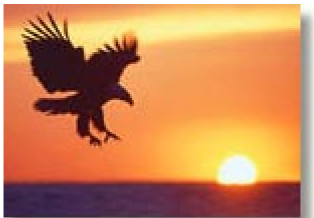

Where Eagles Soar Inc.
Pat Palmer, Principal & CEO
E-Journal Newsletter – June 2005
e-Vol. No. 6

Eagle Net

Canada's Sun Life Moves into Asian Top 10

Sun Life paid over a half billion to acquire Commonwealth Bank of Australia's insurance and pension business in Hong Kong. Apparently Sun Life was the only bidder for CBA's business.

Three in a Row for Gail Kelly

In Australia's Banking and Finance Awards, Gail Kelly, CEO of St. George Group has been voted top executive for the third year in a row. Gail Kelly is a competent, considerate and committed leader whose performance is the talk of the industry. Perhaps Gail is Australia's answer to Lance Armstrong who is currently racing for his seventh title.

Other winners of note were Heritage Building Society, which was the best Building Society for four straight years. ANZ, one of the big banks, was the best financial institution and the best business bank.

Congratulations to all the winners and nominees.

Australian Credit Unions New Branding

"Credit Unions – a different king of banking" is the new brand positioning state of the Australian credit unions. Individual credit unions are challenged to determine their differentiation in their markets and promote the advantage accordingly.

Canadian Confidence Back in Mutual Funds!

June 2005 Mutual Fund Sales hit a seven year high says the Investment Funds Institute of Canada. Their estimate puts sales at $1.5 billion to $2.0 billion. The conservative funds were favoured. Highest net sales went to CI Mutual Funds, TD Asset Management and RBC Asset Management. On the negative side, net redemptions took place at Fidelity Investments, A.I.C. Ltd., Altramira Investments Services Inc. and Scotia Securities.

BMO Granted Chinese Currency Licence

Although they weren't the first Canadian Bank to establish relations with Mainland China, Bank of Montreal has become the first to be granted a licence to provide local currency services and products to both foreign and local companies in China. HSBC and Citibank have similar licences.

TD Canada Trust Making Moves in the USA Market

TD has agreed to sell its US discount brokerage (TD Waterhouse) to Ameritrade Holding Corp. for more than $3B U.S. TD will have an initial stake of 32% in TD Ameritrade.

Canadian Bank Stocks Continue to Provide Solid Returns

	Dividend Yield	5-Year Annual Dividend/Growth	P/E Ratio
Bank of Nova Scotia	3.4	20.4	13.3
RBC Royal Bank	3.2	16.5	15.6
TD Bank	3.0	13.6	14.8
CIBC	3.6	12.6	12.9
National Bank	3.2	15.2	11.7
Bank of Montreal	3.2	11.1	12.1

Selling Insurance – Canadian Banks Push on All Fronts

Although attempts by the banks to have regulations changed to allow branch sales of insurance continues to be buffeted politically, some like RBC Insurance are the largest insurance companies in Canada. RBC has been threatening to open insurance branches beside retail banking units and now it has done it with the first one in Scarborough, Ontario.

The key to the controversy is a powerful grassroots lobby by independent insurance brokers who continue to campaign successfully to protect their 20% commission businesses. Canadians are fairly well financially literate including insurance knowledge and it only speaks to reason to let them have information from the supplier sources they prefer and then make their assisted educated decisions. If the relationship and cost economics are not there with brokers let the consumers decide.

Pay Day Lenders Down Market

An association of Canadian payday lenders commissioned a new customer study. First, customers' average household income is lower than previously thought - $41,500 with one in two borrowers having household income less than $35,000. The association is trying to resolve opinions that their interest rates are excessive and provide lobby information as the government is trying to decide how to regulate the fast growing business. The typical Canadian household earns $56,000. The borrowers at payday lenders are more likely to be young with dependent children. A different group did a survey in 2002, which showed a higher (by $10,000) average household income. The vast majority of borrowers continue to be "satisfied with the service".
The Toronto Star newspaper sampled a dozen payday lender outlets last year and found that when interest and fees are combined as an overall cost of funds, the two-week payday loan ranged from 390% to 890%. The Criminal Code says there is a 60% limit!

Some Mortgage Brokers Hurting Peoples Credit

The Toronto Sun in an article by Linda Leatherdale, Money Editor, questions the ethics around some mortgage broker activities, which are pushing consumers into more debt than is needed or than they can properly service. The zero down-payment push is evident in the past year, as the number of mortgages with less than 10% down has grown 50%. Brokers increased their market share by 13.5%.

With debt loads at historic highs and incomes not keeping pace, the rising interest rate signals could be a dark omen for some debt heavy homeowners.

Amex Bank of Canada Pushes Brand Campaign

A global campaign by Amex is getting extensive Canadian coverage – "My Life. My Card." Product specific ads are downplayed as the brand program fills a variety of media.

Canada's Best Corporate Citizens Survey

Corporate Knights recent survey found members of the financial services industry were the strongest corporate citizens. Bank of Montreal was tops on the best 50 list. Others in the top ten were IGM Financial Inc. (3), Laurentian Bank (4), Toronto Dominion Bank (9) and CIBC (10).

2005 Global Security Survey Warning for Financial Institutions

Deloitte Touche Tohmatsu's survey says the financial service industry has a greater likelihood of information technology security breaches from insiders than from external attackers. Employee errors or malicious actions are a bigger threat i.e. human behaviour, even though significant investments have been made to defend their networks.

2005 Global Security Survey Warning for Financial Institutions (Cont'd.)

Highlights:
- 50% of Canadian respondents said they had suffered a breach
- 35% of global respondents said attacks are internally based
- 36% report external attacks
- 98% of global respondents have deployed anti-virus software
- 2% are piloting anti-virus software
- **33%** have done nothing to protect themselves from internal wireless networks

It would appear that external attackers target companies with more than 5,000 employees. Weak operating procedures are the key attraction. The most feared threats are "phishing" and "pharming". These are techniques for tricking individuals into disclosing sensitive personal information via bogus e-mails or luring them to counterfeit websites. Canadian banks perform relatively well in the global arena but continuous improvement is required, as well as customer education.

Special Card Survey for USA Credit Unions (Raddon Financial Group)

Latest debit card figures show debit card users rising; Signature debit is strong.

1998: 62% have debit card with 33% active
2004: 69% have debit card with <u>54%</u> active

Consumers expressed no clear preference for PIN or Signature

No Preference	33%
PIN Preference	31%
Signature Preference	35%

Generally credit driven consumers are the strongest debit card users!

<u>Children's Only Credit Union – Yes!</u>

An independent credit union for kids – STAR (Save to Achieve Results) Credit Union opened June 1st in Madison, Wisconsin. The STARCU has its own charter and is open to boys and girls in Dane County. Kim Sponem, CEO of CUNA Credit Union was the innovator along with collaborator, Andy Faust, CEO of Summit Credit Union.

Deposit minimum is $1 to open an account. There is a $200 cap on the 5% savings account. Go kids go!

<u>Wall Street Bank Still Show Weaknesses</u>

US investment bank, Morgan Stanley recently announced a quarterly profit <u>drop</u> of 24% due to slumps in trading and underwriting and worse than anticipated legal costs (Parmalat).

There has been chaos amongst management for months, prompting departures (30) and early retirements.

The consumer businesses are sluggish. There has been an announcement of doing a Discover Card spin-off but details are not available. During a time when North American consumer markets have been hot and major financial institutions are showing progress gains, Morgan Stanley is out of step in its leadership.

<u>Pat's Perspective</u>

Knowing Your Customer - It is 2005 and customer service appears to be going backwards under the excuse of fraud. Yes, various types of fraud appear to be devastating the financial service providers. Credit cards and debit cards are at the top of the "hit parade" as devious minds steal either the actual plastic or the personal identification numbers and access honest account holders' accounts at ATMs, retail establishments or via Internet purchases. Then there are the continuous historical frauds associated with deposit account "pass-throughs" of spurious cheques; over the counter counterfeit bills or fictitious documents/ information in the acquisition of a loan, credit card or even a mortgage.

As we moved into the technology age with a vengeance since the sixties, the new age brings more distributed access through secure appliances such as ATMs and in-branch cash dispensers. We all felt a little more secure, personally, believing people would be at less risk with robberies discouraged as "the take" would be minimal. Well, we found part of that assumption true but "forklifts" may have been forgotten. Where we really misunderstood the consequences was with the plastic access keys or cards, plus the lack of security in the facilities of remote locations or after hours in the branch foyers, against personal confrontations, hidden cameras and wireless videos. Tampering with the surroundings or the face of the ATM can go undetected since many locations do not have live or working cameras and even the educated eye may not notice an intruding device.

With the multitude of retailers where cards are utilized, the same systemic problems exist with the capture or infringement of personal payment data.

While technology has allowed us to offer greater distribution choices and we have coincidentally, synchronized and streamlined associated automated and manual processes under the banner of improved customer service, have we really?

Decades ago when I started my financial service career, and I assume you started yours, the message given to us continuously was "know your customer", whether doing teller, counter or platform officer duties. Today the principle is supposed to be the same. When we open a new account relationship there are painstaking and personable processes to ensure proper identification and creditworthiness. When a longstanding, reputable customer introduces a new client, even better. We were all about building long-term relationships, most of which, before technology, depended on the knowledge of the staff in a less transient customer base. Nevertheless, vigilance should not be compromised in 2005, as it wasn't in 1960.

The databases we have today help us to know our customers even better and that information is generally accessible to all staff across all delivery channels and appliances, including signature images and biometrics today. The vast majority in Canada are long-term financial relationships, which have been valued by both the customers and the suppliers alike. In other countries where commoditization has people shopping more, there is less relationship value or even what one would call a known relationship.

Let's look a little further into the Canadian and, perhaps to some degree, the Australian relationship banking philosophy of the population. At one time, many of the best relationships were distinguished by coloured cards, or special banking segment associations. Also technology allowed us to put numerical codes on cards to connote relationship privileges. On top of this, we still had staff at the home branch or regular service branches who "knew their customers", which makes the interaction most pleasant or delightful. Staff have been continuously trained on quality of service, hospitality, preventative measures etc. as we attempt to integrate people, processes and technology for an optimum shared benefit.

So what is happening as we see more "generic" treatment at branches (by part-timers) and when accessing appliances such as ATMs. The regular staff appear more frustrated with their lack of responsibility when dealing with customers they have known for years. At the same time, customers are wondering what happened to their "special service" and the "caring" which used to be evident. A primary example of this is when you go to deposit a "large" cheque (which is also subject to some definition) at the ATM or the teller you know, and you receive that generic message "Your deposit may not be available for up to six days". Stop! What are we doing besides eroding good relationships? Let's step back and consider the two business objectives:

1) Continuously build long-term relationships, and
2) Minimize fraud within all aspects of our business.

Personally, I believe these objectives can co-exist.

First, we have the technological capabilities to verify customers' identification and creditworthiness e.g. biometrics, digital signature comparisons and real-time links to credit bureaus. The applications available are non-intrusive and can assist in recognizing the relationship value instantly for addressing the customer by name. Yes conversion, to say biometrics, is not inexpensive but what is the long-term value of loyal relationships?

Second, facilities can be outfitted with camera and video technology that identifies any suspicious additions in the surrounding. If for instance, your ATMs don't have privacy barriers and "roofs", you can't stop parties spying from external locations. Reassess the designs for your ATM surrounds.

Third, let's share fraud hardware with the customers. Banks and retailers have scanners to detect counterfeit bills as you hand in cash. When you withdraw cash or do a cash-back, your cash is not scanned. Do you assume it is all valid? Why not run the bills through the scanner for the customer?

Finally, good customers want to help minimize fraud just as well as suppliers. Bring them into the loop of education and information using a variety of mediums. By thinking "customer in" at the financial institution or retailer we should become partners in fraud prevention through processes and technology working with people.

If the "generic" treatment trend continues, how long will it take to erode the mutual loyalty built in the past? Are we suggesting that commodity shopping might as well be part of all decisions since relationships are not recognized properly? We must rethink what we are currently doing to "know your customers" and to truly continue to build relationships while protecting our customers, staff and assets.