



ZIFBANK

COOPERATIVE

Initial discussion



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INTRODUCTION (REASON)

We would like to contribute to small businesses recovering from lockdowns and deglobalisation, and to restore meaningful employment.

Capital structure, and advances in technology have made open, “challenger” banks with low overheads possible, shifting focus from bricks and mortar with massive IT infrastructure, to online customer focused services.

Banks’ primary revenue is interest charges. However, we see a niche in providing banking transactions and liquidity for small business clients, by de-emphasising fixed (period) charges in favour of usage fees on services.

Since the regulator has changed the ownership rules the majority of new banks are either 1) financing affiliates of large corporations, 2) credit unions / savings cooperatives converting to banks, or 3) boutique mortgage providers, which leaves a gap in the market for the proposed niche.

In this document, we hope to convince you that this approach is viable.

1. EXECUTIVE SUMMARY

- **Opportunity:** Changes in regulation, open banking, and powerful mobile devices are making it possible to provide improved services at lower cost.
- **Mission:** The problem we are proposing to solve is to relieve small businesses of unrelenting period expenses irrespective of usage.
- **Solution:** We intend to replace period charges with usage fees.
- **Market focus:** Our focus is to provide continuously improving services to small businesses.
- **Product:** Current accounts and lines of credit. We will partner with other institutions to provide mortgages, financing asset purchases, investments, etc.
- **Competitive advantage:** We can compete with the big six on costs, and no smaller bank is currently competing in this niche, so we hope for a first mover advantage.
- **Governance:** Governance is part of our ES&G approach. We will provide humane working conditions so that staff can be focused on providing excellent service to customers. A cooperative corporation puts customers in charge by being members.
- **Ownership:** This will be a multi-stakeholder cooperative owned by staff, customers, and investors with a board balanced between these interest groups.
- **Expected returns:** Since we will be renting cloud and API services, we can be profitable quickly by flexibly integrating the best of breed services available for our clients.

2. COMPANY OVERVIEW

A chartered bank is the perhaps the best way of assisting small business with liquidity they need to re-establish and grow our economy and employment once more.

- **Mission statement:** To assist small business with financing without period charges.
- **History:** After considering complementary currencies such as local currencies, community hours, barter exchanges, community exchanges, LETS's, mutual credit, and cryptocurrencies, it became obvious that creating currencies is easy, but despite their convincing merits, getting them accepted beyond a small group of enthusiasts, is exceedingly difficult.
- **Markets and services:** This is a niche bank focusing on financing working capital for small business, while presenting a full suite of services by interfacing to other service providers.
- **Operational structure:** To genuinely focus on client requirements, the customer should have a stake in the organisation in the form of cooperative membership. With a cooperative, services and charges are directed toward the needs of members.

However, this is a multi-stakeholder co-op with fees and services delivered according to the of interaction of clients, staff, and investor members, in the market environment.

- **Financial goals:** Usage fees with low overheads is a viable model to satisfy the needs of stakeholders.

3. BUSINESS STRATEGY

We intend to pursue a customer-focus strategy, which is a hybrid of cost leadership and product differentiation, with the overriding focus of delivering on customer requirements (since customers are members).

Costs are managed by comparing financial service providers. While our product is different in not charging period costs, it is still aimed at the broad small commercial markets.

- **Opportunity:** Legislation and technology have provided a cost advantage to online banks, while our capital structure makes it possible to offer accounts and lines-of-credit without monthly charges.
- **Product overview:** The primary products are online banking transaction services for which the customer pays usage fees.
- **Key participants:** Suppliers include cloud providers and open banking (API) service providers, while on the demand side are small businesses needing liquidity and banking services.
- **Pricing:** Since we have a Porter bargaining power of buyers over the software service providers, we will hopefully be able to negotiate competitive prices. On the supply side, we provide a unique product to a broad market, giving us the advantages as well.
 - Although there are no easy substitutes for our products, there is always the threat of new entrants, but hopefully they will be attracted to the more lucrative interest-earning financing.
 - We think we would be able to viably hold our own against current industry incumbents due to their cost structures.

4. ANALYSIS

Business Environment (PESTEL)

Political

The regulator has removed the requirement for banks to be widely held, making small, chartered banks possible.

Economic

The lockdown has been particularly harsh on small business, and employment.

Social

Shutdown of businesses, and the cutback of staff, has led to serious social disruptions, depression, destitution, and even death.

Technology

Technology has made it possible to provide certain banking services without bricks-and-mortar infrastructure.

Environmental

By eliminating continuous pressure of fixed costs, we provide client corporations more latitude to reduce their environmental footprint.

Legal

Adherence to national regulatory oversight, and compliance with international guidelines such as the Basel accords.

Industry Analysis (Porter)

Competition

Larger banks are more interested in larger customers, while smaller banks tend to focus on the more lucrative mortgage market, so there is little competition in our market segment.

Suppliers

The Open Banking movement has provided a selection of suppliers to partner with to best serve our customers.

Buyers

Due to our different fee structure, we believe our product will appeal to a large number of prospective clients in the large market of small businesses.

Entry

Obtaining approval by the regulatory authority is a significant hurdle.

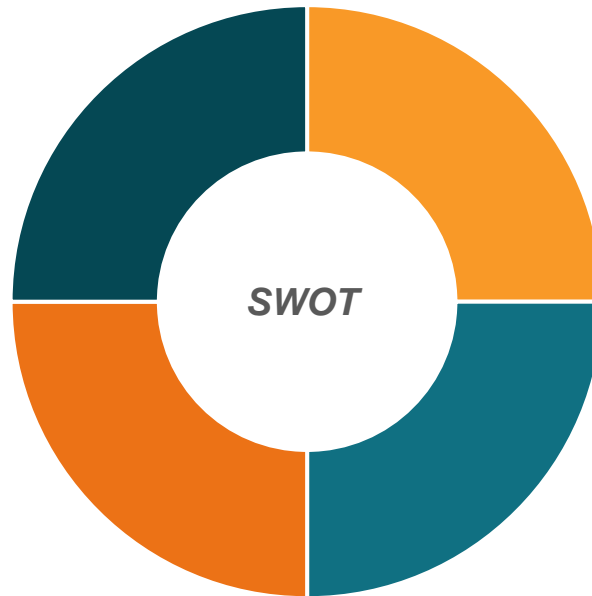
Business Analysis (SWOT)

STRENGTHS

- Low overhead, online.
- Single focus niche.

OPPORTUNITIES

- Small customers inadequately serviced by large banks.
- Different fee structure



WEAKNESSES

- Depending on other financial services providers to provide full spectrum of services to clients.
- Funding limits.

THREATS

- Competition.

Critical Success Factors

- Customer acquisition costs
- Operational efficiency

Critical Risks

- Credit risk
- Asset-Liability Matching

Market Analysis

Market Segmentation

Since this is an online business that hopes to provide value to our entire, multi-lingual country.

According to Industry Canada, there are 1,2 million small businesses (employing 69% of private sector employees) with about 25% (or 300,000 businesses) using a Line of Credit.

Banks charge 5 - 6% interest, and 60c - \$1,25 per online transaction, on these accounts. In the pro-forma statement, we show that we can match these usage fees without monthly charges.

With \$5 million start-up capital we can service 5,000 customers (in a market of 300,000) with financing of \$10,000 which means our size is constrained by available capital. We address this constraint with investment members (preferred stock), and a request that borrowers (who are also co-op members) keep a minimum balance of 10% of the loan value in their accounts.

Competition

Apart from the big five, there are 35 Schedule One banks of which the majority are credit unions, insurance funds, and financing subsidiaries of (local) corporations. Schedule Two and Three banks are related to foreign corporations and conventional banks. The unaffiliated smaller banks are almost exclusively focused on mortgages, which means there is no direct competition in our niche.

Benefit to customers

Through lower overheads, and contemporary technology, we can offer our customers competitive usage fees, without fixed costs.

We do not believe in charging the customer for nothing. The customer is only charged when making use of our infrastructure.

Furthermore, in times of recessions and lockdowns, we do not believe in further beleaguering the customer with compounding charges for economic downturns outside of their control.

5. OWNERSHIP STRUCTURE

Since this is a cooperative corporation, it is owned by members, of which there are three constituents, namely, Clients, Staff, and Investors.

Investment Members

Investment members receive voting participating preference shares (preferred stock), which permits voting at AGMs and for board members. Since the bank does not charge period costs, it cannot promise a fixed dividend, but rather participation in the distribution of profits.

Investment members would be inclined toward higher profits, tempered by the market, and the interests of other members.

Customer Members

Borrowers become automatic members (ordinary shareholders) with voting rights at AGMs and board representation. Customers would probably be interested in reasonable fees and excellent service.

Staff Members

Like workers co-ops, staff are also members with voting rights and board representation. Staff would probably prefer better wages, good equipment, and proper training.

6. MANAGEMENT TEAM

Board

The board would ideally be elected by the three types of members, with two board members for each constituency plus the chair. This board would appoint the chief executive to staff the company, and even though it is a co-op, lead with accepted management principles.

The board would take the lead on strategic direction and foresight in this very dynamic environment, beyond just the oversight of current operations.

Management

Marketing Function

Responsible for social media marketing, sponsorships, promotions, etc., along with partnerships with other financial institutions, and assisting commercial corporations with banking services. No incentives to oversell customers on services they cannot afford.

Customer Support Section

Making use of online meetings, chatlines, email, phone, etc., to provide immediate responses to customer concerns. Training and motivation are obviously critical, both for reducing stress on staff, and the quality of service to the customer.

System Integration Team

System integration of rented services to provide an integrated platform with a brand look-and-feel to customers. Again, training is important for reliability with responsiveness.

Staff Functions

HR, Accounting, Legal

7. PRO-FORMA INCOME STATEMENT

Pro-Forma Income Statement	Unit charge - sensitivity analysis				
	Unit	0.45	0.50	0.55	
Revenue		22,500,000	25,000,000	27,500,000	50 transactions per customer per day 200 days per year
Total Revenue		22,500,000	25,000,000	27,500,000	10,000 transactions per customer per year 5,000 customers
Cost of Sales	0.40	20,000,000	20,000,000	20,000,000	250,000 transactions per day 50,000,000 transactions per year
Gross Profit		2,500,000	5,000,000	7,500,000	
Expenses					
Staff		2,044,000	2,044,000	2,044,000	
System Integrators	100,000	500,000	500,000	500,000	5 Engineers
Customer Relations	60,000	600,000	600,000	600,000	10 Product experts
Marketing	80,000	160,000	160,000	160,000	2 Social media experts
Staff and Execs	100,000	700,000	700,000	700,000	7 HR, Accounting, Legal, Managers
Board	12,000	84,000	84,000	84,000	7 Members
Training	5,000	155,000	155,000	155,000	
Cloud and licenses		250,000	250,000	250,000	
Depreciation		15,000	15,000	15,000	20 PCs, straight-line over 3 years
Total Expenses		2,309,000	2,309,000	2,309,000	
Earnings Before Interest & Taxes		191,000	2,691,000	5,191,000	
Interest Expense		-	-	-	Investment members have no fixed dividend
Earnings Before Taxes		191,000	2,691,000	5,191,000	
Income Taxes	28%	53,480	753,480	1,453,480	5,000,000 Capital 1,000 Share price 5,000 Shares
Net Earnings		137,520	1,937,520	3,737,520	Earnings per investment member share
Margin		1%	8%	14%	Provision for countercyclic hedge
EPS		\$27.50	\$387.50	\$747.50	
Countercyclic buffer	3%	4,126	58,126	112,126	

Sensitivity of Nett Income

Transaction fee over average number of transactions per customer per day

	45c	50c	55c
30	(809,000)	497,520	1,577,520
40	(309,000)	1,217,520	2,657,520
50	137,520	1,937,520	3,737,520

8. RISK MITIGATION

	Risk	Mitigation
Asset-Liability Matching	Decline in income during recessions	Negotiate service fees, countercyclic buffer, develop services in-house
Credit Risk	Reduced value of collateral, deterioration of capacity to pay	Regular review of customer financial statements through AI/ML
Staffing	Difficulty finding staff	Working at a co-op, training
Environmental	Damage to communications	Redundancy, distributed staff
Intrusion	Breach of database	Canadian data centres, Digital ID, Open banking framework
Costs	Uncompetitive service fees, expensive internal processes	Mobile payments, hands-off loans, AI/ML credit assessments
Carry trade	Investing loan at higher return	Loan covenants

Author

Willem Fourie,
 CPA (Ontario), CMA (IMA)
 MSc. IS (Athabasca)
 MSc. Digital Currencies (Nicosia)