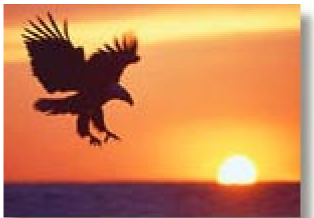

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“Canadian Banks 2006” – Pricewaterhouse Coopers Report

2005 was another record-breaking year for the top six Canadian banks all of which earned a combined net income of over $12 billion. Had there not been litigation losses, aggregate results would have been over $16 billion, an increase of 18.5% over 2004. The PwC report noted that although Canada’s Big Six have enjoyed a stable credit environment in recent years they face several challenges that could hurt them in 2006. Rising interest rates, slower growth in lending and problems in the automobile industry are a few of the issues that could affect earnings this year. The report also said that household debt is at unprecedented highs, leaving little room for more consumer borrowing. Soaring pensions costs, which is a major issue for corporations and ultimately banks, is one of the biggest looming problems that will hamper corporations. On the plus side, the report pointed out that Canadian banks will likely continue to benefit from strong commodity prices, which are expected to remain high in 2006. Regarding bank mergers, the report said that there were signs that political opposition to mergers has softened and the election of a Conservative minority government could hasten the release of merger guidelines. The report noted that Canada’s largest bank, Royal Bank of Canada, ranked 32nd in the world in terms of market capitalization.

Canadian Banks – Electronic Cheque-Processing

Under an initiative led by the Canadian Payments Association a new technology, which would enable Canadian banks to clear cheques at pennies per cheque compared with up to $2 per cheque for the manual processes thus saving them millions of dollars, is to be implemented in Canada for all banks over the next three years. However, in doing so the Canadian banks could become involved in a patent battle with Texas based, Data Treasury Corp. which has acquired a Canadian patent for the process, to go with those it already has in the U.S. Data Treasury has already won a patent battle with JPMorgan Chase & Co. forcing them to settle out of court in 2005.

In February 2006, Data Treasury launched a further suit against another 56 U.S. banks. The Canadian Payments Association has acknowledged the patent issued to Data Treasury and does not know what the implications are for the Canadian industry. However, experts familiar with litigation in Canada and the U.S. say the company will probably look to enforce its Canadian patent.

CIBC Caribbean Expansion

Canadian Imperial Bank of Commerce has announced a $1.1 billion U.S. agreement to buy majority control of FirstCaribbean International Bank. FirstCaribbean is the largest bank in the Bahamas, Barbados and the Cayman Islands with its 780,000 accounts scattered among 100 branches in 17 countries. First Caribbean was the outcome of a merger of CIBC and Barclays Bank in the Caribbean in 2001 at which time both entities received a 43.7 percent share with the remaining 12.6 per cent of the stock held by investors. With the acquisition of Barclay’s 43.7 per cent share, CIBC is positioning itself as a potential consolidator in the Caribbean financials services market.

Toronto Dominion Bank

TD Bank reported a first quarter profit of $2.3 billion overshadowing its growing pains in the U.S. TD Banknorth, the core of the bank’s U.S. retail operations contributed just $46 million down from $59 million in the final quarter of 2005.

Toronto-Dominion has agreed to pay $326 million for VFC Inc. a Canadian company that provides car financing for buyers with weaker credit profiles. The sub-prime borrowers or near prime consumers, have suddenly become a sought-after market and banks are trying to help these consumers buy cars and homes.

RBC Financial Group

Royal Bank's CEO says that Canada is the only developed country in the world where people can't buy insurance directly from a bank. Mr. Nixon, speaking at the bank's annual shareholder meeting in March, urged the new federal government to open the insurance market to greater competition as breaking down the barriers would provide better choice and pricing for consumers.

The bank reported a first quarter profit of $1.16 billion a 20 per cent improvement from last year.

Scotiabank

Bank of Nova Scotia reported a record first quarter profit of $844 million an increase of $60 million over its first quarter 2005 results. The bank continues, however to make slow progress in its goal to increase its wealth management business in Canada as it has the smallest share of the wealth management market among Canada's big banks. The bank's CEO has made it clear that he would love to add to the bank's presence in this segment with an acquisition in Canada.

The bank has agreed to purchase Maple Financial Group Inc.'s mortgage business for $233-million in cash, which will boost Scotiabank's share of the Canadian broker-originated mortgage market to 15% and 2nd in that market behind CIBC's FirstLine Mortgages. The deal will also raise Scotiabank's share of the overall Canadian mortgage market to 13.2%, which would squeeze it past TD Bank for the number 3 spot, behind RBC and CIBC, respectively.

BMO

Bank of Montreal reported net income of $630 million for the first quarter in 2006, up $28 million or 4.7% from first quarter, 2005.

The Insurance Debate

A heated debate continues over whether banks should be allowed to sell insurance through their branches.

Two polls, one by POLLARA for the insurance industry and the other for banks by The Strategic Counsel have very opposing views.
A new poll released in February by the Canadian Bankers Association shows that more than 90% of Canadians want bank branches to at least be allowed to offer advice and make referrals on insurance, which is currently forbidden under the Bank Act, which is now under review. This was followed by the POLLARA poll for the life and health insurance industry, which shows a majority of Canadians don’t want banks in the insurance business

The Money Editor for the Toronto Sun, however, is getting deluged with consumer feedback 98% of which is from readers who are so fed up with the insurance industry that they want Canada’s big banks to be able to compete head on.

Financial Superstores – Are they working?

New York’s biggest banks are losing faith in the concept of financial superstores. Whilst the model looks good on paper, lately the conflict of interest that comes with putting all sorts of services under one roof is becoming apparent. Merrill Lynch & Co. is reportedly on the verge of selling its U.S. $500 billion asset management operation to pure money manager, BlackRock, and Citigroup has sold its mutual fund arm to Legg Mason. Financial superstores are also falling prey to competitive market realities.

In Canada, the Globe and Mail reports a likely scenario of a Canadian bank forging a strategic relationship with a global money manager by vending its money management arm for a minority stake in the new entity. We will have to wait and see what the domestic banks do in the wake of the restructurings playing out at New York’s biggest banks.

Australian Managed Funds Per Capita

According to analysis from AFG Financial Planning, Australians have more in managed funds, per person, than any other major country. While U.S. investors led the world in 2000 in managed funds, Australia has leap-frogged American in the intervening five years.

Ranking	Country	2005 (Q2)	2000	5 Yr. Change
1	Australia	$34,890	$17,493	+99.45%
2	USA	$27,858	$24,210	+15.1%
3	France	$22,144	$12,047	+83.8%
4	Canada	$13,439	$8,761	+53.4%
5	UK	$8,212	$6,025	+36.3%
6	Italy	$7,859	$7,319	+7.4%
7	Spain	$7,601	$4,294	+77.0%
8	Netherlands	$5,385	$5,823	-7.5%
9	Korea	$3,935	$2,306	+70.6%
10	Germany	$3,447	$2,890	+19.3%

Sources: Investment Company Institute Washington, DC; Investment and Financial Services Association Ltd., Sydney; World Bank US Census Bureau

Credit Union Merger

The $172 million Louisiana Corporate and $881 million Corporate America, based in Alabama are planning to combine and if successful, Corporate America will be the surviving name, with Louisiana Corporate operating as LaCorp, the Louisiana Division of Corporate America.

Record Profits for Australian & Canadian Credit Unions

Australian Central Credit Union (ACCU), which has AUS $2.8 (US$2.06) billion in assets and Canadian North Shore Credit Union (NSCU), with assets of CDN $1.8 (US$1.57) billion have released record results as follows:

ACCU - AUS $8.81 million for the first half of their financial year, an increase of 36.4% in after-tax profit for the same period in the previous year.
NSCU – CDN $10 million in net operating income for the year, an 18% growth rate.

New Credit Union Branch Concepts

Dialogue pods or towers seem to be the new "in" design in some credit union branches. Inspired by a retail-feel and designed to be operated by any branch staffer, the dialogue concept contributes to an open feel and break down the usual barriers typically found in traditional teller lines. Generally the pods include frosted glass or some type of barrier for privacy and a computer screen that allows member and credit union employee to work side by side.

Knoxville, Tennessee based UT Federal Credit Union is among the growing number of credit unions wanting to offer its members the dialogue pod experience and in March opened its new headquarters and branch where members will experience an inviting, open space that features four dialogue pods, a coffee bar stocked with cappuccino and water, an Internet café, kids area, open office spaces and a concierge area to greet members as they come in.

ORNL Credit Union in Oakridge, Tennessee has been implementing the dialogue pod format for some four years after successfully piloting it in one of their branches.

In 2001 in Manhattan Beach, California, Kinecta Federal Credit Union (formerly known as Hughes Aircraft Employees FCU) launched one of the most successful, effective credit union name and brand changes. Since then, based on ongoing member research the credit union developed a new dynamic message based on the whole attitude of a club. Once the club theme was accepted it guided everything from internal culture and training to retail merchandising to branch layout. For them, acquiring the club experience required a shift in how the credit union does business with a focus on building entire relationships more than a strong sales culture. From new titles and job descriptions to corporate apparel and training programs, every aspect was revamped to create a new experience for members when they walked into a member service centre. Some examples in their branches are signs like "You gotta love this place!" and "What would you do with an extra 15 minutes?"

USA Survey of Bank Executives

According to the new Grant Thornton's Thirteenth Annual Survey of Bank Executives (more than 330 CEOs and senior officers of banks and savings institutions with assets in excess of $100 million), 75% are planning to offer cash management services in the next three years, up from 59% now. Almost 62% say they are likely to offer corporate/business credit cards in three years, up from 53% today and 48% of all bankers would like to offer remote deposits in three years up from 18% who do so today.

Once again bankers most often identified retaining deposits, retaining key employees and attracting new business as the three elements important to their success, however, the number expressing confidence in their ability to achieve their goals has declined since last year, according to the survey.

Bankers Eye Their Competition		
	2006	2001
Community banks	74%	58%
Credit unions	69%	62%
Regional or mega-banks	58%	46%
Mortgage companies	41%	40%
Brokerage firms	35%	68%
Non-financial companies	33%	-
Mutual fund companies	24%	55%
Internet banks	21%	31%
Farm credit banks	19%	13%
Insurance companies	18%	30%
Government sponsored entities	8%	17%
Finance companies	6%	6%

Source: Grant Thornton's Thirteenth Annual Survey of Bank Executives

U.S. Credit Union Highlights

In 2005, credit unions added 1.5 million members and early estimates show a net decline of 332 credit unions. Looking forward over the next three years CUNA Mutual is forecasting an average decline of 355 credit unions per year, reducing the credit union count to about 7,900 by the end of 2008.

All indications pointed to credit unions ending the year 2005 with strong mortgage activity. As at September 30, 2005, credit unions had more real estate loans in their portfolios than auto loans, the staple of credit unions' lending activity. At the end of the third quarter, real estate loans made up nearly half of credit unions' portfolios, and most of those were fixed rate. Mortgage penetration among members is on an upward trend and by the end of the third quarter was at a high of 4.34%.

Wells Fargo

Wells Fargo is currently soliciting small business owners in Ontario with an invitation to open a business line of credit with a pre-qualification of up to $100,000 with interest rates as lows as Prime + 2.25%.

The Final Word (Pat Palmer, CEO)

Do You Measure Up? (How Do You Measure Consumer Service?)

Now if there was a can of worms in the financial service industry this has to be it. Well let's open up the subject anyways. Perhaps we can start with a landscape review and associated commentary. Hopefully our readership will be prompted to e-mail some of their experiences, which can be shared in subsequent issues.

On the people policy side many organization actually utilize service/ satisfaction ratings collected by various methodologies to impact individuals' performance pay and/or promotability. Therefore, whether you are the CEO or the newest recruit, this has serious sensitivities for everyone influenced by the variety of measurements. At WESI, we generally endorse "the universal principle" of consumer ratings be they called service, satisfaction, loyalty, care, devotion etc. if the mechanism is objective, targeted, understandable and linked from brand or reputational elements to a set of focused measurements. There has to be a consensus that there are optimum "consumer-in" facts to impact frontline perceptions to bottomline performance. Unfortunately, we at WESI, too often see efforts and good intentions lost or gone astray on measurement methods employed, a shotgun approach to consumer catalysts, a lack of timely internal communications or erroneous linkages between values and realities. To start we need to know two critical information sets:

a) The organization's priority reputational elements
b) The consumer base's critical image factors

With reputational elements, we assume that top management know the service drivers for their business and how to measure them. Naturally, this assumes that consumers' preferences and priorities have been researched to confirm parallel priorities. If a) and b) are comparatively dysfunctional the impact application with staff can be disastrous. If you have the top 5/6 qualities in synch between brand and consumer preferences, we have a solid foundation on which to move to the measurement and benchmarking phase.

What we see across the landscape is a proliferation of research techniques sold to financial institutions to measure quality of service and consumer satisfaction. Although we cannot evaluate all options that overload the market, let's look at a few generally.

First, there are syndicated studies or surveys sold to a group of financial institutions under the premise that competitive comparisons are the best ratings. If you are a CEO you know that the competitive landscape continues to grow exponentially with traditional players, emerging niche targeters, Internet virtual sites, and others including brokers or intermediaries who are becoming overly dominant in many countries. So what is the real value of syndicated studies encompassing ten or twelve traditionals?

Next, mystery shopping. This simulated consumer shopping technique was always meant to be a "discovery" activity to assist sales management coaches in developing and improving staff performance. The intent of mystery shopping was not to assess, say a branch or call centre, performance based on one employee's unsuspecting reactions to an actor's prompts. Unfortunately, the technique has become a negative experience when used erroneously in many settings.

Then there is what we call, the "kitchen sink surveys" where an obnoxious number of questions are proposed to a consumer using an organization's services either by mail, Internet or telephone. We have seen surveys of this type turn into beauty contests asking about the conditions of washrooms to colours of paint in a branch. These questionnaires abuse the privilege consumers grant us to ask their opinions.

Let's consider a final observation about mail out surveys, which are sent to a random sample of consumers or, thousands of them to ensure large numbers of returns. Well, we all know that generally direct mail returns can range from 2% to 10% unless you tease people with incentives to attract an incremental percentage.

Regardless of the number completed, ask yourself:
How random are the composite results?
What type of consumers actually respond?
Are the questions really in synch with the consumers' preferences for products, services or channels?

To establish a universal measurement in a specific financial institution requires a methodology designed for that organization's consumer base and reputational priorities. CEO's don't benchmark themselves against hurdles that do not represent their objectives. They set their own unique benchmarks of improvement for strategic and operational timeframes. Similarly, when rating service or satisfaction levels the process should be customized to the requirements and environment of each financial institution. This can be a combination of daily, quarterly and annual measurement techniques and channel/media applications.

Consumer service is the bedrock of our industry and critical to each participant's success therein. Yes, it is a universal responsibility throughout each organization and appropriate measurements need to attract the level of professionalism and thought warranted for such an important performance rating on both sides of the counter, telephone, Internet device and other consumer choice channels. Generally "shelf products" do not meet the standards needed and can erode morale within your sales and service culture.