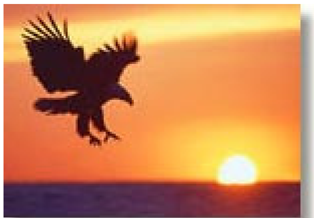

Eagle Net

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With this issue of the Eagles Net we find ourselves heading into or in the final quarter of 2006 fiscal year in the financial service industry internationally. We have seen continuous performance improvements in many countries and with bell-weather institutions. For example, in Canada RBC Financial Group, the number one capitalized corporation in Canada, shows a 3rd quarter net profit of $1.2 billion. Asset growth has been at least double digit by the top performers. (Anything less could signal potential vulnerabilities as we enter slower growth). Many of these benchmark organizations in the countries we work in also began to show strategic productivity improvements – something that was overdue. Unfortunately, although there has been lots of rhetoric on improving customer service, experience or care, consumers have not been generally impressed.

2007 should be full of its expected and unexpected challenges as things such as housing markets slow and the trickle-down effect of soaring energy costs starts to erode previous productivity gains.

From our discussions with CEOs we see more innovation coming for the consumer in financial services and in some cases for small businesses. The recent announcement by 7/11 to rollout 2,500 multi credit union, full service kiosks/ATMs, will be interesting to watch for both 7/11 business lift as well as for the participants.

Will regulators open up some competitive barriers next year? Politics not rational market behaviour appears to be impacting these legacy decisions. As free market economies, one would believe some changes will happen but here in Canada we thought movement would be made on bank mergers, insurance availability in banks and credit union branches, etc. It is unlikely that a new year will push regulators or politicians in any controversial direction. Status quo anyone?

CANADA

New Mortgage Options Boom Continues

35-year amortizations coupled with interest only payments are helping to maintain the housing growth but leave consumers with longer, costly financial burdens.

Brand Values Put RBC at Top

Internationally, Canada's brands are seen as almost non-existent since Canadian businesses have spent little time building strong brands. The Globe & Mail's Report on Business partnered a study with Interbrand to rank Canada's most valuable brands. RBC ranked number 1, TD Canada Trust 2, BMO 7, Scotiabank 9 and CIBC 13. The ranking gave RBC a value of almost four billion and second place TD 3.2 billion.

Interbrand, a global brand consultancy, says Canadian brands are becoming globally irrelevant since the companies appear almost indifferent to the risks and opportunities of branding.

U.S.A.

Forrester Research Customer Service Survey

Credit unions, Edward Jones & USAA insurers were at the top of the list in value delivered and service provided. The three bottom institutions were Citibank, Sun Trust and Washington Mutual.

Membership in Credit Unions Continues to Grow

Membership is on track for an additional million plus growth in 2006 bringing the total to over 88 million.

RBC Centura Acquires Georgia Bank

Royal Bank of Canada's U.S. rationalization strategy came to an abrupt halt with Centura's acquisition of Flag Bank (17 branches; $1.3 Billion Assets).

The Wal-Mart – FDIC Merry Go Round

FDIC put its decision on Wal-Mart's bid for a banking charter on hold plus a six-month moratorium on any new applications. (Home Depot Inc., General Motors Corp. and Berkshire Hathaway Inc. have also presented plans plus a myriad of other large corporations).

Consumer Preferences: Forrester Research Inc.
"The Generations of Financial Services Consumers"

This study gives current U.S. segment data and preferences, which are essential to strategy development in a consumer centric business.

Distribution Preferred Access Points :

	Web Site	Branch	Phone
Gen Years (1976-1987)	68.5%	18.6%	11.0%
Gen Xers (1964-1975)	59.6%	26.7%	10.2%
Boomers (1946-1963)	45.0%	36.8%	12.2%
Seniors (1900-1945)	19.6%	55.6%	17.3%

When opening a new account over 80% in all segments prefer a branch.

You may think that your customers/members are not mirrored by these statistics. You could be right, but guessing what they might be is a strategic error. As we have said many times over the years, take the time, make the investment and listen to the consumers – it's their preferences.

Channel preference research of your consumer base (as well as samples of management officers and front line staff) gives an invaluable set of information to you of your markets and internal perception gaps.

Canada & U.S.A. – Commercial Mortgages - Credit Unions' New Folly?

In financial services, commercial mortgages historically have hit institutions hard where strong professional practices and continuous risk diligence are not in place through dynamic real estate conditions. Credit Unions appear to be entering this arena energetically as their new source of asset growth. Caution should be exercised in this market where even the best can take severe "hits". The business market suppliers need to acquire and/or grow strong risk decisioning and know how to layoff or insure these newfound risks.

INTERNATIONAL

HSBC'S New Leader on Tour

Michael Geoghegan starts a worldwide tour this month to introduce himself to HBSC's people. He will stress the continued focus on organic growth while developing emerging markets. Collaboration across countries, businesses and channels and a simplified product range is to result in improved customer experience. Its homegrown investment bank has shown strong profit growth this year confounding critics with its organic approach.

PostMark of Financial Services in Italy

Poste Italiane offices number 14,000 supported by 150,000 employees – a national monopoly which loses millions annually. But CEO Massimo Sarmi has moved into logistics, financial services and mail order retail to turn his infrastructure into a profitable operation. 15% of revenue comes from services that didn't exist three years ago. Banks can't match Poste Italiane's markets penetration and the latter has capitalized on that fact.

Bank of Montreal Leads Canadian Peers in China

BMO has become the first Canadian bank to receive the go ahead by the Chinese authorities to offer banking services in Beijing in the country's own currency (the Renminbi). Foreign banks only represent 1.5% of U.S. $3.5 trillion of assets in the Chinese banking sector.

ABF 2006 Banking Awards – Australia

Last issue, Greg Kolivos CEO RAMS Home Loans was a guest contributor to Eagle Net. Now, we want to add our congratulations to Greg and his team for being named the Best Non-Bank Financial Institution 2006. Other winners are:

Best Financial Services Executive: Allan Moss, MacQuarrie Bank
Best Financial Institution: MacQuarrie Bank
Best Business Bank: ANZ
Best Regional Bank: Suncorp Metway
Best Foreign Bank: HSBC
Best Investment Bank: MacQuarrie Bank
Best Building Society: Heritage Building Society
Best Credit Union: Credit Union Australia
Hall of Fame: Gail Kelly, CEO, St. George

WHO'S EATING YOUR LUNCH NOW?

Years ago I delivered a speech on this subject and back then I was surprised how many major FI executives did not have a good handle on the competitive universe in their markets. As the years progressed, the numbers have grown exponentially, especially with the Internet and consumers' increased technological and financial literacies. At one time, I would rip the yellow pages out covering FI's and the variety of financial products and wave them in a threatening manner in the air to shock apathetic participants in a session. Now, just do a www.google.ca search test on a standard product such as mortgages and consider the impact when you see almost one hundred & thirty eight million hits!

In this market of the housing boom, mortgages are a hot competitive commodity. Mortgage brokers probably get more competitive attention in the U.S.A. and Australia than in Canada, and this significant success warrants consideration – why? Mortgages are not the historical foundation relationship builders of the past. Once consumers and brokers found that there were "discretionary rate discounts" at bank branches, price sensitivity grew.

Consumers would ask themselves, "Why do I have to ask for the best rate?" So brokers promote "We get you the best rate!" Hence the erosion of relationship value began and loyalty margins shrunk. In Canada, approximately 25% of mortgage originations come from super or boutique brokers. For Australia this percentage is almost double! So, who are these new and emerging intermediaries? What is their perceived or real advantage(s)? As a consumer, if I can get "the best rate" through a broker and a broker makes a commission on that, then what truly is the best rate? In other words, is there no relationship value whatsoever left or are the brokers building loyalty with customers while they expand their product line and distribution flexibility 7/24.

Take a few minutes to give yourself an awareness check on brokers. The following is a list of some in Canada. How many do you know? Over 90% - you are in tune with the competitive market. More than 75% - keep looking! 50% - roll the dice on competitive counter strategies. Less than 50% - prepare your résumé.

<u>Sample List of Mortgage Brokers</u>

Firstline.ca
Centum Financial Group
The Mortgage Alliance Company
Invia.ca
Merix Financial
GE Money
Home Trust Company
Home Loans Canada
The Equitable Trust Company
Dominion Lending Centres
Home & Mortgage
Verico
First National Financial
AGF Mortgage Brokers
Interbay
Genworth Financial

The other interesting competitive expansion is coming from "the brands" consumers recognize and shop at every week. Approximately a decade ago, WESI competed on a contract with BMW U.S.A. to collaborate on building a financial service proposition for their loyal customers. Although we made the final cut, an American consulting firm won the day and worked to launch BMW's value-added proposition in financial services. Others such as Harley Davidson and Sony followed suit. Today many familiar names are pressing for licences (see article in this Net) to be active in financial services for their loyal consumer – Wal-Mart, Home Depot etc. In some countries, Italy and Australia, for example, the Post Offices have for years been fringe competitors with more successful expansion of late. Do we dare contemplate that some consumer services (banking, travel and others) will be offered by many organizations, which command high volumes of regular traffic in their stores? Do I dare mention the Internet super stores! Let your strategic mind visualize the possibilities with these sizeable competitors. What will your counter strategies be? - your value added proposition to match consumer preferences?

The banking sector consists of extremely formidable competitors today but have they found themselves in an industry where their customer loyalty has been replaced by commodity volumes and costly churns. Research in most countries where we work shows that banks do not have the service/loyalty levels they should but their vast virtual delivery networks and product lines pump through economical volumes that others will have a hard time to reach. They are still on every street corner; every Internet search; every transit and shopping area and in every home if you wish – distribution dominance.

On the other side the credit unions own the envious levels of member and community service but lack the economies of scale for great growth possibilities in a dynamic marketplace. On average, their productivity ratios are double banks and their efforts to find economies of scale and growth through mergers don't appear to work as Board principles protect employees from integration optimization in many cases.

In fact, Boards even tend to expand with mergers as Directors protect their roles versus stronger governance practices. Can credit unions rise to the competitive challenge? Some will! More than likely, we will see two groups evolve – the super credit unions, some who will be national in scope and the boutiques, which have a special niche market with implicit barriers.

From where we sit, the existing and new intermediaries will continue to expand rapidly – more than the traditional players. At some point, the successful ones will be distribution targets for acquisition as the costs to build competing networks will be prohibitive in dollars and time. Perhaps the reverse will happen where strong intermediaries undertake vertical and horizontal acquisitions.

So who is eating your lunch now and maybe your breakfast and dinner later?

THE LAST WORD

People are the competitive differentiation with consumers in a sales and service culture, and our channel preference research which continues after a decade verifies that the teller is the pivotal person representing the financial institution. As you assess next year's plans, consider if the people investments are in balance with funds allocated for technology, new branches and various marketing programs.

The front line contact people, the tellers, are seen as the place for new ideas, assistance and not just transactions. Still I am surprised to see that some organizations have reduced teller authorities rather than invest in their knowledge building; have maintained less rewards and recognition for tellers than other branch staff; and have increasingly put more unfamiliar part-time staff at the transaction counters versus managing the individual recognition elements in selecting and placing staff in branches for regular part-time purposes.

From our collective experience, we know that improving sales and service effectiveness and productivity, starts with asking the tellers and regularly soliciting their views. They are your institution to those who do come into the branch periodically. Studies show only a third come in regularly, so who is the front line for the majority not visiting you in person?