



SEOUL 2001

GENERAL ASSEMBLY

International Co-operative Alliance

General Assembly

Seoul, Korea

17 October 2001

BUSINESS FORUM



Co-operation and Peace
in the Era of Globalisation



Speakers :

Hans Dahlberg, ICMIF

Eric Lemieux, The Desjardins Group (Canada)

Noh Won-Sik, NACF (Korea)

Tan Kin Lian, NTUC Income (Singapore)

Youth seminar speaker: Catherine Wandera

**ICA Business For a on Co-operative Financial Services
Is the co-operative advantage “on-line”**

**Wednesday 17 October 2001, Seoul,
Korea**

The presence of co-operative insurance online – a practical vision

Hans Dahlberg, ICMIF

First of all I would like to thank ICA for the opportunity to participate in this important meeting. I found the title quite intriguing as it could be interpreted both very narrowly, addressing cooperatives and its advantages in the pure technical sense, i.e how will the future shape up when modern technologies in the IT-sector is having more of an impact. But the word on-line could also be interpreted more broadly. How is the cooperative insurance sector doing overall? The organizers have asked me to inform you about the essence of a very important study which ICMIF and its regional association for Europe released a few months ago, a study which is being talked about in the insurance sector in Europe as it gives a different picture, and to us a very positive picture of the competitive advantage of our sector.

First a few words about ICMIF.

slide 1

ICMIF is a center point for the cooperative and mutual insurance world. We carry out a number of activities, such as reinsurance between members, development assistance to new and newly started cooperative insurance operations, and also acting as knowledge hub by carrying out collaborative research, networking of professionals in various fields as well as management training. We work closely together with our regional associations in Asia, Europe and the Americas. This is what this slide show symbolises.

slide 2

ICMIF today have 122 members in 65 countries. We have almost doubled the membership during the last 10 years. Our members are both small and

large. Our largest member Zenkyoren of Japan is the third largest insurer in the world measured in assets. Its annual premium income correspond to 10% of the GNP of my home country Sweden.

(Repeat that two aspects will be covered)

slide 3

slide 4

E-commerce in the insurance environment

Introductory comments.

The subject of the internet and its influence upon the insurance industry is by nature changeable. The internet has brought about the same challenges to insurers as it has upon other business sectors. The internet is “on” 24 hours per day, seven days per week and 365 days per year. For the consumer, information has become the most sought-after commodity and service expectations have widened. Retailers have apparently become the pioneers of this new channel and lessons have emerged from their initial steps. Meanwhile, insurers have embraced the internet primarily as an information channel: many have yet to realize its full potential and to recognize the possible consequences of its influence.

In a collaborative research project our members have looked at the implications that the move to the internet has so far had on insurance consumers and insurance providers. The study also highlights the possible outcome of preliminary actions taken by insurers. Recognizing the internet as a sales and servicing channel, it addresses the potential for conflict with existing channels. Channel coexistence is important to our members.

The empowered customer

slide 5

With the advent of the internet, companies in all industries have had to adapt to the demands and expectations of the empowered customer. A company’s performance is exposed and comparable to its competitors as

well as other companies outside the insurance and financial services industry.

slide 6

The power of the mouse allows consumers to quickly compare:

- ~ Service
- ~ Price
- ~ Product breadth
- ~ Product quality
- ~ Ratings

E-commerce gives greater transparency to a company's value propositions. Companies will have to understand their customers far better to ensure that they can provide a proposition that increases or at least maintains customer loyalty. Differentiation between companies is far more likely to be achieved through a real service and value proposition, rather than through a product.

Online consumer communities can be created to provide chat-rooms and bulletin boards to discuss companies' performance on the attributes listed above. There is no longer reliance on just the traditional consumer watchdog organizations such as the Consumers' Unions.

Selling/servicing

The internet is both a selling channel and a servicing channel. When insurers invest in an e-commerce implementation program, it must consider both these dimensions.

As can be seen in this table, insurers would do well to first consider the servicing capabilities of the internet rather than focusing solely on attempting to acquire new business through this channel. One of our members, Nationwide Insurance (US) has followed a strategy of gradually getting full quote-and-bind capability functioning across all states and this has now been in place since year-end 2000.

slide 7

The idea behind this strategy is to match Nationwide's internet selling capabilities with current consumer behavior. The vast majority of US insurance consumers use the web to collect information, including premium quotes, and then make their final purchase via a traditional channel such as an agency or by telephone (call center).

To integrate or not to integrate: the e-commerce strategy dilemma

In attempting to manage channel coexistence, one of the more complex problems e-commerce presents is the push and pull between developing a stand-alone system and developing a system that can be integrated with other channels. This is often not an either/or type decision, but often a question of degree. In developing a suitable strategy, the primary factors for consideration often revolve around internal structural and “political” issues with a view to “keeping the peace”.

Some Issues

The failure to date of e-commerce to put up big number

Slide 8

(some prefer to be in the
forefront; others-wait
and see)

The rush to offer full e-commerce capabilities has been tempered somewhat because, it seems, no clear business model for success has yet emerged. Even the e-commerce endeavors that are viewed as successful, such as Amazon.com, have still not yet proven to be profitable. The situation is aggravated by the recent decline of the dot coms and the pull-back of investment from the New Economy. As a result, many organizations are taking a step back – although not altogether away – and re-thinking their approach to e-commerce.

Consumer behaviors and attitudes

slide 9

Consumers generally have been slower than expected in adopting the internet as a medium for transacting business. It would appear that the value proposition created through online sales has not been strong enough for

many consumers. This is perhaps even more so in the case of insurance products. There is significant evidence that insurance consumers are actively using the internet to obtain information about insurance, but prefer to have the actual transaction carried out through real-time interaction with an individual – typically face-to-face or through a call center. This may be due to a lack of confidence in and therefore trust of the technology, or it may be that consumers sometimes find web sites difficult to use, unclear or do not deliver as promised.

Cultural challenges

In the main, insurance organizations continue to be very traditional in their outlook. This is true not only from a technological and a structural perspective, but also from a cultural perspective. The internet and the interactive world are fast-paced and fluid. The corresponding internal structures of insurers to compete in the interactive world are often not sufficiently developed. As a result, some insurers have set up their online operations separate from the main insurance operations. However, while able to create a more relevant culture, this approach does not necessarily encourage integration.

Slide 10+11
(examples of
the strategy
they adopt)

The other significant challenge that may affect the integrated versus stand-alone decision, arises from conflict between various channels. The organization's culture may tend toward conflict avoidance, which may lead to choices not always driven by true business strategies. In this case, channel integration is avoided because the conflict is considered too difficult. It could also be that the organization culture is one of competition, and the view that keeping channels separate promotes "healthy" competition.

Channel coexistence - managing coexistence while remaining customer-focused

Transition – is a reality

slide 12

Over the last decade, few companies have been able to avoid expanding their distribution channel systems: a small number may have replaced their old agent-based systems with, for example, direct call centre operations (as is the case of ICMIF member ALKA, Denmark). But even those companies that pride themselves on the effective performance of an agency system as their main distribution channel have responded to customer and market expectations with additional distribution channels. This includes many ICMIF member organisations. This slide is another way to explain the process.

The question becomes which channels can best meet the external demands set by the competitive market, and at the same time also match internal capabilities. In other words, while there are clear arguments for offering multiple distribution channels (to help enhance customer relations, increase customer retention, reduce operating costs), any expansion or restructuring of the distribution system requires a matching of financial resources, human resources and skills.

Making the transition from a single to a multiple channel system, or from one channel to another, requires determining what is a priority (external) and what is possible (internal), through an analysis of:

Slide 13

- customer base;
- lines of business (complex life products/investments and savings/low-value mass products);
- internal resources (staff competencies/training/technology);
- economic trends (squeezed non-life market/greater personal pension demands/self-insurance);

- legal issues (electronic signature laws/agent supervision);

E-commerce and existing channels: strengths and weaknesses

Slide 14

Whether replacing an existing channel or adding new channels, the message to management, staff and customers is required to point out the strengths of any new channels, or how they help overcome existing channel weaknesses. (Below, are a few comments on the main strengths and weaknesses of each channel, followed by a full summary chart.)

Tied/exclusive agents

Agents have traditionally provided the principle distribution channel for insurance since the emergence of the industry more or less as we know it today, i.e., since the early 1700s. Given the histories of ICMIF member organisations (78% were founded pre-1980), it is no surprise that historically, most members have distributed primarily through an agency force. The leading exception to this is the GEMA group of companies in France, which are all MSIs (mutelles sans intermédiaires) - mutuals without intermediaries. GEMA members have been able to claim considerable cost savings to their member policyholders as a result, and this is the rationale behind the direct insurance boom of the 1980s.

Today, significantly, two thirds of all ICMIF members now have direct operations, geared mainly towards distributing simple insurance products. Cost savings compared to distribution through agents are evident. But for the distribution of complex products, companies remain loyal to the agent.

The customer is happy to purchase commoditized products such as motor insurance over the telephone – he is often required by law to have such a

product, so he probably already understands the product and is also seeking the lowest price.

But when it comes to purchasing other types of product, the customer may be reluctant to use remote contact methods. Maybe he doesn't have the time to read every page of the brochure he has received through the post. And the Frequently Asked Questions on the web site may not address his own particular question. Or maybe he understands the product but likes that an agent can give a sense of tangibility to an otherwise intangible product. Face-to-face, the agent can answer specific questions about the small print, without the customer having to read all that small print; he can overcome any objections; he can demonstrate a product knowledge that inspires confidence in the customer of the company as a whole; he can build a relationship with the customer; he may even, hopefully, close a sale on-the-spot.

(More information is available in the ICMIF report Best Practices in Agency Management.)

Banks

As the banking and insurance industries become increasingly integrated, more and more insurance companies are making use of the bank distribution networks to market their own products. Banks typically have a well established network of outlets that often gives a widespread distribution. Banks often also have strong customer loyalty, something that in recent years, insurance companies have recognized as a weakness for their businesses and sought to improve.

Initially, however, simply finding a bank partner may be difficult: the insurance experience for the customer is most frequently associated with renewal and claims – neither of these an especially pleasurable experience, so banks are often reluctant to put their good customer relationships at risk. In some markets, partnerships may be hindered by legislation: it may not, for example, permit distribution of insurance through bank counters, thereby limiting the potential advantages of the bank network.

Internally, training bank staff to sell insurance requires time and money; effective cross-selling also requires the absence of a culture clash (some insurers claim that bank staff see insurance as an 'inferior' industry!).

A good understanding of what the relationship should deliver is also difficult to achieve; and without a common vision of the objectives to be achieved and the way to achieve them, the results may be less than good because of lack of control.

(Direct response)

The greatest impact on distribution channels since then occurred in the 1980s, with the establishment of new direct insurance writers. The development of Direct Line (UK) and the companies that have followed suit is well known; furthermore, it continues to inspire market developments, and it appears that the popularity of direct insurance among cost-conscious customers will not diminish significantly for some time to come.)

Customer ownership

slide 15

Issues of customer ownership will also arise as the internet channel is established. Most notably, the relationship between customer and agent will face the biggest shift in focus. Agents traditionally have “owned” the customer relationship, serving as the contact person for the insurer, initiating, developing and servicing the relationship. The insurer has served as the product provider, supplying the risk management and fulfillment of the policy. It is this dynamic that has already begun to erode, with the establishment of alternative sales channels (direct mail or telephone sales), and the internet is further accelerating this process.

The internet’s flexibility and functionality will allow for more complex relationships. Insurers, driven by consumer demand and competition, will develop diverse marketing relationships to expand services and market reach. These marketing networks will challenge the ability of insurers to effectively manage customer information, servicing and revenue streams. Insurers will also market products through internet-based aggregators. In the US, web sites such as Insweb, QuickenInsurance and Insure.com provide educational information and comparative insurance quotes from multiple providers.

Complementary characteristics of channels

slide 16

The internet does have the promise of greater functionality for existing channels. The web enablement of insurance operations will provide efficiencies across all channels.

Benefits and enhancements the internet can bring to other channels

In addition to operational efficiencies that can be realized, other benefits and enhancements to the business will emerge. Ranging from the basic to the complex, these enhancements will likely center on elevating demands on existing channels.

Enhancements focusing on efficient handling of customer inquiries (address changes, policy changes, billing questions) can be managed online. To a certain extent, this will enable customers to self-manage their policies, up to their own comfort level, from home. This scenario benefits the agent by reducing its handling of routine requests, and thus allowing additional time to focus on sales. ICMIF member Nationwide launched its “My Nationwide” feature in 2000 to provide a tool for customers to interact as described in the scenario above. The feature is a key component in Nationwide’s e-commerce strategy, and aims to encourage policyholders to become more comfortable with “self-management” of their policies.

Call centers may also find benefit in web-based solutions, which will reduce low priority customer inquiries, freeing resources for more complicated needs or sales. By providing well-developed online solutions (graphical, step-by-step, video files) to customers, online ‘solution centers’ may develop. The depth and detail of the solutions can vary from technology-based problems (e.g. web browser issues) to complex policy explanations. However, the online answers must be tempered by customer comfort with the web and the quality of the material presented.

Customer information exchange and lead generation

As mentioned earlier, the internet can be an effective way to disseminate customer information that will allow the company and other channels such as agencies to serve customers more effectively and more consistently. Likewise, if properly implemented, e-commerce should lower administrative costs in agencies and in the company by consolidating systems.

Slide 17

Slide 18

Slide 19

In recent decades, a fierce and renewed debate about the merits of mutuality has brought into question the efficiency of different forms of insurance companies – do plcs really have greater levels of efficiency or better performance than mutual societies?

Several mutual insurance companies have demutualised and we are by now familiar with the arguments used in favour of demutualisation: to increase efficiency, to gain access to capital for expansion; and to increase flexibility. Demutualisation, it is claimed, will bring benefits to policyholders, employees and potential shareholders.

But can the arguments against mutuality and in favour of demutualisation be proved? ACME decided to test all the arguments and in “Valuing our Mutuality”, which it believes is the first study of its kind to be undertaken in Europe, has made a close study and analysis of their validity. ACME’s research compares mutual insurance companies and plcs directly and is based on a very comprehensive sample of 97 companies in 11 countries, representing a total premium volume of 24 per cent of the Western European insurance market.

The study consists of four separate parts:

- Part 1 compares data about the market, operational and financial performance of mutuals and plcs.
- Part 2 explains features, which are unique to mutual insurers, using the Circle of Mutual Benefit. Mutual insurance is more than just insurance.
- Part 3 contains an overview of the importance of legislation for the choice of company form and for capitalisation in particular.
- Part 4 focuses on the demutualisation trend and its effects, including a case study of the Swedish insurance company Trygg-Hansa. Are the arguments made for demutualisation reflected by the actual post-demutualisation developments?

These are the conclusions to the four parts of the study:

Conclusions to Part 1: company data – the “hard facts”

We have examined performance based on: (a) premium income and growth, (b) claims payments, (c) costs and, (d) financial performance, e.g. return on managed assets in order to measure and compare the efficiency of mutual and plc insurance companies in a meaningful way.

Summary of Key Indicators

Market performance. In terms of market success, mutual insurance companies seem to be keeping up well both within the stagnating non-life insurance market **Slide 21**
and the expanding life market **Slide 22**

The indicated trend is in fact that: mutual companies were more successful in the market than their plc competitors in the second half of the 1990s.

Claims payments. Mutual insurers generally have higher claims ratios than plcs, thus more money goes back to the policyholders per paid premium. **Slide 23**

Costs. The general conclusion is that mutual insurance companies – life as well as non-life – have performed better than their stock competitors. Data over the period also indicates that their efficiency is increasing. **Slide 24**
Slide 25

Furthermore, since mutual insurance companies generally have low operating expenses and high claims ratios, it can be seen that their policyholders receive more in return per paid premium.

Financial performance. To a great extent, most insurers invest their managed assets in the same capital market. **Slide 26**

Consequently, the companies' financial performance in terms of return on invested assets is fairly similar. In this respect, the difference between mutual companies and plcs is not significant.

As for market performance, claims, operating and financial performance, mutual insurance companies, despite claims by some parties to the contrary, have no reason to feel inferior to plcs: the data indicates quite the opposite.

Conclusions to Part 2: other benefits of mutuality – the “soft” facts

We believe that the good performance of mutual insurance companies goes back not just to the so-called hard facts, as illustrated in Part 1, but also to the soft facts and in particular to the theory of what we call the Circle of Mutual Benefit. **Slide 27**

This concept of mutuality focuses on customer value, which results in good performance, which in turn strengthens and promotes the mutual idea, and which further, develops the principle of customer value, etc. Mutuality, therefore, becomes a self-reinforcing power.

The cases described in this section also show that mutual insurance companies have a genuine customer focus and stand for more than just insurance.

Mutual insurance companies promote active policyholder influence, they are innovators of new products and services and they actively demonstrate social commitment.

Conclusions to Part 3: legislation and raising capital

Insurance legislation has two main objectives: to protect policyholder interests and to safeguard the insurance industry. In the first case, insurance legislation fulfils a role of protection, and, in the latter, a role of legitimacy. Prevailing legislation often has an important influence on the choice of company form.

However, in general we have not found that insurance or tax laws, imposed on mutual insurers, create any more disadvantages, than the laws which control insurance plcs.

An important and sometimes deciding factor in the demutualisation process, however, is the difficulty that mutuals may sometimes have in raising capital. We balance this, however, by pointing out that raising capital through the demutualisation process is itself risky. We describe this in more detail in the conclusions to Part 4.

We believe that there are several alternatives to demutualisation. But we also believe that legislation could be introduced in the form of a mutual financial instrument for capitalisation, to help mutual companies to increase their capital. Such a legal-financial innovation would, to a large extent, probably make future demutualisations unnecessary.

Conclusions to Part 4: the effects of demutualisation

Proposals for demutualisation are generally based on long-term visionary plans promising greater efficiency and flexibility, expansion possibilities, and benefits to staff, customers and shareholders. Demutualisation is even advanced as a precondition for survival.

In addition, supporters of demutualisation complain that mutuals need more capital for expansion and growth. However, there are alternative ways in which mutuals can raise more capital.

Furthermore, raising capital itself requires consideration that: (1) borrowing capital is not without cost – it is never ‘free’; (2) capital borrowing can result in considerable changes in power and influence over the company; (3) new investors may request rapid, less-well-considered changes of the company’s strategy. Borrowing money is not without risk.

We have also noted that the demutualisation process is usually initiated at management level, not by the policyholders and often promises that demutualisation will lead to considerable financial benefits, as shown by the Circle of Self-interest.

Demutualisation is often based on the premise that it will facilitate the purchase of other insurance companies. However, the opposite is often the case: with many demutualised companies themselves being bought out.

There are, therefore, considerable discrepancies between the expectations and the reality: We have compared the reasons put forward for demutualisation and the subsequent events; to test whether these reasons were actually valid.

Our conclusion is that arguments for demutualisation are not so much based on hard facts but are usually based on the ideology of demutualisation.

Presentation Notes:

**VALUE CREATION THROUGH
ONLINE SERVICES AT
DESJARDINS**



By: Eric Lemieux

Vice President, Desjardins Electronic Paiement Access Services



October 17, 2001

Slide 1

Good morning Ladies and Gentlemen,

It is my pleasure to present to you Desjardins' experience with online services and in particular, the value creation arising from these services.

Slide 2

I will highlight the various aspects of value creation, as it pertains to both individual and business customers, as well as to our organization and partners.

My presentation will include 5 major areas:

- 1) An introduction to Desjardins,
- 2) Our cybervision, that is, our vision of online services,
- 3) Our business outline for online services,
- 4) The results we have achieved so far and lastly,
- 5) Value creation through online services.

Slide 3

Founded in 1900, Desjardins has 5 million members and is the largest financial cooperative in Canada. Its assets exceed 80 billion Canadian dollars (or 53 billion American dollars). In addition to banking services, Desjardins offers a complete range of insurance, trust and brokerage services. True to its cooperative nature, Desjardins' mission is to help people build on their wealth and foster community growth.

Slide 4

Desjardins' vision of online services focuses primarily on 3 areas. Individual clients can manage their entire portfolio and have online access to all Desjardins products, including trust, brokerage and insurance services. Business clients have complete control over their finances. In this vein, Desjardins was the first financial institution in Canada to launch online bank confirmation, a product used by chartered accountants for audit purposes. Desjardins developed its vision further by helping and enabling businesses to offer e-commerce services to their own clients. In this way, Desjardins encourages the establishment of a relationship between its individual and business clients.

Slide 5

The business outline of Desjardins online services focuses on 4 areas. Desjardins has been offering online services to its individual clients since 1996. Our strategy is based on information, simulations and transactions. This allows clients to receive concise information that is within the limitations of the Internet. Once clients obtain their information on Desjardins.com, they can use simulators to help them plan for life events such as retirement or the purchase of a home. Furthermore, they can make all their cash management, insurance, or brokerage transactions online on AccèsD, the transactional section of Desjardins.com.

Slide 6

In 1999, we expanded our offer of online services for businesses to include a vast array of cash management, payroll and direct deposit and withdrawal services. We call this concept B2B, that is, Desjardins to its business customers.

Slide 7

At the beginning of 2000, after having completed the offer to individual and business clients, Desjardins worked with partners to develop a series of services that help businesses to do e-commerce with their own clients. This is the BtoBtoC concept. As a cooperative, it is our duty to provide encouragement and assistance to businesses, particularly small and medium-sized businesses, in order to help them enter the e-commerce age at a low cost. Our strategy focused on value added partnerships. I will be showing you some examples of our value added offers shortly.

Slide 8

Desjardins also worked with partners to develop value added services designed especially for businesses. This is the BtoBtoB concept. For example, Desjardins participated in the development of a specialized portal for accountants, farmers and e-procurement.

Desjardins forms partnerships with various companies to provide its business clients with value added products.

Slide 9

Desjardins' e-commerce strategy goes beyond the relationship it has with its individual or business clients. It is also based on the practice of forming partnerships in order to offer a broad range of value added services.

Slide 10

This is how Desjardins has earned its highly-desirable position among online banking service providers in Canada. Desjardins.com is the most visited financial Website in the province of Québec and the second most-visited banking Website in Canada, with more than 1.6 million visits a month and 400,000 online transaction users. This year, we are expecting to process 85 million online transactions.

Slide 11

Desjardins combines the power of online services with the more traditional ways of communicating with our clientele. For example, we send advertisements inviting people to use our simulators to prepare for their retirement and even to buy their financial products online. This technique combines the strengths of both traditional and virtual means.

Slide 12

We consider value creation as the key to the success of our online services. Value creation could be monetary or economic but it could also be community-related and, as a cooperative, we place a great deal of importance on community.

Slide 13

Online services engender real value creation compared with traditional services. They are a complement to the more traditional, physical methods and offer flexibility, availability, information, portfolio management options and links with accounting software. Ultimately, clients benefit from concrete value creation, which encourages consumer loyalty to our financial institution.

Slide 14

Businesses benefit from value creation through our online services as well. These tools are perfectly in line with the reality of businesses in today's markets. Tasks can be delegated to various employees: one person can prepare electronic payments, enter the payroll, make payments to the government, and these transactions can be entered ahead of time and put on hold until a supervisor authorizes them. However, Desjardins again goes beyond these features and creates real value by offering businesses the opportunity to practice e-commerce with their own clients. Through Desjardins, businesses can receive e-payments, secure their servers for e-transactions or set up a virtual store.

Slide 15

It is less costly for Desjardins to make its products available online than through Automated Teller Machines, by telephone or in branches. We estimate a savings of \$22 a year over 5 years for each user of our online services. This represents a savings of approximately \$60 million over the next 5 years. Furthermore, our repertoire of electronic services includes new products and consequently, new sources of income.

In addition to contributing numerous economic benefits, online services can help build a solid and close cooperative relationship with clients. Virtual communication can help nurture the democratic nature of our organization and promote community involvement through, for example, the announcement of annual general meetings. Consulting our clients about decisions made by their cooperative can take on new meaning, and even new direction.

Slide 16

Desjardins has formed several partnerships with a view to making its entire range of services available on the Internet. The key to a successful partnership is to make it a winning situation for everyone involved. For example, Desjardins joined with Clic.net and Canada Post in order to provide its business clients the opportunity to open virtual stores. Through this simple and cost-efficient solution, all the partners achieved value creation that would not have been possible without this joint effort. The partnership made it possible for Clic.net to sell its online store solution, for Canada Post to ensure delivery of the merchandise ordered online, and for Desjardins to control the payment of the merchandise.

In this context of value creation, Desjardins has formed multiple partnerships in the last few years.

Slide 17

Since 1996, Desjardins' online services have evolved. Initially, the ability to transact on the Internet was made available to individuals (BtoC) and then, to its business clients (BtoB). Thereafter, Desjardins formed partnerships to enable these businesses to develop their e-commerce activities with their own clientele (BtoBtoC). Most recently, more partnership agreements were made to offer value added services directly to its business clients (BtoBtoB), an example of which would be Procuron, an online supplier of varied merchandise such as paper, pens, computers or travel services.

Value creation was the driving force behind the development of our online solutions: value creation for our clientele, for our partners and for Desjardins itself.

Slide 18

Our individual clients have relationships with numerous parties and as a cooperative financial institution, Desjardins strives to facilitate their online dealings. This is the motivation that led to numerous projects that simplify all types of online interaction.

Slide 19

This model is also used to develop our offer to our business clients.

Desjardins has built its entire selection of online services around the concept of value creation and partnership.

Thank you.

**ICA FINANCIAL FORUM - CO-OPERATIVE BEST PRACTICES
SEOUL, WEDNESDAY 17 OCTOBER**

**BUSINESS FORUM: CO-OPERATIVE FINANCIAL SERVICES - IS THE
CO-OPERATIVE ADVANTAGE ON-LINE**

Internet Strategies - The Experience of NTUC Income

1. Introduction

Some business leaders say that they have an e-commerce strategy. When asked to elaborate, they say: "We have created a website". However, a successful e-commerce strategy involves more than that.

The first challenge is to get people to visit your website. It is quite a challenge. With millions of websites available, it will take something special for people to visit your website.

The next and even bigger challenge is to get people to transact and buy from your website. At NTUC Income we have found the Internet and e-Insurance a most powerful tool to build customer relationships. Some insurers are only just evaluating the possibilities and impact of the Internet and e-Insurance. Others have taken what they have done in the traditional marketplace and moved it to the Internet. At Income we have gone beyond that. We have gone through a long learning process. We have implemented several experiments over the past years and learned about how to interact with the customers through the new channel. More important, we have also been able to get our employees and insurance agents to embrace the new technology and to realise its potential. We have developed a strategy. In my address today, I will share with you the experience of NTUC Income in dealing with these issues.

2. NTUC Income - a Leading Insurer in Singapore

First, let me give you a few facts about NTUC Income.

INCOME is a leading life, general and health insurer in Singapore. We are among the top three in life insurance with a market share of 17.2% and a premium income in 2000 of S\$1.5 billion. We are the largest general insurer with a market share of 14.9% and a premium income of S\$174 million. Our total assets reached S\$8.1 billion at the end of June this year. We have about 1.3 million inforce policies. Our organisation consists of about 1,000 employees and 4,000 agents.

Our financial standing is strong, we have become the first Singapore owned insurer to be rated "AA" by rating agency Standard and Poor's. We have been named "Insurance Company of the Year" in both the 1999 and 2000 Financial Awards in Singapore.

Our success can be attributed to a number of factors. Among them are:

- We operate efficiently with an expense ratio that is more than 10 percentage points lower than the industry average.
- We have a cutting edge in our IT development through which we raise the level of service to our policyholders.
- Besides quality insurance plans, we also provide special benefits to our policyholders aimed at improving their quality of life.

3. The Benefits of the New Technology - Lower Costs, Increased Service

The immediate effect of the new information technology and the Internet has been to modify the relationship between the insurer and its customers. It has created an environment where the insurer has to be available "anywhere, anytime, anyhow". This means that insurers are facing several issues which compel them to redefine not only their management of technology but also how they use technology as a new lever to redefine their relationship to their clients.

IT advancements make it possible to track business transactions more efficiently and cut operating costs. In addition, the Internet offers enormous potential for improvements in quality and service levels. e-Business will facilitate:

- convenient customer service, 24 hours a day, 7 days a week
- faster response to customers' requests
- depth of information on products and services
- more transparency and speed of claims management
- personalised service.

These advantages constitute a catalogue of requirements to insurers' successful internet presence. Highly effective direct sales companies are using IT to find potential customers, track sales leads, and guide the sales process.

Swiss Re, the leading reinsurer, indicates that e-business should produce cost savings of around 10% in claims settlement, 30% in policy administration, 30% in distribution and 5% in claims payment.

Currently, actual translations of Internet applications into successful solutions are still in its infancy for the insurance industry. Swiss Re recently reported that on-line channels in standardised personal lines insurance are expected to have gained a market share of 5-10% in the US and 3-5% in Europe by 2005.

At NTUC Income, our goal is to have 20% of our business done through or facilitated by the Internet in 2005. Based on the current rate of progress, we expect to achieve this target ahead of time.

4. Providing Popular Services

NTUC Income launched its website in 1995 and was the first insurer in Singapore to do so. The Internet and the website was quite new at that time and we had to learn what the game was all about.

Right from the start we recognised that we needed to give a compelling reason for people to visit our website. What we did was to offer information and services that will attract visitors to our website. Most important, in addition to the information and premium quotations on our insurance products, we also provide information services that are not related to insurance, but are of interest to the general public.

Some of the services that became very popular were:

- a) A service to look at the past results of lotteries and draws. It is a convenient source of reference for people who missed the results that were printed in the daily newspapers. Our service also allows a search of the past ten years' results, to see the past occasions that a particular number has appeared.
- b) Reverse search of telephone numbers. By entering the telephone number, the user is able to get the name of the caller. This is a useful service when you see a telephone number on the mobilephone or pager and do not know who is calling.
- c) Virtual greeting cards that are suitable for the local environment. These cards are easy to create, and are fast to download.
- d) Quotations for insurance premiums. NTUC Income has a reputation for providing competitive premium rates. The user comes to our website to obtain a premium quotation for his motor, personal accident, travel and other insurance plans.

These four services were the most popular during the past five years. Some of the services we have provided over the years were popular for a certain period of time. Others remain popular up to today. At any one time, we do have a few services that are actively used.

5. Personalised Communication

Around January 1998, we implemented a new strategy. No one wants to be part of a mass market. We wanted to leverage the website service and provide new forms of customer value through improved interaction and more personalised communication. In other words, to make use of the interactive potential of the Internet. Therefore we started to collect e-mail addresses from the visitors to the website.

Instead of just displaying the information on-line, we asked for the e-mail address and sent the information by e-mail. The use of the services continued to grow rapidly, even after the conversion. We now have several e-mail lists comprising of people at different stages of familiarity with our website.

We send out a regular e-mail broadcast to the addresses in each mailing list. We respect their rights to privacy and allow them to easily cancel their subscription from our mailing list. As of today, we have accumulated 170,000 active e-mail addresses. We send a monthly e-mail broadcast to tell the people on our mailing lists about new services on our website. We continually look for new services to keep the members interested to remain on our mailing list.

6. New Portals Providing Useful Services

We have now moved on with our Internet strategy and introduced new portals.

i-Lifestyle is NTUC Income's internet lifestyle portal. It provides many useful services. Customers can shop for groceries from FairPrice supermarkets, book on-line for a travel package or arts performance, join a car pool, or even search for a better job.

i-Shop offers a wide selection of articles at bargain prices. Articles such as computer hardware and software, consumer electronics, gift articles and much more.

We have a simple way for the visitor to acquire a cyber record, which stores his cyber number, name and e-mail address. There is an option for the user to provide other information. This cyber record will make it convenient and hassle free for the customer to access our broad range of services, without having to provide the e-mail address or name every time.

7. Marketing our Insurance Products

Our strategy is different from other companies - Learn from the "fun" activities first and come back to "serious business" later. Our strategy has been successful.

We have reached a stage where we give around 6,000 on-line quotations a month for our insurance products. We close around 2,000 insurance sales on a direct basis a month over the Internet. We close another 200 insurance sales every month from Internet related enquiries. Current sales conversion generated from Internet leads is about 15%. Policyholder enquiries on insurance issues are estimated at 3,000 a month while other services like greeting cards, lottery numbers, etc, are around 15,000 a month.

We recognise an interesting role for our insurance agents. They will continue to be relevant in the Internet age. They provide the advice and the human touch to our e-commerce services. We expect that the agents will submit most of the Internet transactions for insurance on behalf of the customers. We pay a fair and attractive rate of commission to the agent for the service. The insurance forms are available on our website. This makes it possible for the agents to increase their productivity and to submit their transactions without visiting the office.

For customers who come to the website, we offer them an option to select an agent or to request for an agent to contact them to provide advice and service. For products sold through the Internet, we will pay a lower rate of commission to the agent and pass the savings to the customers.

In our marketing we are offering our popular non-insurance services to our existing customers and to the public. This will allow us to extend our database of internet-based customers. We are developing systems to approach these customers to sell further insurance products to them. We are learning how to cross sell additional products using this new channel.

The younger people are Internet savvy. The Internet will be the medium to reach out to the customers of the future. They will find it more convenient to shop through the Internet. As these people become the decision-makers in their families and business organisations, it is vital to have an effective Internet strategy to reach out to the new market over the next 5 to 10 years.

8. Guiding Principles

There are a number of guiding principles for our IT development:

- a) ***Internet is the rule of the game.*** One way or the other, in the future most if not all IT technology will be Internet based.
- b) ***Ease of use is a must.*** Ease of use has become a must for future developments. More and more, technology must be accessible to non-IT professionals.
- c) ***Design IT solutions as a network.*** IT services based on networks are extremely easy to update - modify the application on the server and inform the users. This is a cost efficient approach.
- d) ***Personalisation for the customer.*** New technologies will be used for personalisation that will allow one-to-one marketing.
- e) ***Anticipate access from anywhere.*** Mobility is a factor in today's business environment. The new services and the underlying IT architecture must allow access from anywhere.
- f) ***Leverage existing and future bandwidth.*** The expansions of bandwidth are a further opportunity to develop multimedia services.
- g) ***Reduce the development time.*** The time taken to market future services can be a strategic advantage.

9. Conclusion

The Internet brings exciting new opportunities to improve productivity and to develop new ways to transact business. It is really transforming the way we do business. It will have a large impact on the future growth of our business. As a consequence, one cannot be a leader without trying to make use of the technology.

In order to get the full impact of the powerful marketing tool that the Internet represents, it is necessary to have a strategy, not just take what has been done in the traditional marketing channels and transform it to a storefront on the Internet. Furthermore, it is necessary to change and adapt the strategy again and again and constantly try new approaches in this fast changing field.

e-Commerce is not just another buzzword. We believe that it has great potential to change the market. At NTUC Income we are seizing this opportunity to be a leader in insurance in the new Internet world. We aim to be ahead in the new market environment that will be shaped by this technology.

Tan Kin Lian
Chairman
Singapore National Co-operative Federation Ltd

Cooperative Banking
of
Korean Agricultural Cooperatives
(October 2001)

Won-Sik NOH
Cooperative Banking
National Agricultural
Cooperative Federation(NACF)
Seoul, Korea

<Contents>

■ Introduction

I. Overview of Cooperative Banking

II. Growth of Cooperative Banking

III. Special Features

IV. Factors for Success

V. Tasks to be Completed

■ Introduction

- Since it was introduced around 1970, cooperative banking business of agricultural cooperatives has smoothly developed until the late 1990's.
 - Successful development of the business is partly attributed to the favorable background of the national economy which recorded continuous high growth rates during the period.
 - Various benefits offered by the Government were another factor for success, along with the support of the NACF with lots of resources.

- However, economic conditions of the business has been aggravating since the late 1990's and cooperatives will face a lot of difficulties if they are not ready themselves for the situation properly.
 - Since the financial crisis in 1997, Korean economic growth was remarkably lowered and competition was intensifying due to the opening of financial market.
 - Agricultural cooperatives have developed and survived thanks to the protection and support of the Government and the NACF so far, but can hardly expect to get their supports continuously.
 - Accordingly, cooperatives have to develop measures which insure their self-reliant management based on stable income structures by reforming their business model and organizations.
 - In particular, financial reform is undergoing in Korea with the development of IT industry, which requires cooperatives to make swift and appropriate responses as well.

- With these background, the paper aims to review the present situation of the banking business of agricultural cooperatives and search for the right direction for its development.

I. Overview of Cooperative Banking

1. Introduction of Banking Business

- Cooperative banking business was introduced as a pilot scheme by 150 multi-purpose agricultural cooperatives in 1969 under the initiative of the National Agricultural Cooperative Federation(NACF).
 - Since then, the number of cooperatives conducting banking business has increased until 1976 when all 1535 agricultural cooperatives decided to do the business.
 - Credit union movement was firstly introduced in Korea in 1960 by Sister Gabriel at a Catholic hospital.

- Legal Basis
 - At the beginning stage, the cooperative banking business was introduced by the approval of the Agricultural Ministry without relevant legislation.
 - Legal basis of the business was secured in 1972 by the enactment of the Credit Union Law, where special articles on the banking business of agricultural cooperatives were inserted.
 - Full legal basis of the business was established by the amendment of the Agricultural Cooperative Law in 1973.

2. Deposits & Loans

- The balance of deposits with agricultural cooperatives totaled 61,280 mil. US dollar equivalent at the end of June 2001.
 - The balance of deposits per cooperative was 44 mil. US dollars.

- The loans outstanding of agricultural cooperatives totaled 39,175 mil. US dollars.
 - Cooperatives provided loans to farmers and non-farmers amounting to 28 mil. US dollars on average.

- Out of total deposits received by cooperatives, 64% was loaned.
 - The other 36% was deposited with the NACF Asset Management or directly invested in securities.

<Deposits and loans of cooperative banking>

	National Total (mil. US\$)	Per Coop (mil. US\$)
Balance of Deposits	61,280	44
Loans Outstanding	39,175	28
L/D Ratio(%)	64	64

※ as of the end of June 2001

3. Market Share of Cooperative Banking

- Agricultural cooperatives accounted for 44% of deposits and 53% of loans in the savings organizations respectively.
 - Savings organizations include cooperatives, credit unions, postal savings, Saemaul depositories.

- Agricultural cooperatives' shares of deposits and loans in all Korean financial market were 13% and 12% respectively.
 - Commercial banks and savings organizations were included in the markets.

< Market share of cooperative banking >

		Market share
Savings organizations	savings market	44.2%
	loan market	52.5%
All financial organizations	savings market	12.9%
	loan market	12.1%

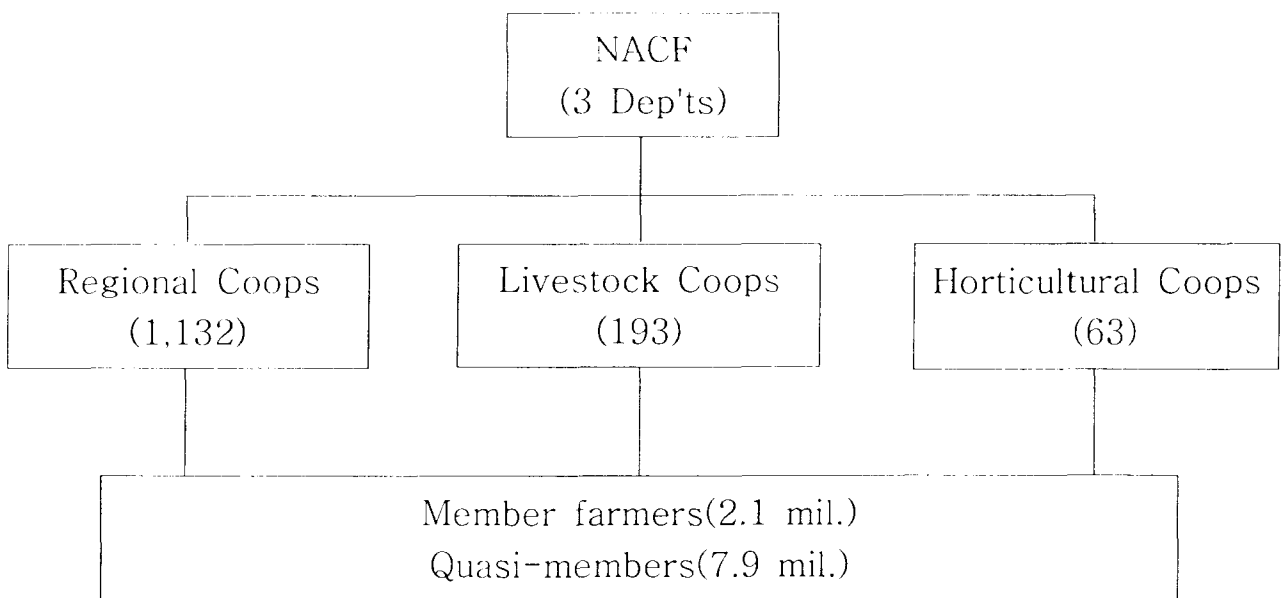
※ as of the end of June 2001

4. Organizational Structure

- Korean agricultural cooperatives have two-tier system ; the NACF as a national apex organization and member cooperatives.
 - The NACF has 3 departments in charge of cooperative banking business.
 - Member cooperatives, numbered 1388, include regional agricultural cooperatives, livestock cooperatives and horticultural cooperatives.

- Agricultural cooperatives have a total of 2.1 million farmer members and 7.9 million non-farmer quasi-members.

< The organizational structure of cooperative banking >



5. Functions of Organizations

Agricultural Cooperatives

- Like commercial banks, agricultural cooperatives take in deposits and provide loans.
 - In addition, they are engaged in money transfers within and out

of the agricultural cooperative system via on-line system.

- However, they are not involved in international banking activities only except for foreign exchange transactions.

the NACF

Head Office

- Head office of the NACF has 3 departments directly concerning cooperative banking business of cooperatives.
- The first and most important function of NACF is to operate entrusted funds by member cooperatives, now amounting to 22 bil. US dollars.
- In addition, the head office of NACF is engaged in planning, promoting and guiding activities for the cooperative banking.

Provincial Offices

- The NACF operates 16 provincial offices which handle promotion and guidance activities for cooperative banking business.
- The provincial offices function as bridge between cooperatives and the NACF Head Office.

II. Growth of Cooperative Banking

1. Growth of Business Volume

- The balance of deposits received by agricultural cooperatives recorded 59,221 mil. US dollars at the end of 2000.
 - It has recorded an annual growth rate of 41% since 1970.
 - In particular, it recorded an annual growth rate of 21% in 1990's in spite of the financial crisis of the country in the late 1997.
- The loans outstanding recorded 37,724 mil. US dollars at the end of 2000.
 - It's growth rate recorded 39% per annum in these 30 years.

- The growth rate of loans outstanding lagged behind that of deposits in the 1990's due to the sluggish demand for farming investment in the period.

< Growth of business volume of cooperative banking >
(in million US\$)

	1970	1980	1990	2000
Balance of deposits	1.8	634	8,923	59,221
Loans outstanding	2.0	406	6,520	37,724

2. Trend of Loan/Deposit Ratios

- The loan to deposit ratio plummeted from 111% in 1970 to 64% in 1980.
 - At the beginning stage of cooperative banking, the NACF provided funds to cooperatives for lending, which enabled cooperatives recording loan to deposit ratio exceeding 100% in 1970.
 - The ratios stabilized between 64% and 73% since 1980, which contrasted with Japanese agricultural cooperatives whose loan/deposit ratios were around 30% in these years.

<Trend of loan to deposit ratios >

	1970	1980	1990	2000
l/d ratios	111%	64%	73%	64%

3. Major Promotion Strategies Adopted

- "One trillion won savings campaign" was one of the most important and effective promotional strategies adopted by agricultural cooperatives at the beginning stage of cooperative banking.
 - The campaign started in 1973 and ended in 1981 when cooperatives achieved their target.

- It aimed to increase cooperatives' deposits received up to one trillion won, equivalent to 1.4 mil. US dollars at that time.

□ Major means of the campaign were

- 1 Trillion Won Depositories established by the villages which had well-organized autonomy bodies.
- Saemaul Savings Groups set up by other villages.
- Saemaul School Banks established in elementary, middle and high schools.
- Sisterhood contracted between cooperatives and rural factories.

III. Special Features

1. Business Adopted by Multi-purpose Cooperatives

□ From the beginning of agricultural cooperative movement in the early 1960's, agricultural cooperatives had exclusively been engaged in marketing businesses.

- Agricultural marketing and supply of farm inputs such as farm chemicals and chemical fertilizers were main businesses of cooperatives.

□ Credit and banking business was adopted by agricultural cooperatives in order to meet operating funds for marketing businesses.

- In the 1960's, a shortage of operating funds of cooperatives was a main obstacle for the development of marketing businesses.

□ Banking business has become the main income source of agricultural cooperatives.

- Marketing businesses are still recording deficit in most of cooperatives and, therefore, in practical, are subsidized substantially by banking business.

2. Replaced Farmers' Usurious Debt

- Cooperative banking has replaced farmers' usurious private debt with its institutional loans.
- In the early 1970's, very few banking outlets were operated in rural areas while most of bank branches located in cities.
 - Therefore, farmers relied on rich farmers and merchants in towns for borrowing money for farming and living.
 - Interest rates for private loans were deadly high, ranging from 50 to 100% a year, which trapped farmers in the vicious circle of poverty.
- Agricultural cooperatives became exclusive banks in rural areas with the handling of banking business.
 - Cooperative banking was the firstly introduced institutional banking in most of towns and townships.

3. Belongs to Savings Organizations

- Banking division of agricultural cooperatives belongs to savings organizations which comprise of cooperative banks, credit unions and postal savings.
 - Savings organizations have favorably been treated by the financial authorities for the purpose of promoting household savings.
- They were waived from the regulations by the Banking Law which affected commercial banks.
 - Instead, the Credit Union Law and Agricultural Cooperative Law were applied to cooperatives' banking business.
- In conclusion, agricultural cooperatives were less inflicted by the monetary regulations of the Government and the Central Bank.
 - They enjoyed more freedom for organization and operation of banking business.
 - On the other hand, commercial banks were directly affected by the monetary policies.

4. Top-down Approach

- Cooperative banking business was introduced by the NACF's initiative.
 - The NACF itself invented and diffused the business to its member cooperatives.
 - All the business regulations and financial products were created and prepared by the NACF.

- The NACF's role for the development of cooperative banking is not still weakened.
 - 90% of coops' idle funds is entrusted to NACF's Cooperative Banking Asset Management which invests a total of 22 bil. US dollars of funds in domestic and overseas financial market.
 - In addition, planning function for the business, staff training, guidance and supervision activities are performed by the NACF for member cooperatives.

5. Regional-based Banks

- At the initial stage(1960 - 1970's) of cooperative banking, agricultural cooperatives were unique and exclusive farmers' banks in rural areas.
 - In those years, farm population accounted for 70% in rural areas.

- At present(1980's - present), agricultural cooperatives act as the regional banks closely related with rural residents.
 - Farm population, decreased even in rural areas, accounted for 9% of total population in 2000.
 - In this regard, agricultural cooperatives introduced quasi-member system that enabled cooperatives accomodating non-member farmers as member-customers.

IV. Factors for Success

1. Higher Interest Rates than Commercial Banks

- Agricultural cooperatives engaged in banking business are classified into category II (non-bank) financial institutions in Korea.
 - Category I financial institutions include commercial banks, development banks and commercial banking division of the NACF.
 - Category II financial institutions include such savings organizations as agricultural cooperatives, credit unions, postal savings and Saemaul depositories.

- As category II institutions, agricultural cooperatives have adopted higher interest rates than commercial banks.
 - Both rates of deposits and loans were higher by around 2 percent.
 - Agricultural cooperatives were able to induce depositors with higher interest rates and give loans with higher interest rates than banks, because Korea was in the chronic over-demand status of money until the late 1990's.

2. Favorable Taxation Policy

- In general, income tax is levied on the interest income in Korea
 - Interest income tax rate had been 20% until 2000 and lowered to 15% in the beginning of 2001.

- However, income tax was exempted for depositors with cooperative banking with a view to promoting household savings.
 - Maximum tax exemption amount of deposit has been 20 mil. won (15 thousand US dollars) per person.

- With both favorable conditions of higher interest and income tax exemption for depositors with agricultural cooperatives, cooperative members were able to receive practically higher interest by 3 to 4% than they did from commercial banks' depositors.

3. Efficient Staff Training

- The NACF and member cooperatives have strengthened training of cooperative employees for the efficient business operation.
- Various collective training courses were offered to employees with the utilization of a cooperative college and six training centers owned by the NACF.
 - Such general and specified courses for banking business as tellers course, managers course, loan appraisal course, legal claims course, risk management course, etc, were held.
- In addition, other diversified training opportunities were offered to employees.
 - Training meetings were often held by county/provincial offices of the NACF.
 - Correspondence courses and internet training courses were also supplied by the NACF.

4. Guidance and Support of the NACF

- From the introduction of banking business by cooperatives, the NACF has put much emphasis on guidance activities for the development of the business.
 - The NACF has set up various systems concerning banking business such as regulations and working manuals.
 - In addition, it has developed financial products for the business on behalf of its member cooperatives.
- Inspection and supervision activities for the business were handled by the inspection departments of the NACF head office and provincial offices.
 - Regular inspections every one or two years as well as spot inspections without advance notices were held by the departments.

- The NACF's credit guarantee on member cooperatives, strong but informal, has practically been the important support for the banking business of cooperatives.
- Individual cooperatives were too weak to obtain public credit by themselves.
 - However general conception that member cooperatives belong to the strong NACF group has contributed to their obtaining public credit to a great extent.
 - No bankruptcy of agricultural cooperatives has recorded so far due to the financial and non-financial support by the NACF.
 - For instance, NACF's Mutual Support Fund amounting to 400 mil. US dollars has been useful measures for the support of the financially weakened cooperatives.
- [] Even though, the NACF and member cooperatives are not legally consolidated, most of Koreans regard them as one economic entity.

5. Extension of Nationwide Network

- Agricultural cooperatives and the NACF have formed the largest national network throughout the country.
 - They have around 5,000 banking outlets linked to each other ; 4,050 shops of 1388 agricultural cooperatives and 870 banking branches of the NACF
- Agricultural cooperatives have enjoyed on-line transactions between themselves since 1985.
 - On-line network of the cooperatives extended to banking branches of the NACF in 1990, and more broadly extended to all commercial banks in June 1995.
 - All financial transactions of the banking business including on-line transactions with other cooperatives and banks are made through the NACF Computer Center.
 - In the meantime, the other savings organizations such as credit

unions have developed on-line network within the system just in recent years and still have very limited on-line transactions with commercial banks.

6. Timely-response to Urbanization

- In line with the industrialization and urbanization of Korea, agricultural sector has decreased remarkably in terms of its shares out of national production as well as its population since 1970.
 - Farm population decreased to 4 million in 2000, which resulted in the decline of farm-population ratio to 9% from 45% in 1970

- To cope with the decrease of farm population, agricultural cooperatives adopted the quasi-member system in 1994.
 - With this system, non-farmers in rural as well as urban areas were able to join agricultural cooperatives as quasi-member.
 - The number of quasi-members of cooperatives reached 7.9 million at the end of June 2001.

- Agricultural cooperatives are gradually transferring into regional cooperatives accommodating both farmers and non-farmers in rural areas.

V. Tasks to be Completed

- Cooperative banking business of Korean agricultural cooperatives has developed successfully in view of the fact that it has recorded remarkable growth of deposits and loans, and has also contributed a lot to the development of multi-purpose cooperatives by provision of profits and liquidity for the sustainable management.

- However, various advantages of the business enabling successful growth have considerably been deprived of with the liberalization of financial market, and cooperative banking is in need of reengineering and restructuring for its survival and development.

1. Active Merger Program

- There are considerable variations between cooperatives in terms of their business volumes and infrastructures.
- However, most of cooperatives are too small in size to cope with the intensified competition.
- Cooperatives have 3 offices and 38 employees on average.
 - They have 61 million US dollars of total assets and 2.3 million dollars of owned capital on average.
- The NACF has not been active to carry out the merger program of member cooperatives in these couple of years because cooperatives are reluctant to merge.
 - In 2001, the NACF selected 169 badly-managed or weak cooperatives for the merger program after a thorough inspection of their operation.
- However, the merger program for cooperatives should be further strengthened in the near future.
 - Considering optimal size of operation, the number of cooperatives must be reduced to 300~500 from current 1388.
 - Japanese agricultural cooperatives have a plan to merge all their 1300 cooperatives into around 300 cooperatives.
- Promotional tools for the performance of the merger program are as follows.
 - The NACF plans to second management advisors to the badly-managed cooperatives. 50 management advisors, chosen among highly-experienced and competent manager-level staff of the NACF, will be sent to cooperatives in this year.
 - The Agricultural Cooperative Restructuring Law, enacted in Sept. this year, will support the merger program to a great extent by the provision of public funds and other types of financial favors.
 - The NACF will assist mergers of cooperatives with various measures including financial supports as well.

2. Adaptation to Low-interest Rate System

- Interest rates have continually lowered since 1997 when Korea experienced financial crisis.
 - Interest rates of 3-year corporate bond rose from 13.77% in 1995 to 19.77% in 1997 and then plummeted to 6.42% in 2001.

- In the meantime, the loan to deposit ratio of agricultural cooperatives has fallen to 64% in 2001 from 77% in 1995.
 - As a result, cooperatives' dependency on surplus funds operation through the NACF Asset Management increased.

- Because cooperatives' dependency of income on interest-based business such as loans and investment in securities is as high as 70%, their profit structure is very weak and fragile.
 - Cooperatives have relatively small income from commission-based businesses.

- In this difficult situation, agricultural cooperatives have to adapt themselves as follows.
 - Cooperatives have to raise interest rate sensitivity in their banking operation.
 - Cooperatives can secure liquidity and appropriate income by the flexible revision of interest rates of deposits according to the fluctuation of market interest rates.
 - In addition, cooperatives have to promote the rationalization of management.
 - Merger program should be more spurred.
 - Business specialization and employment reduction should be stressed.
 - With these measures, cooperatives will be able to secure economy of scale, increase of productivity and cost efficiency.
 - Diversification of income sources is also important for cooperatives.
 - Commission-based businesses such as credit cards and insurance sales will be useful solutions on this purpose.

3. Response to Intensified Competition

- The agricultural cooperatives are losing comparative advantages enjoyed so far, due to the following trends of financial market.
- Globalization
 - Foreign banks and financial companies are permitted to enter the Korea market, which is intensifying competition between financial organizations.
 - Mergers of some domestic banks are threatening relatively smaller domestic banks and other financial organizations.
- Breakdown of business walls
 - Business walls between category I and II financial institutions are being broken in line with the liberalization of economy as a whole.
 - Business coalitions between financial institutions, banks and insurance companies, for instance, are being promoted.
- To deal with the upper mentioned trends, agricultural cooperatives have to solve the following problems.
 - Cooperatives should try to ;
 - increase their business volume by mergers
 - diversify businesses and income sources
 - promote business specialization by restructuring
 - * It is also right time to review whether the current multi-purpose cooperative system will be able to fit for the whirling financial market.
 - The NACF(National Association) should try to ;
 - improve planning, guidance, supervision functions for the development of cooperative banking business.
 - develop asset management skill for the efficient operation of entrusted funds by cooperatives.

4. Efficient Asset Management

- Dependency on NACF's asset management of agricultural cooperatives is increasing year by year.
 - The volume of entrusted funds to NACF Asset Management by cooperatives increased from 5.5 bil. US dollars in 1995 to 21.5 bil. US dollars in 2001.
 - The ratio of entrusted funds to NACF out of total cooperatives' assets raised from 23% in 1995 to 35% in 2001.

- However, the investment means of NACF is quite limited.
 - The NACF Asset Management invests its funds in securities, mostly in bonds with the exception that small portion of funds is loaned to member cooperatives.

- In order to raise the efficiency of asset management, the NACF has to put emphasis on the followings.
 - In the short-term, the Asset Management
 - should develop and increase overseas investment to cope with low interest rate domestic market.
 - should introduce corporate loans that are generally supplied by national or regional associations of cooperative banks in most of other countries.
 - should consider handling of syndicate loans.

 - In the long-term, the NACF will be able to set-up a subsidiary company that is exclusively engaged in asset management.

5. Expansion of Electronic Banking

- Current situation of electronic banking
 - Agricultural cooperatives handle financial transactions through on-line network.
 - They introduced tele-banking services, pc banking services and automatic deposit transfers.
 - In addition, they accommodated management information system utilizing on-line network.

- Internet banking services are in need of further development to keep pace with commercial banks.
 - Through internet, cooperatives provide customers with information about financial products(deposits, loans).
 - Opening and transactions of deposit accounts are offered.
 - Loan applications can be submitted to cooperatives on the web-site.

- Agricultural cooperatives still have a lot of obstacles to be solved for the development of cyber-banking.
 - Each cooperative is relatively small but independent of its operation.
 - Deposit and loan interest rates vary from one cooperative to another because each cooperative has independent decision body for the settlement of interest rates.
 - There are very limited number of trained staff for cyber-banking in cooperatives.
 - Poor use of internet by (quasi)member farmers is another deterrent factor for the development of cyber-banking.
 - Limited investment of cooperatives in IT is also a problem to be solved.
 - Exclusive internet lines(LAN) are not established.
 - In 2001, only 40 mil. US dollars was allocated for IT development for cooperative banking with 4,050 offices. ("One Korea's bank with 400 branches has an annual budget of 100 mil. US dollars for IT this year)

- Agricultural cooperatives have an ambitious plan to provide members with full-fledged cyber-banking service as soon as possible.
 - Firstly they have targets to increase cyber-banking users from 380 thou.(Jun. '01) to 1 mil. by the year-end.
 - Secondly, they are planning to deliver loans on the cyber-space immediately after the development of Credit Scoring System(CSS).

- In addition, the NACF makes efforts to promote customer-operation for the purpose of labor saving.

- It aims to raise the ratio of customer-operation out of total transactions of cooperative banking business from 68% to 75% by the end of this year.

6. Acquisition of Credibility by Customers

- Every cooperative is an independent legal entity.
 - The economically integrated image of NACF group may be vulnerable when a cooperative goes bankrupt in the future.
- The capital accumulation of agricultural cooperatives is too poor to obtain credibility by customers.
 - The net-capital ratio is applied to cooperatives instead of BIS ratio regulation.
 - target : 1%(2001) → 2%(2002)
 - Some measures should be taken to obtain credibility by the public.
 - Cooperatives have to undertake merger program positively and increase their share capital and reserves as much as possible.
 - In addition, the cross guarantee system among cooperatives, which Dutch Rabobanks adopted long ago, should be established in the long term.

**ICA FINANCIAL FORUM - CO-OPERATIVE BEST PRACTICES
SEOUL, WEDNESDAY 17 OCTOBER**

**BUSINESS FORUM: CO-OPERATIVE FINANCIAL SERVICES - IS THE
CO-OPERATIVE ADVANTAGE ON-LINE**

Internet Strategies - The Experience of NTUC Income

1. Introduction

Some business leaders say that they have an e-commerce strategy. When asked to elaborate, they say: "We have created a website". However, a successful e-commerce strategy involves more than that.

The first challenge is to get people to visit your website. It is quite a challenge. With millions of websites available, it will take something special for people to visit your website.

The next and even bigger challenge is to get people to transact and buy from your website. At NTUC Income we have found the Internet and e-Insurance a most powerful tool to build customer relationships. Some insurers are only just evaluating the possibilities and impact of the Internet and e-Insurance. Others have taken what they have done in the traditional marketplace and moved it to the Internet. At Income we have gone beyond that. We have gone through a long learning process. We have implemented several experiments over the past years and learned about how to interact with the customers through the new channel. More important, we have also been able to get our employees and insurance agents to embrace the new technology and to realise its potential. We have developed a strategy. In my address today, I will share with you the experience of NTUC Income in dealing with these issues.

2. NTUC Income - a Leading Insurer in Singapore

First, let me give you a few facts about NTUC Income.

INCOME is a leading life, general and health insurer in Singapore. We are among the top three in life insurance with a market share of 17.2% and a premium income in 2000 of S\$1.5 billion. We are the largest general insurer with a market share of 14.9% and a premium income of S\$174 million. Our total assets reached S\$8.1 billion at the end of June this year. We have about 1.3 million inforce policies. Our organisation consists of about 1,000 employees and 4,000 agents.

Our financial standing is strong, we have become the first Singapore owned insurer to be rated "AA" by rating agency Standard and Poor's. We have been named "Insurance Company of the Year" in both the 1999 and 2000 Financial Awards in Singapore.

Our success can be attributed to a number of factors. Among them are:

- We operate efficiently with an expense ratio that is more than 10 percentage points lower than the industry average.
- We have a cutting edge in our IT development through which we raise the level of service to our policyholders.
- Besides quality insurance plans, we also provide special benefits to our policyholders aimed at improving their quality of life.

3. The Benefits of the New Technology - Lower Costs, Increased Service

The immediate effect of the new information technology and the Internet has been to modify the relationship between the insurer and its customers. It has created an environment where the insurer has to be available "anywhere, anytime, anyhow". This means that insurers are facing several issues which compel them to redefine not only their management of technology but also how they use technology as a new lever to redefine their relationship to their clients.

IT advancements make it possible to track business transactions more efficiently and cut operating costs. In addition, the Internet offers enormous potential for improvements in quality and service levels. e-Business will facilitate:

- convenient customer service, 24 hours a day, 7 days a week
- faster response to customers' requests
- depth of information on products and services
- more transparency and speed of claims management
- personalised service.

These advantages constitute a catalogue of requirements to insurers' successful internet presence. Highly effective direct sales companies are using IT to find potential customers, track sales leads, and guide the sales process.

Swiss Re, the leading reinsurer, indicates that e-business should produce cost savings of around 10% in claims settlement, 30% in policy administration, 30% in distribution and 5% in claims payment.

Currently, actual translations of Internet applications into successful solutions are still in its infancy for the insurance industry. Swiss Re recently reported that on-line channels in standardised personal lines insurance are expected to have gained a market share of 5-10% in the US and 3-5% in Europe by 2005.

At NTUC Income, our goal is to have 20% of our business done through or facilitated by the Internet in 2005. Based on the current rate of progress, we expect to achieve this target ahead of time.

4. Providing Popular Services

NTUC Income launched its website in 1995 and was the first insurer in Singapore to do so. The Internet and the website was quite new at that time and we had to learn what the game was all about.

Right from the start we recognised that we needed to give a compelling reason for people to visit our website. What we did was to offer information and services that will attract visitors to our website. Most important, in addition to the information and premium quotations on our insurance products, we also provide information services that are not related to insurance, but are of interest to the general public.

Some of the services that became very popular were:

- a) A service to look at the past results of lotteries and draws. It is a convenient source of reference for people who missed the results that were printed in the daily newspapers. Our service also allows a search of the past ten years' results, to see the past occasions that a particular number has appeared.
- b) Reverse search of telephone numbers. By entering the telephone number, the user is able to get the name of the caller. This is a useful service when you see a telephone number on the mobilephone or pager and do not know who is calling.
- c) Virtual greeting cards that are suitable for the local environment. These cards are easy to create, and are fast to download.
- d) Quotations for insurance premiums. NTUC Income has a reputation for providing competitive premium rates. The user comes to our website to obtain a premium quotation for his motor, personal accident, travel and other insurance plans.

These four services were the most popular during the past five years. Some of the services we have provided over the years were popular for a certain period of time. Others remain popular up to today. At any one time, we do have a few services that are actively used.

5. Personalised Communication

Around January 1998, we implemented a new strategy. No one wants to be part of a mass market. We wanted to leverage the website service and provide new forms of customer value through improved interaction and more personalised communication. In other words, to make use of the interactive potential of the Internet. Therefore we started to collect e-mail addresses from the visitors to the website.

Instead of just displaying the information on-line, we asked for the e-mail address and sent the information by e-mail. The use of the services continued to grow rapidly, even after the conversion. We now have several e-mail lists comprising of people at different stages of familiarity with our website.

We send out a regular e-mail broadcast to the addresses in each mailing list. We respect their rights to privacy and allow them to easily cancel their subscription from our mailing list. As of today, we have accumulated 170,000 active e-mail addresses. We send a monthly e-mail broadcast to tell the people on our mailing lists about new services on our website. We continually look for new services to keep the members interested to remain on our mailing list.

6. New Portals Providing Useful Services

We have now moved on with our Internet strategy and introduced new portals.

i-Lifestyle is NTUC Income's internet lifestyle portal. It provides many useful services. Customers can shop for groceries from FairPrice supermarkets, book on-line for a travel package or arts performance, join a car pool, or even search for a better job.

i-Shop offers a wide selection of articles at bargain prices. Articles such as computer hardware and software, consumer electronics, gift articles and much more.

We have a simple way for the visitor to acquire a cyber record, which stores his cyber number, name and e-mail address. There is an option for the user to provide other information. This cyber record will make it convenient and hassle free for the customer to access our broad range of services, without having to provide the e-mail address or name every time.

7. Marketing our Insurance Products

Our strategy is different from other companies - Learn from the "fun" activities first and come back to "serious business" later. Our strategy has been successful.

We have reached a stage where we give around 6,000 on-line quotations a month for our insurance products. We close around 2,000 insurance sales on a direct basis a month over the Internet. We close another 200 insurance sales every month from Internet related enquiries. Current sales conversion generated from Internet leads is about 15%. Policyholder enquiries on insurance issues are estimated at 3,000 a month while other services like greeting cards, lottery numbers, etc, are around 15,000 a month.

We recognise an interesting role for our insurance agents. They will continue to be relevant in the Internet age. They provide the advice and the human touch to our e-commerce services. We expect that the agents will submit most of the Internet transactions for insurance on behalf of the customers. We pay a fair and attractive rate of commission to the agent for the service. The insurance forms are available on our website. This makes it possible for the agents to increase their productivity and to submit their transactions without visiting the office.

For customers who come to the website, we offer them an option to select an agent or to request for an agent to contact them to provide advice and service. For products sold through the Internet, we will pay a lower rate of commission to the agent and pass the savings to the customers.

In our marketing we are offering our popular non-insurance services to our existing customers and to the public. This will allow us to extend our database of internet-based customers. We are developing systems to approach these customers to sell further insurance products to them. We are learning how to cross sell additional products using this new channel.

The younger people are Internet savvy. The Internet will be the medium to reach out to the customers of the future. They will find it more convenient to shop through the Internet. As these people become the decision-makers in their families and business organisations, it is vital to have an effective Internet strategy to reach out to the new market over the next 5 to 10 years.

8. Guiding Principles

There are a number of guiding principles for our IT development:

- a) ***Internet is the rule of the game.*** One way or the other, in the future most if not all IT technology will be Internet based.
- b) ***Ease of use is a must.*** Ease of use has become a must for future developments. More and more, technology must be accessible to non-IT professionals.
- c) ***Design IT solutions as a network.*** IT services based on networks are extremely easy to update - modify the application on the server and inform the users. This is a cost efficient approach.
- d) ***Personalisation for the customer.*** New technologies will be used for personalisation that will allow one-to-one marketing.
- e) ***Anticipate access from anywhere.*** Mobility is a factor in today's business environment. The new services and the underlying IT architecture must allow access from anywhere.
- f) ***Leverage existing and future bandwidth.*** The expansions of bandwidth are a further opportunity to develop multimedia services.
- g) ***Reduce the development time.*** The time taken to market future services can be a strategic advantage.

9. Conclusion

The Internet brings exciting new opportunities to improve productivity and to develop new ways to transact business. It is really transforming the way we do business. It will have a large impact on the future growth of our business. As a consequence, one cannot be a leader without trying to make use of the technology.

In order to get the full impact of the powerful marketing tool that the Internet represents, it is necessary to have a strategy, not just take what has been done in the traditional marketing channels and transform it to a storefront on the Internet. Furthermore, it is necessary to change and adapt the strategy again and again and constantly try new approaches in this fast changing field.

e-Commerce is not just another buzzword. We believe that it has great potential to change the market. At NTUC Income we are seizing this opportunity to be a leader in insurance in the new Internet world. We aim to be ahead in the new market environment that will be shaped by this technology.

Tan Kin Lian
Chairman
Singapore National Co-operative Federation Ltd

COOPERATIVE FINANCIAL SERVICES – on-line financial services for the youth.

1. On-line financial services and products (banking, insurance and credit) would be an advantage for the youth because:

- Most young people use the internet
- It's cheaper (cost-friendly) to transact through internet both for the consumer and the financial institution.
- Time-friendly – internet is open 24 hours a day 7 days a week

2. Why do young people need financial services?

- To start their own business
- Financial assistance to students
- 'Cooperation among cooperatives' principle

3. Current financial products / services offered by coops are not attractive enough to the youth - WHY?

- Young people need 'interesting' services / products – something that will hold their attention for long
- Current financial services are tailored for the old people
- Interest on credit in terms of rates and collateral

4. To attract the youth financial services should:

- Get on-line
- Give seminars / education / training to the youth on the benefits of cooperation
- Design a specific website for the youth
- 'Old product in new packaging'
- Organize events that involve young people – good publicity too for the organization.
- By investing in the youth now, coops will be investing in their future in the long run.

5. Examples of coop financial services / products we would like to enjoy:

- Offer insurance policies for the youth e.g. travel insurance, life, vehicle
- Give loans to students – education loans
- Credit card for internet buying - strictly on-line

6. What we can offer the Cooperative Movement in return

- Marketing of the Cooperative principles and values
- Youth who have already benefited from coops should educate other youth on the benefits of joining / forming coops
- Teach the older people about computers and the internet
- Be volunteers to coops that need assistance but have no funds to acquire any.

CONCLUSION

The youth would like to enjoy the benefits of cooperative financial services just like the older generation, however some youth may not even know about them. The only way to let them in on this knowledge is to get on-line fast! I can guarantee you the response from the youth will be overwhelming!

THANK YOU.