

The Coming Change in Money

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Future Trends in Payments

- The US Banking System today is like what large corporation?

Hint: MSFT

- This single organization 'owns' the franchise of both operating systems and office productivity applications on 90% of the world's personal computers. Net income 2006: \$16.5 Billion
- Both Microsoft and the US Banking industry share an interest in a profitable status quo and a reticence to risk their existing business model with too rapid moves toward innovation
- Essentially, both are risk averse while recognizing that they must successfully evolve or erode over time

Let's not undervalue the payment system...

- According to one Fed study of the top 25 US banks (that together hold 2/3rds of the nation's banking assets) overall payment system related revenue was nearly equal to their total income from their combined loan portfolios
- Cross-subsidized pricing of the payment system (we'll offer free checking to capture relationships that will lead to loan growth) often obscures the value payments bring to credit unions and banks

Disruptive Technology

- Ironically, the world's most successful technology company by earnings is threatened by dynamic shifts in technology and the economy
- Internet based technologies are being leveraged by many new organizations
- None more successfully to date than Google

Payments go Digital

- For decades the highest value payment transactions have had access to electronic networks
- In the US, the paper based payment system features “settlement dates” and “posting” lags that are the artifacts of pre-computing, pen and ledger accounting
- Now, the masses are gaining access to high volume electronic payment alternatives

Does this sum up the future of banking for you?

- “Banking will become a bit of application software on an intelligent network” *John Reed, Former CEO Citibank*
- Or do you see relationships still being a vital part of who wins and loses in the years ahead?

What 3 items do we carry?

- Keys
- Wallet
- Cellphone

Last Fall, she took two...



The Need for Speed

- Increasingly, what drives member behavior and choice in financial services?
- Price or Convenience?
- We must find opportunities, via Fed, ACH, ATM network pilots and more, to make real time payments and fund transfers available to our members

Alternative Currencies

- “National” Currencies: US \$, Yen and Euro, good for “All Debts, Public & Private” are no longer the only game in town
- Private commercial currencies, loyalty programs, barter, and deferred labor compensation are all now claiming a growing part of the world economy

What's online...

- Let's take a online look at new currencies...
- www.reinventingmoney.com
- www.openmoney.org
- www.ithacahours.com
- <http://ripple.sourceforge.net/>

5 Trillion = \$100 Billion?

- Frequent Flyer Miles @ \$0.02 per mile
- 25,000 = One \$500 Airline Ticket
- Equates to 1 Mile = Two Cents
- Total US Currency Worldwide = \$730 Billion
- 70 Million Americans have Mileage 'Accounts'

Alternative Payments

- 2/3rd of all Miles Earned Worldwide are not the result of Air Travel (Huh?)
- Retail chains, hotels, rental car companies and others paid US airlines in one year \$2 billion in cash in exchange for \$, to then offer miles to their customers as incentives for their business
- Miles can now be used as a currency to purchase all manner of goods and services, and are even the object of litigation in divorce courts worldwide

A Mobile Banking Strategy is Required

- In the near term, mobile banking capabilities are a 'good to have' item
- In three years, a significant percentage of consumers will demand mobile banking access as their new minimum standard of convenience
- Eventually, biometrics --the human voice-- will replace mobile banking applications on cell phones-- 'Smart' will define the network and its servers, not just the phone itself

Alternative Payments

- Demographics are often the most reliable way to forecast the future
 - If we know that there are 100 million Americans over the age of 45 today, then we can calculate (minus premature deaths and plus immigration) when there will be over 100 million Americans over the age of 65
 - Health care for the aging, and how to pay for it, will become critically important in the future
 - How will the US, and other G8 countries respond to these immense unfunded liabilities?

Alternative Payments

- The classic debate is to fund these future needs by a reduction in benefits, or an increase in taxation, or both.
- But with 7 workers' payroll taxes now supporting each Social Security recipient today, what will happen in 20 years when only 4 workers are available to support each single retiree?
- Let's look to a rapidly aging nation to find one answer

Alternative Payments

- Japan
- Nearly one if five citizens already is eligible for national retirement benefits
- Taxable income from four workers supports each retiree
- An innovative solution has emerged

Time Based Currency

- “Fureai Kippu” in Japan or, “Caring Relationship Tickets”
- A volunteer works for one hour in the care of an elder and receives one ‘credit’ or ‘kippu’ that can be redeemed by that individual in the future or transferred electronically for the care of any other elder (such as an aging parent) throughout Japan

Community Currencies

- There are more than 3,000 such community based currencies in use worldwide-- up from fewer than 100 in 1985
- What does this mean to traditional national currency based payment systems?

Trends in Payments

- Until now, developed countries have sustained overall economic growth --and national currency growth-- as their populations have increased
- As populations now begin to peak and even decline in developed nations, deflationary pressures mount

Trends in Payments

- Putting it all together:
 - Accelerating movement from paper to electronic
 - Emergence of significant ‘alternative’ currencies not part of the national currency based payment system
 - Deflationary pressure from an aging population
 - ‘Community’ currencies
 - New technology players in e-payments
 - PayPal
 - Google
 - Obopay
 - Cellular Carriers

*What will be your Credit
Union's strategic
response?*



Thank You

Q & A

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