Topic 5: Cooperative Finance

Marketing for Trust:
A Case of Marketing Small-Balance Deposits by the Cooperative Bank of Benguet

A paper presented by:

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Assumptions:

- Combined small savings of the "poor" (people with small means) are huge but still untapped market.
- A "good-balance" of small savings mobilized from the "poor" and the traditional savings mobilized from mostly non-poor savers can results to:
  - Lower cost of fund
  - lesser liquidity risk
  - More stable funds which can be invested in a longer term loans.

Given these assumptions…

Cooperative Bank of Benguet (or CBB) designed a

Marketing for Trust Model

to explore more the uncharted market of "poor" savers

FEATURES

OF CBB's

Marketing for Trust Model

1. Segregated Promotion to Sell Savings Services to "Poor" and "Non-Poor" Members of the Community

- **Non-poor savers** respond to a more sophisticated advertisement, high profile publicity and personalized services

Like:

- *the giving of special tokens*
- *sending of thank you notes*
- *greetings on special occasions*
- *personal visits by a person in authority from the CoopBank.*

- While, this type of promotion is the key in attracting most of the *"non-poor" savers,*

  it is not cost-effective for attracting *"poor" savers*.

Small savers respond more to:

- **"Soft" advertisements with a popular local radio.**
  - *In this soft advertising, the CoopBank provides the local radio station with information that it considers interesting to targeted low-income groups, and*
  - *the radio announcer is commissioned to present this information in a way that is appealing to these listeners.*
- Personalized service of frontline staff

2. Intentional Community Involvement

- *The high visibility of cooperatives in community activities projects an institutional image of <u>being part of the community</u> and <u>concern to contribute</u> to its long term development.*

Some Intentional Involvement of CBB:

- Provision of <u>regular trainings</u> to both non-cooperatives and cooperative organizations
  - *through partnership with the Community Based Business Cooperation Foundation, Inc.*

- Offering scholarships to deserving students whose parents are small farmers
  - *This is in partnership with a pro-farmers Party-List.*
- Voluntary involvement in development oriented planning bodies
  - *such as local development councils, tourism councils, and research consortia*

- Participation in:
  - chamber of commerce activities
  - local tourism promotional activities such as festivals, and cultural activities

3. Simple Product Design

CBB recognizes that the target market comprising of "poor" savers who are not used to banking, need simple and easily-understood financial products.

By this view,
the Cooperative Bank of Benguet offered only two types of deposit products with simple design.
These are:

1. Passbook Savings Deposits Product

Features:

- ✓ *Minimum amount to open an account = Ph 100.00 or about US$ 42.00*
- ✓ *Minimum maintaining balance without penalty = Ph 100 or about US$ 42.00*
- ✓ *Minimum balance amount to earn interest = Ph 500.00 or about US$ 11.90*
- ✓ *Maximum duration for non-movement of deposit account that incurs penalty = 2 years*
- ✓ *Deposits can be withdrawn anytime*

2. Passbook Term Deposit Product

Features:

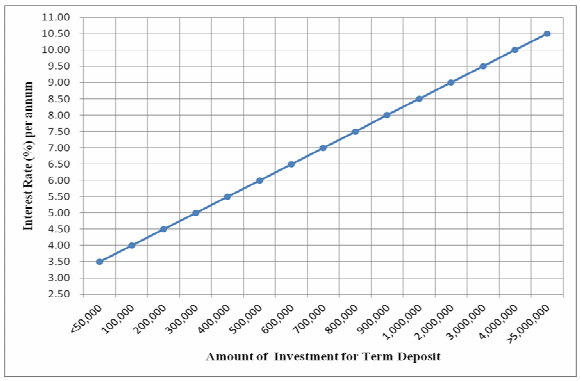
- ✓ *Minimum amount to open an account = Ph 1,000.00 or about US$ 23.80*
- ✓ *Minimum placement terms = 30 days*
- ✓ *Automatic renewal if not withdrawn on maturity date*
- ✓ *Allows pre-termination with penalty clause (interest rate will be computed based on passbook savings interest rate per annum)*

HOW ABOUT DEPOSIT INTEREST RATES?

Determination of Interest Rate Offering

- FOR PASSBOOK SAVINGS DEPOSITS
  = Industry's average or average inflation rate whichever is lower.
- FOR PASSBOOK TERM DEPOSITS
  = CBB developed its own Model as an alternative to the Traditional Model presented in the next slides

Traditional Time Deposit Rate Model

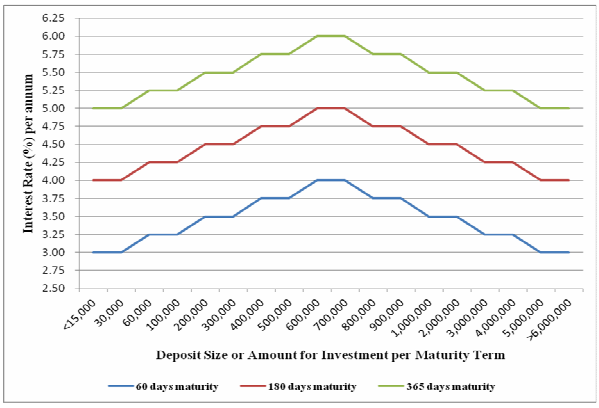


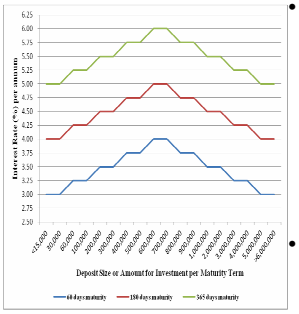
CoopBank Observation:

Table 1. Summary of CBB's analysis on transaction costs and liquidity risks per size of deposits

DEPOSIT SIZE CATEGORY	TRANSACTION COST	LIQUIDITY RISK
Small Size Deposits	High	Low
Medium Size Deposits	Medium	Medium
Large Size Deposits	Low	High

Time Deposit Rate CBB Model





- Example, at 30 days maturity term, the amount of placement that earns the highest interest rate of 4.00% per annum are those falling within Ph 600,000.00 to Ph 700,000.00.
- After which, deposit placement from Ph 800,000.00 and above earns 3.75% per annum and lower.

4. "Uncommon" Development Initiatives

- A newspaper article cited the Cooperative Bank of Benguet's unofficial motto of:

"We take care of the geese that lay the golden eggs".

- By such CBB is not concerned only with how to stay ahead in the competition but also how to be relevant to the community
- The next three slides shows some development initiatives of CoopBank Benguet which maybe considered "uncommon" because at the onset, the initiative is not popular, not the priority of government or considered not yet worthy undertaking:

a) Initiative to Support Organic Agriculture Development in the Cordillera

- The first ever Cordillera Regional Organic Agriculture Congress in the Country held on January 13-14, 2006 was a cooperative-led initiative supported by the Cooperative Bank of Benguet in partnership with Benguet State University

- This coop-led initiative brought together farmers, government officials, educators, medical practitioners and other stakeholders alike into something unusual as they discussed organic agriculture and promote organic farming as a way of life.

b) Initiative to Support Rediscovering Cordillera Culture thru Ethnic Food Menu Improvement

- A CoopBank leader said that the food recipes of their forebears were <u>all natural</u> and <u>diverse</u>, and what people consume ultimately affects the environment.
- The Coopbank collaborates with the local government; concern government agencies; and, other non-government stakeholders in positioning **"Ethnic Food"** as part of local festival activities

c) Initiative to revive Arabica Coffee Industry in the Cordillera

- Cognizant of the need to diversify vegetable farming, the CoopBank has initiated efforts to revive the once neglected Arabica Coffee in the Cordilleras.
- It extended support to the organization of different municipal and provincial coffee councils to drumbeat the revival of the Arabica coffee industry.

5. Living Up to the Values of Cooperative Solidarity

- Putting into practice the values of cooperative solidarity, CBB:
  - *usually co-sponsor local cooperative activities like cooperative month celebrations, fora and conferences, and consultation gatherings*

- *supporting initiatives for the formation of higher level of cooperation by the primary and secondary cooperatives i.e. federation formation, provincial and regional union formation*
- *supporting national federation and union by way of remitting directly the portion of its cooperative education and training fund to these bodies.*

MARKETING FOR TRUST MODEL IMPLEMENTATION RESULTS

1. Sustained Trend of Higher Proportion of Passbook Savings Product Compared to Term Deposits Products

Chart 3. CBB Deposit Mix & Trend.

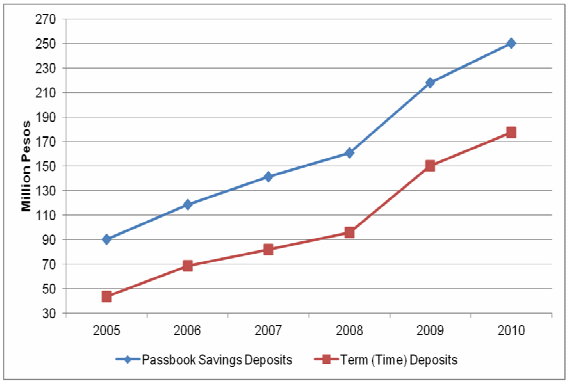
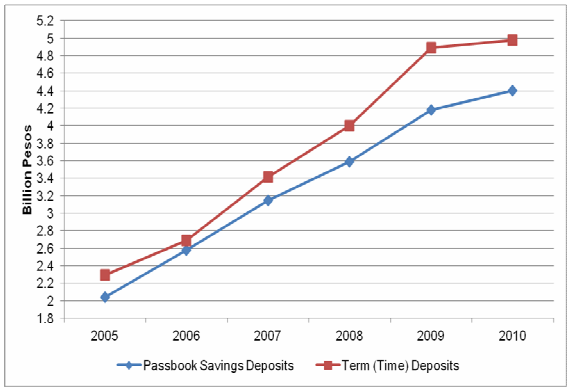


Chart 4. Cooperative Bank Industry Deposit Mix & Trend.



2. Sustained relatively Stable Deposit Base for CBB

CBB deposits has a larger base which makes deposits relatively stable source of funding

Table 2. Number of accounts and value per category of deposits as of December 31, 2010

DEPOSIT BALANCE CATEGORY	# OF ACCTS.	%	VALUE	%	AVERAGE PER ACCOUNT
Ph 100,000 & below	**17,635**	**94.8%**	**122.96 M**	**28.7%**	Ph 6,972/acct., or *US$ 166/acct*
>P100,000 to <Ph 500,000	**771**	**4.1%**	**143.09 M**	**33.4%**	Ph185,590 /acct., or *US$4,419 /acct*
Sub-total	***18,406***	***98.9%***	***266.1M***	***62.1%***	
Ph 500,000 and above	**201**	**1.1%**	**162.11 M**	**37.9%**	Ph 806,513 /acct., or *US$19,203/acct*
Total	18,607	100%	428.16 M	100%	

[1] At US$1=Ph42.00

3. Lower Cost of Fund as compared to the Cooperative Banking System

Table 3 showed that CBB registered a lower cost of funds than the Cooperative Banking System (Table 4)

Table 3. Earning-asset yield, funding cost and interest spread of CBB covering the years 2008 to 2010

PARAMETER	2008	2009	2010
CBB Average Funding Cost	**3.5%**	**3.7%**	**3.8%**
CBB Average Interest Spread	10.3%	8.7%	7.5%
CBB Average Earning-Assets Yield	13.8%	12.4%	11.3%

Table 4. Earning-asset yield, funding cost and interest spread of Cooperative Banking Industry covering the years 2008 to 2010

PARAMETER	2008	2009	2010
Industry Average Funding Cost	**7.2%**	**7.3%**	**6.8%**
Industry Average Interest Spread	5.9%	5.9%	6.1%
Industry Ave. Earning-Assets Yield	13.0%	13.2%	12.9%

[1] Data taken from BSP Statistics for Banks

Conclusion

- Implementing a **Marketing for Trust Model** that target small balance deposits of "poor" savers results to a favorable deposit mix of CBB that brings about:
  - Lower cost of fund
  - lesser liquidity risk
  - More stable funds

Recommendation

- It is recommended that other cooperative financial institutions **explore the new market of small savers** to generate significant volume of stable savings that can fund development initiatives of cooperatives that benefits not only their members but the community as well.

THANK YOU