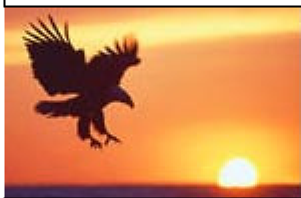
Eagle Net



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REVENUE REPLACEMENT

In 2011 and carrying over into 2012 is the challenge for large banks especially, to replace revenue lost due to market conditions or regulatory restrictions. In the latter case, U.S. banks have attempted to offset lost income and fees due to court/regulator enforced changes on card and other conspicuously high fees. Banks' revenue replacement strategies and public affairs tactics have been an embarrassment to say the least. First, one has to remember that when a large bank, like Bank of America, adds a $10 or $25 service charge on tens of millions of customers, it can produce billions of income annually. Second, the banks have to realize that consumers are financially and technologically literate and they have multiple financial service suppliers, which can be turned off or on very easily. They are not going to be complacent about unsubstantiated revenue grabs. The public outrage in the USA last year, lead to an exceptional number of consumer switches to credit unions (more about that in another section) and other alternatives.

Now with corporate lending and capital market activities down, some of the large banks believe that they should turn to their large, stable retail banking franchises and increase revenue through new fees or service change increments during this recessionary period. After gas prices, bank service charge increases are probably the most noticeable irritant for consumers and small businesses. So there are significant risks in the aforementioned strategy but they will still try thinking that there will be only a few defectors (a cost of doing business) and the revenue impact will be outstanding. If we believe that short-term view, we do not recognize the loyalty erosion which will be accelerated and produce further long term retention and revenue challenges.

Increased bank charges are not inelastic and in this commodity market, created by the big banks in the first place, customers do have choices and institutions should better understand customers' sensitivities and preferences. Short term gains for long term erosion is not the revenue risk that any business should enter into.

CREDIT UNIONS BENEFIT

The consumer backlash in the U.S.A. during 2011 to large banks' attempted revenue grabs has been swift and will continue. In fact for years credit unions have managed to have the best customer/member satisfaction ratings but could not translate those perceptions into business realities. Not any longer!

In the U.S.A. last year, credit unions welcomed 1.3 million customers from the bank exodus with the most growth coming in the 4th quarter i.e. 396,000. The previous year the same time credit unions had a loss of 251,000. So now, American credit unions have almost 99 million members and assets of approximately $962 billion, a growth of $10.6 billion in the 4th quarter alone. The number of credit unions shrunk by 245 in 2011 to 7,094 but still there is lots of room for effective consolidation and accelerated collaboration. The same can be said for Canada with approximately 700 individual credit unions. Australia is down to less than 200 but they are merging at a faster rate to gain the benefits from economies and expertise. Generally, credit unions still have to transform themselves into more customer centric organizations and attract the competitive resources needed to survive and grow in the future. In this regards, we have polled a variety of international credit union practitioners to get their options on the risks faced by the industry today in different parts of the world. The feedback and our experiences are highlighted in the "Last Word" section of this journal.

CANADA

International Deals Slowdown

The Globe & Mail Report on Business on March 1, 2012 did a special section on how fast the corporate deals for Canada's large banks have dried up. In 2010 – 11 deals and 2011 – 6 deals. Layoffs have taken place and the outlook for 2012 does not show a change in the trend.

Opinion Research Assesses Financial Advisers

Genesis Public Opinion Research Inc. surveyed over 500 Canadians who use financial advisers:

- 52% gave their advisers a 9 or 10 out of 10 on trust
- They are deeply dissatisfied with returns; disillusioned with the stock market and their own investment ability
- Less than half give their brokers top marks on recommending investments that suit their financial goals and selling products clients fully understand

Overall, many investors don’t have the necessary tools to assess the quality of advice they are given.

Banks Cancel Mortgage Battle

BMO offered a 5-year fixed rate mortgage at 2.99% over 25 years, which started a commodity battle amongst the big banks. Pressure from the Federal Government, signs of economic recovery in the U.S.A. plus an increase in bond yields caused the key players to begin pulling their discounted mortgage rates.

TD Bank Group Takes $255 Million Provision

A U.S.A. federal jury ruled that TD Bank owes Coquina Investments $67 million for its role in a scheme offered by disbarred lawyer Scott Rothstein. This is the first in a series of pending cases. The bank has set aside a quarter of a billion dollar provision but continues to consider various legal options including appeals and renewed defence strategies.

GoPayment Access for Canadians

Canadians and new GoPayment users in the U.S.A. can soon easily accept credit cards on a mobile device with the GoPayment app and a newly designed, free credit card reader.

Equifax Report on Canadians' Debt

Equifax Canada's January report shows that the average Canadian decreased 3.4% off their credit card debt in 2011. But, many did so by using a home-equity line of credit, which is at a significantly lower rate for the time being. The report found the average Canadian has $6,000 in consumer debt, a 4.5% increase since the end of 2010. Between 2009 and 2010 the rate of increase was 7.7%. Total consumer debt in Canada is $480B.

U.S.A.

Bank of America Revamps Fees

B of A will hit millions of customers with new charges being considered i.e. a basic chequing account fee unless customers bank online, purchase more products or maintain minimum balance levels. Current state pilots (3) are testing $6 and $9 monthly "Essentials" account charges, plus assessing $9, $12, $15 and $25 options with a variety of incremental features.

MovenBank Eyes Facebook Users

The Internet only MovenBank (opening virtual access July 1, 2012) could give customers who have strong Facebook pages better rates or offers. The strategy is a new social take on an old practice, rewarding customers for bringing in new business.

Chrysler Wants Ownership Stake in Lending

In its 2009 bankruptcy, Chrysler gave up its finance unit and has used "government-owned" Ally Financial Inc. under an agreement into 2013. Now it has initiated talks with a variety of lenders including Ally and JP Morgan Chase to create a new lender in which it is a stakeholder. Other major automakers have in-house lending arms including Ford, GM and Toyota.

Top Tech Trends: USA CUNA's Technology Council

1. **Industry Standards** – technology standards for integrating software (CUFX)
2. **Business Intelligence** – industry data warehouse, right management people and a thorough integration with internal processes
3. **Future Branches** – high tech sales and advice centres integrated with mobile technologies
4. **Outsourcing vs. In-house IT** – assess all options from staffing to cloud computing
5. **Member Centric Technology** – work inward from the desired member experience for appropriate apps
6. **Tech Efficiency** – collaborations, process optimization, electronic statements/notices and remote workforce
7. **Personal Work Devices** – consider security and maintenance requirements
8. **Online vs. Mobile –** mobile banking is here to stay; integrate mobile banking system and online system
9. **Merchant-Funded Rewards** – member gets rewards, credit union receives income and merchants get targeted advertising
10. **PFM Technology** – personal financial management tools – offer members tools on various platforms using familiar online banking capability
11. **Tablet Computing** – ensure layouts and apps are appropriate
12. **Evolving Mobile Payments** – encourage mobile devices for many financial transactions

Note: The technology foundation necessitates collaboration and a member-centric focus.

EU CHALLENGES CARD FEES

Now the European Commission plans to lower retailers' costs for accepting debit and credit card payments in a renewed challenge to dominant players such as Visa Inc. and MasterCard Inc. The Commission aims to increase competition and hence boost online commerce.

PARTNERSHIPS – MARKETING AND SALES

The keys to partnership marketing and sales success are (1) strategy, (2) customer preferences and (3) integrated partnership management.

WESI is a strong promoter and innovator of partnerships in financial services. First, articulate a clear strategy that retains, grows and attracts customers and revenue from partnerships. Concurrently, maintain a customer centric focus relative to value, preferences and relationship synergies. Finally, ensure that partnership management permeates all channels and synchronizes with continuous improvement motives for all stakeholders.

Many retailers and manufacturers have "white branded" financial service partnerships to give them product line extensions but little relationship value accrues to the FI in the short or long term. In fact, you help create a new competitor vs. partner.

THE LAST WORD

Credit Unions Need to Address Strategic Issues

The credit union movement in most countries, struggles against big banks and a rapidly expanding and emerging array of new competitors to maintain its relevance with consumers and businesses. WESI has worked with many credit unions in a variety of countries and although there are some common issues for survival and growth, there are also unique focuses due to the evolution of risk realization and resource restructuring.

Overall, the urgency of the needed transformation within the movement has not been recognized enough to create a momentum in the right directions. Yes, there are some leadership prophets attempting to gain converts but the process is slow due to reluctant personalities.

Generically, we see a dozen strategic issues which must be addressed as follows:

- Governance & Leadership
- Talent Attraction & Retention
- Member Centric Priority
- Sales & Service Culture Development
- Competitive Value Differentiation
- Productivity Continuous Improvement
- Distribution Channels Mix
- Commoditization Treadmill
- Brand Awareness & Promotion
- Collaboration & Consolidations
- Inertia vs. Innovation
- A Real Urgency for Change

Some may find our list shocking, others will want to explore the solutions and develop action plans. Without a doubt the required transformation has to start within the movement, the individual credit unions and leadership groups, which presently exist. In preparation for this article we asked respected leaders in a variety of countries where we work to provide us with their opinions on the strategic issues. Here are the summaries:

U.S.A.

- Preserving tax exempt status
- Removing/raising the 12¼% limit on member business loans
- Accessing secondary or supplemental capital
- Reforming regulations and NCUA inconsistencies re audits
- Increasing collaboration and cooperative sourcing
- Improving the focus on innovation
- Building credit union awareness throughout the population
- Competing with deep-pocket and emerging financial institutions
- Creating new sources of fee income
- Identifying alternative sources of liquidity
- Attracting knowledge experts for wealth management

Australia

- Margin squeeze
- Lending slowdown
- Basel III reform
- Low returns on equity
- Market share erosion
- Demographic Mix
- Bank oligopoly practices
- Fragmented credit union industry
- Public awareness of credit unions
- Board Governance

Ireland

- Globalization
- Deregulation
- Technological developments
- Industry structure

Canada

- Fragmented credit union sector
- Governance & leadership
- Complacency with status quo
- Lack of real innovation
- Financial literacy
- Regulatory constraints
- Aboriginal and ethnic group solutions

Caribbean

- Survival
- Governance & Leadership
- Fragmentation
- Talent management
- Financial underpinnings
- "Cooperation" & collaboration
- Reputation and brand image
- Inertia to change

Obviously, these are serious strategic issues which have to be dealt with by contemporary leadership in the Board Room and the CEO's office. Internally, the mentality of micro managing tactics at the expense of understanding the strategic performance drivers for all credit unions must be turned upside down. Yes, there are a few spirited, talented and experienced voices within the industry that need to be heard and listened to. Emerging competitors in every country are growing faster and they want to eat your lunch. Isn't it time to be on the strategic offence and commit to the necessary transformation as an industry, corporation and individuals?