	Down 47%
Assets	\$31 b	\$64 b	Up 106%
Share of deposits	7.1%	4.1%	Down 42%

Data source: APRA and AFIC

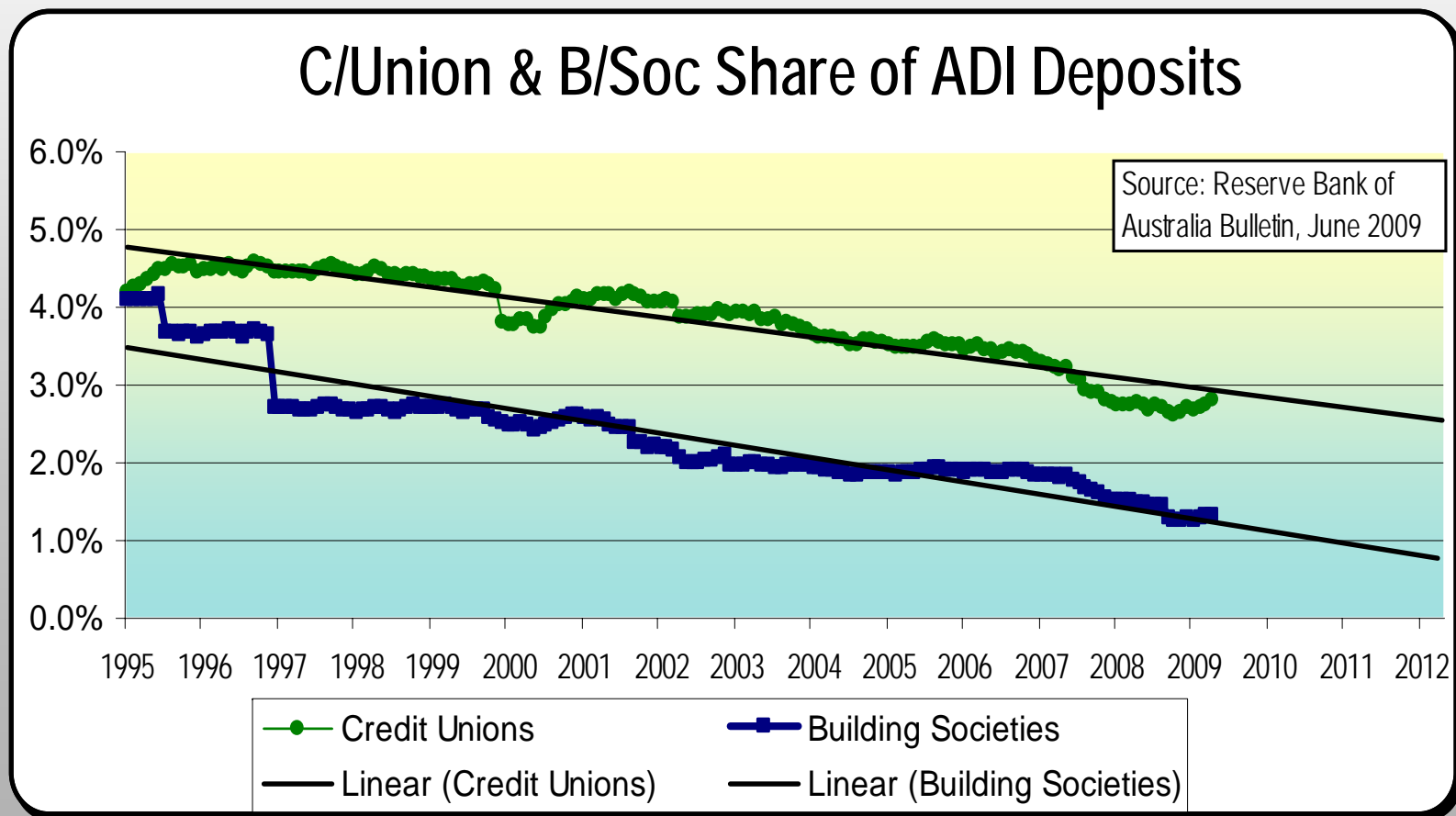
market rationalisation

- Mutual ADIs contracting in numbers:



market consolidation

- Mutual ADIs losing market share:





margins tightening

- Credit union margins are tightening ... survival of the financially fittest:

	June 1998	June 2008	Change
Interest margin	5.0%	3.4%	Down 32%
Non-interest costs	5.2%	3.4%	Down 29%
Pre-tax ROA	1.0%	1.0%	No change

Data source: APRA, June 2009
Data expressed as % of assets



preliminaries

- Mutual delivery of financial services has never been more important in social, economic and political terms:
 - **Contribution** ... in tougher economic times
 - **Confidence** ... superior security/protection in financial crisis
 - **Capability** ... encourage and support financial self reliance
 - **Competition** ... reverse the impending major bank 'monopoly'

*People working together
to achieve a better life
for themselves and their community ... ICUOP*



preliminaries

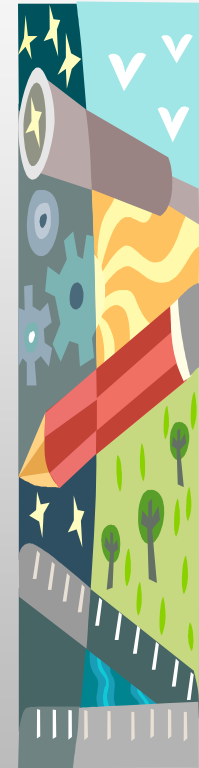
■ A new era awaits:

- Value advantage without profiteering
- Innovative solutions to the financial basics
- Economies through rational strategic scale
- Mutual trust, care, sincerity and integrity
- A new and market relevant/accessible mutual brand
- Cooperate to expand beyond current narrow market bounds

preliminaries

■ Our future relevance contingent upon:

- A paradigm shift in current thinking
- Doing it very, very differently
- Far reaching industry reform and re-structuring
- A preparedness to 're-birth'
- An absolute focus on the greater mutual vision
- The courage, spine and selflessness to seize the moment





Value advantage

Strategic opportunity #1



value advantage



- **OPPORTUNITY** ... Deliver tangible and sustainable value advantages in relation to financial basics:
 - Money management
 - Personal cash savings (thrift) and investment
 - Housing and personal finance
 - Pre and post retirement financial security
- Build an unassailable, 'industry super fund' type reputation for value



value advantage

- **Industry super funds offer a good example:**

- Lower management expense ratio ... Average MER (2008)

Industry 1.0%

Retail 2.0%+

- **Value advantage does not come through scale ...**

- Vastly lower marketing, distribution and delivery costs
- Product simplicity and focus ... doing the basics better
- Outsourcing cost/capital intensive and high risk functions
- Lower profit imperative



value advantage

- Mutuals must target and commit to delivering value in advance of industry best practice:

Measure	Current CU	Best Practice	Challenge
Interest margin	3.4%	2.0%	Reduce 41%
Costs (% assets)	3.4%	1.5%	Reduce 56%
ROA (PRE-TAX % assets)	1.3%	1.5%	Improve 15%
Cost : income ratio	73%	50%	Reduce 32%

APRA, Jun'08 APRA, Jun'08



value advantage

■ Capitalising upon the opportunities:

1. **Strategic scale** ... Maximise share within tight and discrete markets that have their own clear and sustainable 'market economies' (focus; merger)
2. **Simplicity** ... Rationalise breadth of on balance sheet product/service offer ... do the basics better than anyone else ... supreme innovation
3. **Micro-manage margins** ... Actively manage pricing and margins ... eliminate market, interest rate and other risks ... best practice driven budgeting
4. **Outsource** ... Source and retail product/services from the lowest cost/best value providers ... outsource uneconomic or high risk functions
5. **Cooperate** ... Expand upon, exploit the full potential and deploy the 'economies' of the mutual ADI movement

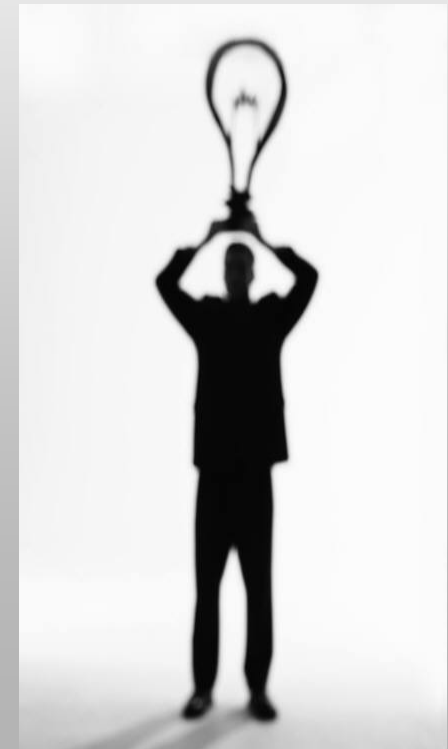


Innovation

Strategic opportunity #2

innovation

- **OPPORTUNITY** ... Achieve dominant market share through innovation and sheer brilliance
- Once we were innovators!
- Innovation critical:
 - Weapon of choice for smaller players
 - We live in an era of innovation
 - Relevance to young/future generations





innovation

■ Why the lack of serious innovation?

- Lack scale and resources (individually) to innovate
- Industry support not structured/oriented to 'pioneer'
- Internal competition rather than cooperation
- Risk aversion
- Resistance to change
- Simply have not made the investment!

innovation

■ Just some of the priorities ...

- Wi-Fi and mobile commerce
- Personal and household money management
- Debt management, control and cost reduction
- Shared equity housing
- Integrated family financial management
- Capital grade investment - franking credit release
- Capital secure, indexed retirement income





innovation

- Capitalising on the opportunities ...

1. **Mutual ADI research and development unit**

- An independent, industry funded, cooperative R&D unit
- Securing the best retail banking brains in the country
- Delivering 'turn key' product, service and industry innovations
- Coordinated with industry support operations



Strategic scale

Strategic opportunity #3



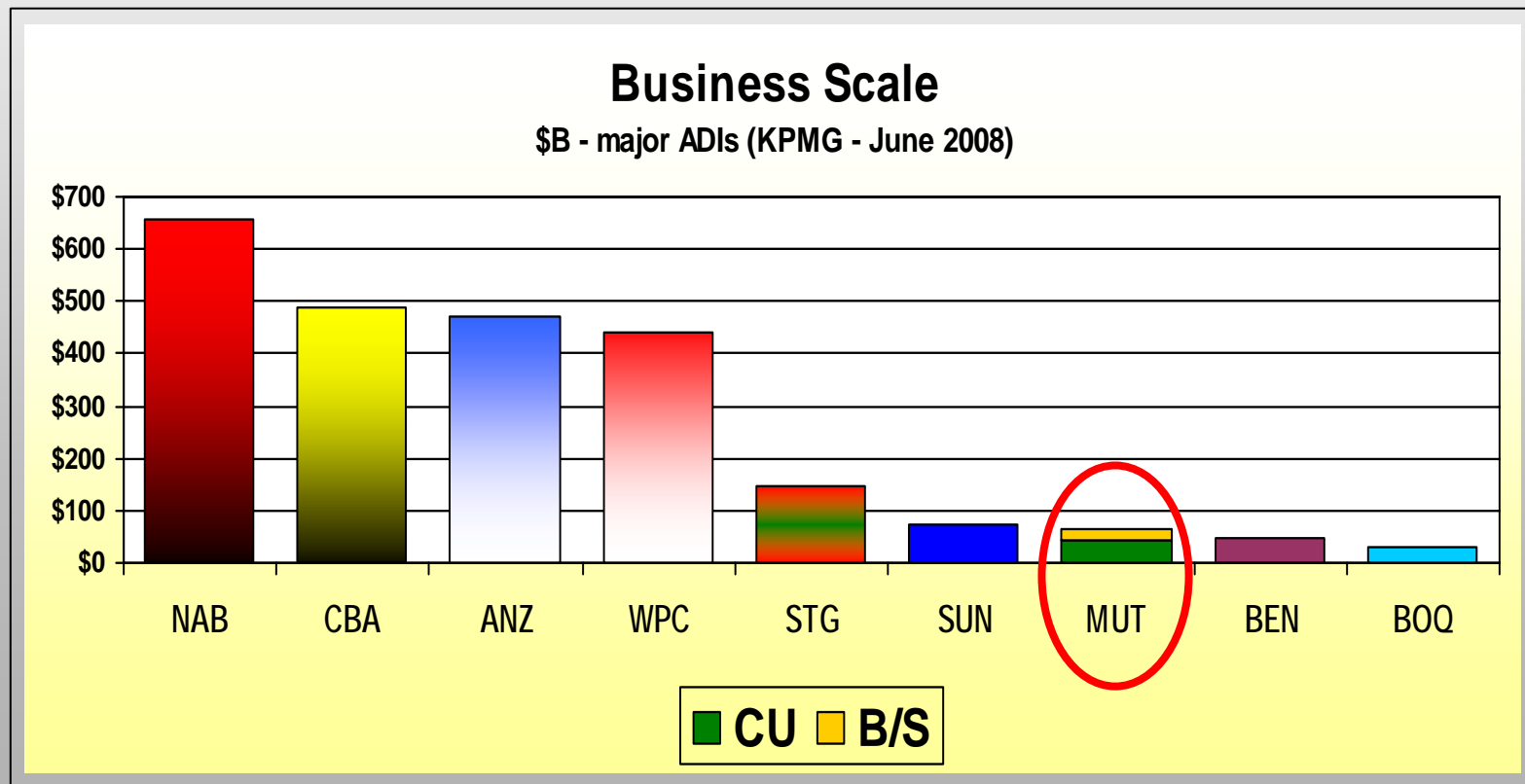


strategic scale

- **OPPORTUNITY** ... Achieve sustainable market leading economies through strategic scale
- 'Strategic scale' is about':
 - Market dominance in discrete, high opportunity markets
 - Natural economies within those chosen markets
 - Professional, social or cultural affinities and advantages
 - The long term sustainability of the chosen markets

strategic scale

- Mutual ADIs have no hope of competing on sheer scale and bulk





strategic scale

- For most mutual ADIs, strategic scale has not been an obvious driving force in their:
 - Formation
 - Evolution and development
 - Decisions to seek, secure and/or accept merger
 - Decisions to avoid, reject and/or not pursue merger
 - Support to form new mutual ADIs in critical, high opportunity markets



strategic scale

■ Capitalising on the opportunities ...

1. **Independent market optimisation study**

- Industry structure required to optimise strategic scale
- Recommended 'ideal' mergers
- Recommended market, brand and governance divisions
- New/expanded market opportunities
- New mutual ADI representation and development



The mutual difference

Strategic opportunity #4

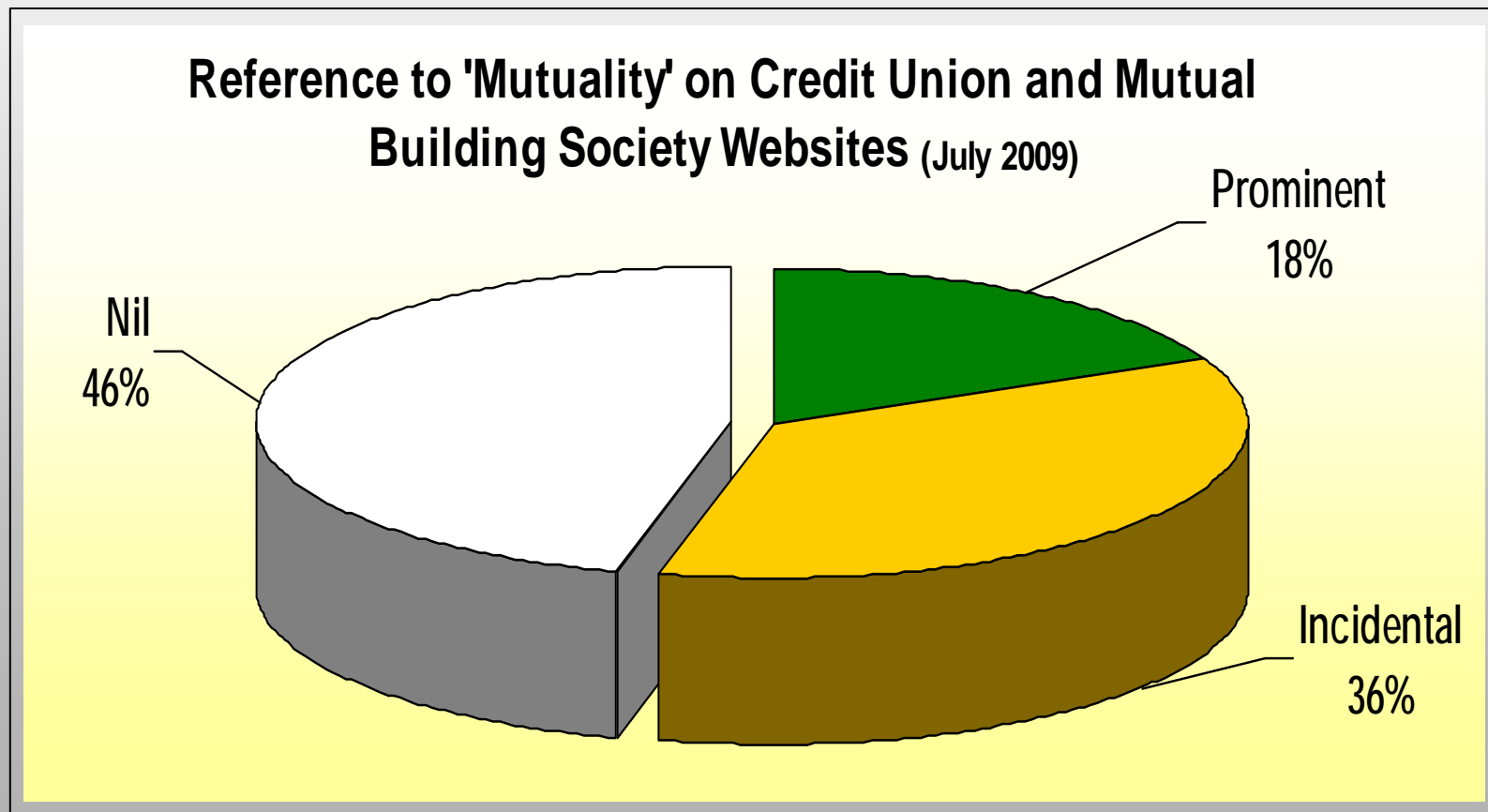


mutual difference

- **OPPORTUNITY** ... 'Mutuality' becomes the favoured and preferred 'brand' in the Australian retail financial services market
- Mutuality defines us legally and technically;
but:
 - Market awareness is low
 - Market understanding even lower
 - Market preference negligible

mutual difference

- Chicken or egg?





mutual difference

- The 'mutual' story is positive and good news - capitalising on the opportunities ...
 1. Must agree (as a movement) on a common marketing position based around mutuality
 2. Every member benefit must be 'tagged' with the mutual brand ... tangible demonstration of value
 3. Communications must constantly reinforce the mutual difference message
 4. The mutual brand needs to be visible at every contact and at every level



'Mutual Bank' branding

Strategic opportunity #5

'Mutual Bank' branding

- **OPPORTUNITY** ... Credit unions and mutual building societies advance nationwide as a new wave of Mutual Banks



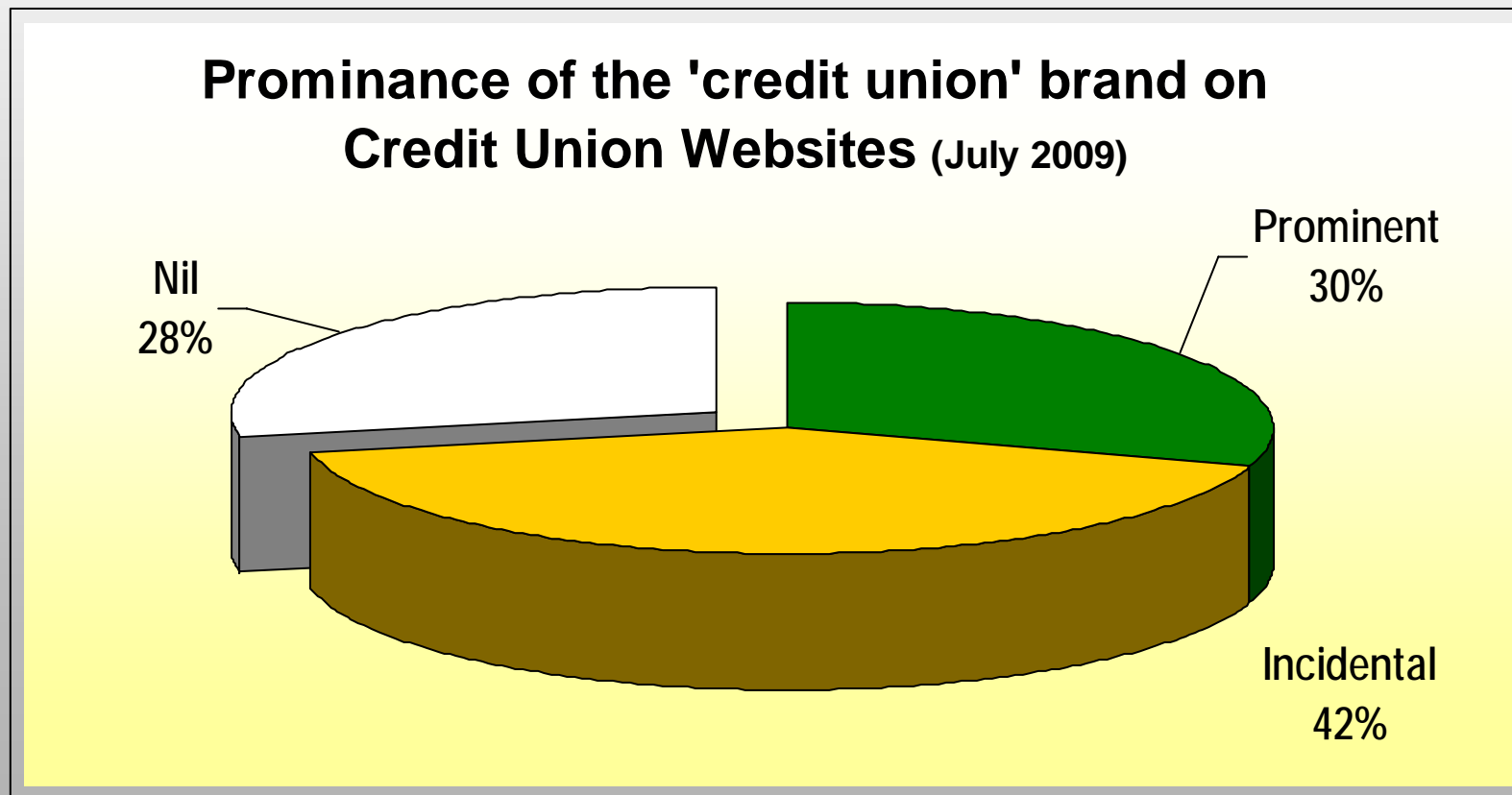
'Mutual Bank' branding

- Can no longer deny the significance of 'bank'
- Past conversions to the 'bank' brand have sponsored a surge in market preference and growth
- Should no longer give in to the major bank lobby



'Mutual Bank' branding

- Attachment to the 'credit union' brand?





'Mutual Bank' branding

- Gathering case to remove the antiquated, anti-competitive quarantining of the 'bank' brand:
 - All ADIs subject to exactly the same Standards, laws and prudential obligations
 - 20% of credit unions (83% by asset value) exceed \$50m net assets
 - Market is concentrating into the hands of the major banks ... a major anti-competitive issue looming
 - The fact is that 'ADI' means nothing – serious market disinformation



'Mutual Bank' branding

- The time has come - capitalising on the opportunities ...
 1. Must agree (as a movement) on a common position
 2. Credible case prepared
 3. Intense lobbying – political, public opinion, members
 4. Agreed use, presentation and promotion of the 'mutual bank' (or similar) branding (eg along 'Industry Super' lines)



Cooperative support

Strategic opportunity #6

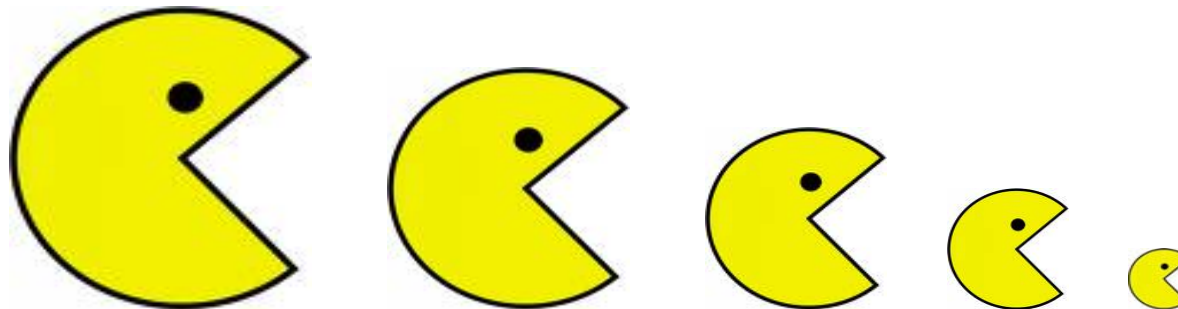


cooperative support

- **OPPORTUNITY** ... a formal cooperative structure to facilitate mutual financial service delivery across our Nation
- An extensive network of autonomous mutual banks dominate (in aggregate) the retail financial services market in Australia
- Australians achieve a better life for themselves, their families and their country

cooperative support

- Mutual ADIs will not survive without effective cooperation





cooperative support

- Growing sector imbalance a potential threat to serious cooperation:
 - 5 mutual ADIs account for 42% of sector assets
 - 10 mutual ADIs account for 59% of sector assets
- An issue of considerable risk for the remaining players
- The case for visionary structural reform mounting



cooperative support

- Past suggestions have met with strong resistance:
 - **Power** ... 'master' and 'servant' issues
 - **Control** ... extent of autonomy
 - **Representation** ... meaningful governance
 - **Influence** ... control over product, pricing, promotion etc
 - **Equity** ... perceived fairness, balance of power and influence
 - **Self interest** ... job security, remuneration, freedom, prestige etc
- Ultimately an inspirational solution required



cooperative support

- For the mutual ADI model (mutual bank) to work:
 - Autonomy of power, control, representation and influence should ideally remain localised ... in the hands of individual mutual banks (members)
 - Brand, balance sheet, risk management, compliance, market 'franchise' control and new market development will most likely need to be 'pooled' ... in cooperative partnership
 - Product, R&D, administration, systems and support ideally supplied ... via third party support vehicles



cooperative support

■ Capitalising on the opportunities ...

1. Serious consideration given to taking the first critical steps towards substantial structural reform to:

- Position mutual financial service delivery for the future
- Deliver sustainable value advantage
- Support innovation and shear service brilliance
- Make substantial advances in strategic scale
- Support and promote the mutual brand nationally
- Evolve and expand as mutual banks serving our people and our Nation



capitalising upon opportunities

- Your Institute posed these questions ...
 - What do we need to do to grasp opportunity?
 - Do you have the motivation and capacity to play your part?
 - What needs to happen at a sector level to support individual mutual ADIs?
 - What are some of the disciplines and hard questions that mutual ADIs will need to take?



capitalising upon opportunities

- The opportunities? ...
- The vision, courage and commitment to:
 1. Take the lead on value
 2. Seize the initiative on innovation
 3. Fight the game in terms of strategic scale
 4. Position mutuality proudly as the great defining point
 5. Step forward as mutual banks
 6. Restructure around genuine cooperation for the future

Thank you ... exploring marketplace
opportunities

John Levis

Australian Commercial Marketing