ECONOMIC TRANSFORMATION

Mutual financial firms in Jamaica: What STRATEGY for SURVIVAL?

This article discusses the business models of two mutual firms in Jamaica with a view towards answering one critical question: What strategy should Jamaican mutual firms adopt to avert or reverse declining financial health? Observations span a period of nine years to obtain a long-term picture of financial performance. The firms examined are the Community & Workers of Jamaica Cooperative Credit Union Ltd. (C&WJ) and the Jamaica National Building Society (JNBS).

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The level of attrition of mutual financial firms in Jamaica is alarming. Over the period 1997 to 2017, the number of building societies fell from 13 firms to just two organisations. During the same period, the number of credit unions fell from 73 firms to only 28 entities primarily through mergers. Some observers argue that this is a positive development with mergers seen as a strategy for increasing firm productivity and competitiveness. Indeed, the total membership of mutual firms continues to grow despite firm attrition. Mutual organisations serve more than 70 percent of Jamaica's workforce.

However, these firms are experiencing declining loans to deposits ratios and narrowing interest rate spreads. Data from the Bank of Jamaica shows that interest rate on savings averages more than 3 percent at mutual firms compared to less than 2 percent at commercial banks. Furthermore, average interest charged on loans by mutual firms is roughly 10 percent which is lower than the 14 percent average at commercial banks.

The evidence suggests that these firms need corporate renewal for effective delivery of the mutual value proposition to members

INTRODUCTION

These indicators portend financial risk that could lead to mutual business failure even after mergers. The literature on business turnaround prescribes strategic change when the cause of financial pressure is external to the firm. (See, Lawrence, William W. (2014), Business Renewal and Performance in Jamaica. UWI Press: Kingston, Jamaica).

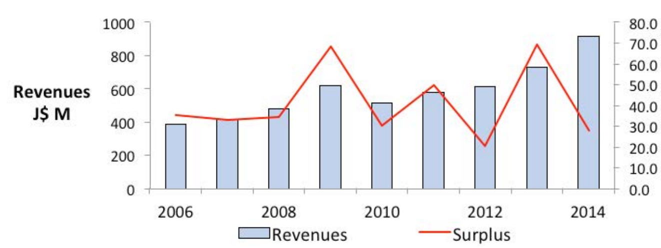
This article discusses the business models of two mutual firms in Jamaica with a view towards answering one critical question: What strategy should Jamaican mutual firms adopt to avert or reverse declining financial health? Observations span a period of nine years to obtain a long-term picture of financial performance. The firms examined are the Community & Workers of Jamaica Cooperative Credit Union Ltd. (C&WJ) and the Jamaica National Building Society (JNBS). The evidence suggests that these firms need corporate renewal for effective delivery of the mutual value proposition to members.

C&WJ COOPERATIVE CREDIT UNION

As at the financial year ending 2014, C&WJ Co-operative Credit Union Limited (C&WJ) offered 12 loan products and 10 savings options to members through 13 branch locations across Jamaica according to the Annual Report of the Community & Workers of Jamaica Cooperative Credit Union Ltd. C&WJ has approximately 140 employees and members could access services by way of electronic banking on-line. The company also issued debit cards and provided cambio services. Member satisfaction was very high at well over 95 percent.

Figure 1 shows trends in revenues and surplus at C&WJ for the period 2006 to 2014. Although revenues increased by 136 percent over the period, the surplus remained flat and volatile. In addition, C&WJ has a cost to income ratio of over 80 percent and would require a substantial increase in the volume of transactions to achieve less than 65 percent in line with the leading commercial banks. A 2009 survey, commissioned by the Jamaica Cooperative Credit Union League, revealed that a vast majority of members perceive no difference in services between credit unions and commercial banks and do not use credit unions as their primary financial institution. Therefore, a strategy of cost leadership would be very difficult to achieve because of the large transaction volumes required in a very competitive market.

Figure 1. C&WJ Financial Performance

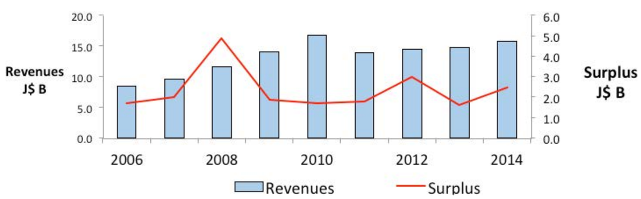


JAMAICA NATIONAL BUILDING SOCIETY

As at financial year ending 2015, the Jamaica National Building Society (JNBS) operated as a diverse financial group offering a wide range of products with core services such as savings and loans, remittances, life and general insurance, and investments, This 140-year old organisation, has representative offices in several countries such as the United Kingdom, Canada, and the United States. JNBS held 987,466 savings accounts for members from 50 countries with 36 percent of these accounts overseas. Members could access JNBS through its wide branch network, on-line banking platforms, and automated teller machines.

Figure 2 shows trends in revenues and surplus at JNBS for the period 2006 to 2015. Although revenues increased by 85 percent over the period, the surplus remained flat. The 2015 annual report stated the company's intention to transition into a mutually-owned commercial bank to expand the range of services permitted by the central bank. In principle, widening the scope of products and services may enable JNBS to reduce its cost to income ratio from about 78 percent to less than 65 percent in line with the leading Jamaican commercial banks. However, this move requires product innovation. A study by Mona School of ▸▸

Business and Management noted that local commercial banks offer similar and mature products in a small, weak economy. Using mature products to fight for market share would likely induce a price war which is disadvantageous for JNBS given its relatively high cost-to-income ratio.



DISCUSSION

A strategy of cost leadership seems unwise for local mutual firms because they have substantially higher cost to income ratios than the market leaders. On the other hand, product differentiation is an option, provided that mutual firms can execute a value proposition that creates and deliver meaningful value for members. Mutual firms need to remember that a value proposition is a well-defined and persuasive marketing message related to a specific product or service that details the reason why members would benefit from purchasing it. In this regard, members expect:

- **Relatively low loan rates and charges**
- **Genuine trust and familial intimacy with the mutual firm**
- **Services of high competence, quality, and convenience**
- **Separate and tangible benefits as customers and owners.**

Creation and delivery of this value proposition involves a great deal of employee engagement and strategic alliances for ongoing product innovation and high-quality service delivery. Employee engagement refers to a workplace approach for motivating people to give of their best and contribute to the firm's goals with commitment to its values. An article by Brent Gleeson in the October 2017 issue of Forbes magazine recommended five powerful steps for employee engagement. These included (1) putting everyone in the right role, (2) giving them appropriate training, (3) tasking meaningful work, (4) checking often, and (5) frequently discussing engagement. Effective strategic alliances involve identifying and researching potential partners, developing mutually beneficial proposals, and taking initiative to make contacts and negotiate the partnerships.

Innovation occurs by either replicating products sold in other markets or from converting ideas from original research into lucrative commercial transactions. This process should be ongoing because financial products tend to mature quickly in the marketplace driven by disruptive technologies. Mutual firms should model the relationships between product attributes and commercial requirements then predict the likelihood of success to inform strategic choices.

Managers also need to quickly detect gaps between the services delivered by the firm and those expected by members. The Lean Six Sigma (LSS) philosophy can boost service quality to generate higher value services from fewer resources. This approach involves defining the problem, measuring performance, analysing to detect the cause of the problem, improving performance, and controlling outcomes. Activity Based Costing complements LSS by translating initiatives for waste reduction and work improvement to financial performance. ■

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