FINANCIAL SERVICES PRACTICE

CREDIT UNIONS: A DEEPER UNDERSTANDING = BETTER INSURANCE RESULTS

"Not for profit, not for charity, but for service is a credit union motto."

~ National Credit Union Administrator

A DIFFERENT TYPE OF INSTITUTION/ A SEPARATE KIND OF RISK

Credit unions are different from their competitors. Those differences have often protected them and made them less risky than banks and other financial institutions.

DEPOSITOR-OWNERSHIP REDUCES LITIGATION RISK

As tax-exempt not-for-profits, credit unions are owned by their depositor-members. This has traditionally made them much less susceptible to suits from their customers – the very same customers that are also the stakeholders in the institution. The federal limitation on business lending (generally limited to 12.25% of their lending portfolio) means that credit unions, unlike their banking competition, rarely have a single loan or borrower large enough to put the institution at risk or large enough to cause catastrophic litigation losses. Consequently, the absence of lawsuits related to lending has drastically limited the number of complaints from stakeholders and regulators.

'COMMON BOND' REQUIREMENT MEANS A BETTER UNDERSTANDING OF THE PORTFOLIO

The "common bond" requirement under the Federal Credit Union Act forces credit union lenders to stick close to home – either figuratively or literally. Credit unions are required to lend only to "groups having a common bond of occupation or association, or to groups within a well-defined neighborhood, community or rural district." While those boundaries have gradually expanded in recent years, it still means that credit unions are generally transacting in their local geography, or with recognized members of an association or group. Knowledge of, and the ability to carefully monitor, their distinct and limited set of borrowers means that credit unions are rarely shocked by sudden changes in the credit environment. Fewer surprise failures throughout the years has meant significantly less litigation or regulatory intervention by the National Credit Union Administrator (NCUA), the industry's regulator.

MORE SOPHISTICATED PRODUCTS/ ADDED INSURANCE COMPLEXITY

Retail lending and retail financial services were essentially unchanged for a hundred years. The last two decades have introduced technology that has changed the very nature of customer interaction and financial management. To keep pace with the changes, credit unions are being compelled to offer investments, insurance and other financial products. These radical changes have added layers of risk that are reshaping the way depository institutions determine, manage and insure against risk.

Willis

A CHANGING MARKETPLACE

CUSTOMER DEMAND FOR CONVENIENCE MANDATES TECHNOLOGY

The speed of information in today's media environment means that consumers are aware of new products and services offered by large financial institutions as soon as they become available. Customers may no longer be satisfied with simple online visibility of accounts if competitors are offering online electronic transfers or remote deposit capabilities. However, for all but the largest institutions, providing such services means relying on outside vendors to install and maintain then. Outside vendors, while vital to meet the needs of a demanding marketplace, require careful oversight. Even the risks associated with vendor management and the methods of mitigating that risk are changing at a rapid pace.

CHANGING RATE AND PREMIUM ENVIRONMENT

The U.S. has been experiencing record low interest rates for an extended period. Credit unions have been gaining market share as banks, with higher borrowing costs, have imposed stricter lending criteria during this low rate environment. At present, interest rates appear to be increasing and bank loan approval rates are starting to climb. To stay competitive, credit unions will need to remain diligent about managing their expenses – including such costs as insurance premiums.

Insurance premiums have been relatively stable. Many financial institutions have seen little or no increases in recent years. Despite this relatively stable market, leading insurance forecasters are projecting steady increases in most major lines of coverages for the next few years. In such a rate environment, mutual associations and local brokers may not be aware of, or have access to, markets eager to enter the market. These entrants may offer improved terms and at competitive rates.

WHY WILLIS?

Credit unions need a partner in the insurance business. Willis is that ideal partner.

LOCAL

Besides having the resources of a leading global broker, Willis has local staff in 118 offices throughout the U.S. Such local knowledge is critical when marketing your credit union to insurance underwriters that may not know the strengths of your membership or geography.

SPECIALISTS

In the world of insurance, local knowledge is not enough. Willis has financial services resources far beyond that available through local brokers or industry associations. No other broker, small or large, publishes as much fundamental risk management analysis as Willis. (See our website **willis.com** or WillisWire at **blog.willis.com** for examples.)

EXPERIENCED

Willis places over a $1 billion in premium for over 800 U.S. financial institutions – including some of the largest, and smallest, credit unions. That placement power gives us real leverage when negotiating with underwriting counterparties, and that, in turn, means we have experienced and successfully resolved virtually any claim issue that your institution is likely to face.

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