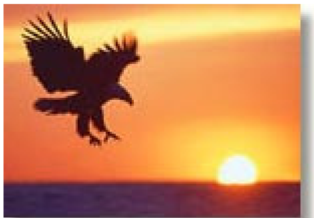

Eagle Net

WHERE EAGLES SOAR INC.
16 Mountainview Rd. South, #301
Georgetown, Ontario, Canada. L7G 4K1
Tel: 905-873-7733
Pat Palmer – Principal & CEO
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ECONOMIC CHAOS: LEADERSHIP CLARITIY

Everyone worldwide is affected in some way by current events in the financial industry and most people are having a hard time getting a clear vision from those in authority or even personal advisors. Politicians are gambling billions of dollars and acquiring equity positions in major financial institutions as well as providing extensive asset and liability guarantees in an effort "to stem the tide".

This is a time for true leadership focus and clarity in all institutions and especially in our industry where confidence has been eroded to the core. CEO's need to devise a people-centric, concise plan of action to help all stakeholders – consumers, businesses, staff, directors and yes, communities, as to what the organization is going to do to improve people's outlooks. We don't need philosophical positions. Real, positive actions and answers are needed now from the leaders of our industry.

Consumers and businesses need dialogue from the financial institutions teams committed to finding answers and resolution options to individuals' financial challenges. We need to evoke a positive willingness to work through difficult situations and not become another statistic on the list of bankruptcies, foreclosures or shutdowns.

To prepare the total team for their relationship interfaces the CEO's vision has to resonate clearly throughout the organization and be willingly accepted by all. The staff in many cases has first hand knowledge of the financial fallout and their conciliatory clarity must translate into sincere affinity to a variety of different and complex situations. The CEO will want all the Directors to be internal and external role models of the recovery vision and their visibility will be paramount in the community setting. The economic consequences will impact all communities to some degree and a strong leadership image from the CEO throughout the organization and in everything they do publicly will help everyone cope somehow.

Now is the time for true leadership action in every financial institution to assist their constituents and not confuse them by being silent or having public affairs put out hollow statements. Although a minority of industry leaders has cast a shadow over our profession, the majority can open up people's eyes to the personalized devotion of their teams.

CANADA

Seniors on the Internet (The Canadian Internet Project)

Older Canadians are flocking to the Internet. The latest information shows 51% of those over 60 are online users. This is higher than total web use in other countries. The key uses by seniors are e-mail, web searches and "social networking". In fact, one in five elderly Canadian have visited a community or social networking site.

78% of all Canadian are current Internet users.

Note: Canadian financial institutions should take an objective look at their Internet strategy and the robustness of their sites.

National Bank Theft

A successful thief broke into the National Bank's headquarters in Montreal avoiding numerous security detection devises and stole a laptop containing information on most of the bank's mortgage customers.

Note: Fraudsters never stop at getting customers' private data on financial matters.

Interac Wants New Status

Canada's national payments association, Interac, was originally set up in the 1980's and then in 1996 put on a "not–for-profit" basis amidst fears that it was abusing powers. Now the association wants its status changed "for-profit" to effectively compete with credit card companies and alternatives such as Pay Pal.

Bank CEOs See Uncertainty

Rick Waugh, CEO of Scotiabank and Gord Nixon, CEO of Royal Bank were quoted earlier this month that there will be greater scrutiny of banks' balance sheets and regulatory requirements will be higher. The events in Washington during the latter part of September will surely make this a reality.

Retirees Don't Retire

AXA Retirement Scope's quarterly edition provides a clear portrait of Canada's new generation of retirees. "It is the whole context of old age that is being transformed". Society needs to recognize and actively facilitate the contributions of the new "young" retirees. Companies have to recognize how to deal with these people under 79 who consider themselves able to provide quality work. Employers are going to have to find ways to tap into this knowledgeable, capable resource.

In Canada the majority live at home (96%), where 86% own these homes. A third travel, whereas the majority stay home to enjoy sports, volunteer work and keeping in shape.

The retirees spend as much time as another demographic segment on the Internet but do less shopping via this channel.

Keep in touch with this group through www.axa.ca.

U.S.A.

Credit Unions Should Shift Focus

Filene Research Institute has completed a new study, which suggests credit unions should shift operations and not go head-to-head with banks. Rather, they should emphasize their unique historical and organizational characteristics i.e. cooperative ownership, community lending and focus on the underserved to differentiate themselves. The study says that most credit unions today have lost touch with their ancestry.

HSBC Struggles with Banking Glitch

HSBC in August had its core banking platform crash in the USA and had challenges in their recovery efforts to restore customer account information.

Bank of America has Glitch in September

Bank of America's Internet service was hit with a systems glitch during the latter part of September affecting 25 million customers.

More Action in Unbanked Markets

American Heritage Bank, headquartered in Sapulpa, Oklahoma, is now offering prepaid payroll cards to commercial customers' employees. This is a functionary, re-loadable debit card, the ITS Visa payroll card. The unbanked market anywhere, can be serviced by this type of card.

INDIA

Rules for M-banking

The Reserve Bank of India (RBI) has placed strict regulations on the range of mobile banking services the providers can offer the public. Only banks that are licensed and supervised in India and have a physical country presence can offer mobile services and only Rupee-based domestic payments.

<u>Guest Column – John R. Wright, WESI Managing Director, UK</u>

A great deal has been written in recent months against the background of "LeCrunch" on the subject of Risk in Banking and Financial Services and certainly if one can refer to the recent CSFI survey on Risk and the perceptions of Risk by leading Bankers then Liquidity is right up at the top of the current table of concerns, closely followed by Credit Risk.

Respondents to the survey cited amongst other things the "collapse of trust", the psychological effects on Banks and Customers, the tendency for fears to become self fulfilling and so on. This is a damning dimension, evident for the first time in my career of almost 50 years, where ordinary people worry about the safety of their Deposits and Banks view one another with suspicion.

A major contributor was also said to be poor Risk Management, the "bigger the Bank the worse their controls"; shocking really! When one considers the massive investment made by Banks in Enterprise Risk Management models to meet Basil II requirements and the levels of Risk Committees up to Board level and the formality of this process and the FSA Regulations and Oversight, one can only be astonished at the extent of the failure!

With the benefit of 20:20 hindsight we have failed almost totally to ensure that the "Culture or Behaviour" in our business becomes aligned to our processes, simply "box ticking" has failed totally to achieve the right outcome.

I believe that it is true that in any Risk Assessment, there are always external factors, mainly Economic and Political over which Bankers have little or no control, all they can do is structure their Businesses in such a way that they are relatively shock proof if these risks develop. That approach <u>should</u> deal with Liquidity shocks.

The vast majority of Banking Risks are <u>Internal</u> and certainly the situation in which we find ourselves today where Liquidity has shot to the top of the tree was brought about by a whole series of actions by Bankers over the last number of years, which resulted in what can only be described as "fraud" on a massive level. How on earth did this happen?

I'm not going to attempt here to analyse the development of the Mortgage Backed Security Scandal or the CDO's that emanated therefrom etc. etc., that is all well documented.

What actually brought all this about? In my opinion a major factor was "Greed" to some extent driven by the expectations of Shareholders but contributed massively to by the aggressiveness of many individuals in the industry who saw a way to make a fast buck for themselves. Remuneration structures in Banks were simply not aligned to the interests of all the Stakeholders.

How could it be that this phenomenon became so pervasive so as to rock the International Banking System as we know it, to its very core?

Essentially we're talking about "poor Leadership behaviour". This from the very top of many of the major Financial Institutions encouraged and indeed quite obviously accepted and condoned the activities, which have had such a massive and almost disastrous impact.

I do believe that this has been brought about through a gradual erosion of decent Ethical behaviour and standards in our Industry over quite a number of years. It is this that I believe poses the greatest Risk to our Industry now and in the future. The damage that's been done this time round may indeed be eventually repaired but it's very very hard indeed to see how it can be avoided again in the future, unless we mend our ways. Indeed Simon Culhane the Chief Executive of the Securities and Investment Institute drew attention to the burgeoning Risk in the "Credit Crunch Era" going forward, he cautioned, "In the current situation there has to be increasing temptation to take unethical decisions"!

I had occasion to address an Accountants Conference in Florida 2 years ago where my designated topic was "A Bankers View of Accountancy Ethics". When I was assigned this I was full of glee and thought it was representing a tremendous opportunity to poke fun at a profession that has done so much to torment me over so many years!

However the more I prepared for my talk and the more research I did the more I came to my final conclusion and that was "people in glass houses shouldn't throw stones"!

We have some fundamental flaws in our Society in this respect. Ethical behaviour is no longer a major factor in the Home mainly as Religion has taken a back seat. It certainly isn't very visible or prevalent in our Educational system, so it does seem to me that we now have generations of youngsters going into University and then into first employment, who have no notion of decent ethical behaviour.

Throughout the Industry there are certainly no longer enough "mentors" to go round; they're all playing Golf in retirement! Therefore how can we begin to address this deficiency? The only option as I see it to absolutely focus on the Training environment, I wonder how many Banks or Financial Service Enterprises are conducting any Training at all on this vital topic and area of huge Risk?

Professor Charles Munn, the recently retired Chief Executive of the Scottish Institute of Bankers produced an excellent book on the subject of ethics intended to be the basis for a Training Programme, I am unaware as to where if indeed anywhere, this has been taken up.

In a recent debate held under the auspices of the Scottish Institute it was stressed that while many Bankers behave in an ethical manner because they see this as the right thing to do, qualifications were seen as vital; it was noted that the Institute of British Innkeepers has compulsory qualifications around Ethics for nightclub doormen! Why should the Banking industry not also sign up?

At the very basic level we have a Product Pushing/Sales Culture across many of our Businesses, which lends itself to unethical behaviour, resulting in inappropriate selling completely, to meet Sales Targets; unscrupulously pushing product on to Customers for whom the products are inappropriate etc. etc. I think that anyone in the Citizens Advice Bureau would be able to refer us to umpteen cases where Bank Customers have been completely mis-sold products.

What Banks have failed to realise that it <u>is</u> possible to create a "Sales Culture" in Banking and still maintain an ethical basis for this provided that the Training is right and the Leadership robust.

It’s only by inculcating decent ethical behaviour at the bottom that we’re about to change the habits of those that lead the Businesses, of course so many come in from the outside who have no concept of “proper ethical behaviour in Banking” it’s extremely hard to ensure any consistency of quality.

Does this mean that we should give up? Definitely not! But there needs to be an Industry wide focus on this the most significant of all Banking risks!

John Wright was chief executive of the Clydesdale Bank, 1998-2001, and is still involved in banking as a director.

MSN MONEY

Interesting site information popped up on MSN Money in September entitled, “10 Things Your Bank Won’t Tell You”.

(The following are the ten points without the supporting verbiage).

1. “Our branches are there to sell you, not serve you”
2. “Our fees will only go up”
3. “We change our interest rates all the time”
4. “College campuses are gold mines for us”
5. “In debt? The courts won’t help”
6. “We’re excited about your trip to Europe too!”
7. “For all the fine print, we don’t disclose very much”
8. “Your money might be better off elsewhere”
9. “When it comes to banks, smaller is sometimes better”
10. “Your online account information isn’t necessarily accurate!”

(Note: The original article was by Jen Rendon for Smart Money).

WEB 2.0: DO YOUR SWOT

Web 2.0 and social networking have been topics of this journal in the past, especially guest columns by Mark Palmer, CEO of Knowledgepreneur and PeopleWerx. A report by Datamonitor entitled "Online Banking in the Age of Web 2.0" in the U.K. indicates that banks fear to tread firmly in this area and are concerned at the loss of control and security implications of opening their online services to third party content. Consequently, Web 2.0 tech vendors will need to reassure banks that their products will enable control as well as usability.

ANOTHER EAGLE!

Couldn't resist passing on this news release out of Europe that a company, White Eagle (Europe) Plc has been nominated in the category of "Innovation of the Year" at the 2008 Prepaid Awards. This eagle is known for its consumer centric innovations.
(Note: All eagles have their eye on the consumer!)

REMEMBER SWIFT?

The member owned international communications and product organization for banking institutions, securities firms and corporate customers, has launched Alliance Lite. This is an Internet based solution for new low volume customers to connect securely to SWIFT easily and economically. This application will service demands for up to 200 messages per month.

MANY NOT "ON-BOARD"

At a recent conference of financial institution representatives, we were startled to learn that less than 5% of the organizations had a new client on-boarding or welcome process in place. To refresh everyone's memory, Dr. James Moore did an extensive deposit generation and retention study for the BAI in the USA approximately 6 years ago, which provided the crucial nature of the first 90/120 days in a new relationship (in fact this could be a good rule in our life relationships as well). During this initial period a specific sequence of "on-boarding" activities is essential to retain and expand the relationship in the future. The failure to do so leaves the relationship vulnerable to commodity captures and loyalty erosion.

We have written on this subject periodically in the past. If you require more information contact our COO, Judy Johnston, at judy@whereeaglessoar.com.

THE SERVICE AND SALES CULTURE JOURNEY

Developing devotional linkages with customers and continuously building relationship values over time requires a dynamic and evolving service and sales culture driven by people centric focuses. Not only do you need to know your client's current and future preferences but also you have to uncover the service and sales foundation strengths and gaps within your organization from the CEO's office to the newest recruit. Once you understand your current reality, you can then map out an initial, phased-in plan for a culture transformation journey where strategy and structure must be built prior to implementing new "systems". In the latter case, some organizations are tempted to introduce "training, tracking and motivational programs" before getting roles and responsibilities adjusted and the sales management coaching prerequisites established. Unfortunately, some program initiatives attempt to layer new activities on tellers and platform officers prior to releasing the required available time to accommodate new duties through operational rationalization diagnostics.

A rolling service and sales plan has a future reality goal, which isn't static but grows with people-centric needs internally and externally as well as the dynamics of a competitive marketplace. Sometimes ad hoc or one-off programs, which attempt to quick-start a cultural transition, can do more damage than good if all the building blocks and linkages are not well understood. Although there may be short term "lift" from "new activities", the culture really isn't changed and "fall back" will happen over time. Our advice is always to know your stakeholders, build your integrated plan, and energize the process through leadership, relationship solutions and celebrations at each milestone of the never-ending journey.

CONSUMER ACTIONS

This is a crucial time to increase your customer/member centric actions as the financial system worldwide and especially in the U.S.A. is under attack. We can sit around and participate in the "blame-game" or focus on helping our consumers and communities better understand the issues and importantly, the impacts on them today and moving forward.

There are at least four key action sets that you can initiate to build confidence and to reach out with care to your constituents:

1. Communications
2. Education
3. Counselling
4. Transition Planning

All your stakeholder groups need to know what your reaction to events is and what you offer them in understanding and dealing with their roles and concerns. First, ensure that your Board comes together to develop a unanimous perspective on how your organization, consumers and the communities should deal with economic events and personal impacts. Second, communicate with your staff to ensure that they know the facts and what you want them to do in their interactions with their customers and communities at large. Finally and most importantly, decide how you will communicate your message to the public. Your Internet site can be a key networking resource and bulletins in branches and local newspapers can be considered. Choose the right communication mix to match consumer preferences.

Education or re-education is a priority now! Many consumers and even Directors and staff need help to know the why's, how's and what's. Seminars with local experts or forums on local cable TV stations are a couple of the quick options available to you. Advertorials written by a financial professional and sponsored by you is another education choice. Also, take a few minutes and look at your website and collateral material as to where the education elements need to be more effective for the user.

Of course the knowledge level of your staff has to be foremost in your mind, as we know that many individuals depend on you for their advice with financial matters and the tellers are the dominant contact points.

What are your counseling resources available to staff and customers? Do they have the competencies to deal with the situations at hand? Most people have never been through financial turmoil of this nature and will need one-on-one assistance to deal with the current and future realities at hand. Some are net borrowers who are over extended and need to restructure their obligations and payments to have flexibility to meet financial and economic contingencies. Investors on the other hand who have ridden a wave of capital appreciation and income in the double digits for years are now panicking as their portfolios are over extended in risky equities. They need personal advice and understanding. This is not a time to cut back on counseling resources – be front and centre with the people who need you.

Finally, customers and yes, some staff members will need transition plans as well. Have formats available for individuals who want to draft adjusted financial plans and then have them reviewed by someone in your advisory team resources. Others will require more hand holding to work through the process as well as follow-up periodic progress reviews. Although the Internet has many planning options on different sites, you want a preferred format on your organization's site or a link to "the best of breed". Countries like Canada have high levels of Internet use and you have to be there for your public.

Without a doubt, CEO and senior support team visibility and leadership throughout these times is paramount. The financial fiasco has conspicuously profiled poor leadership examples and the public is more aware of these roles than ever before. Even if your daily actions involve public participation with staff and customers, increase the frequency with the remedial strategies mentioned above, which will put your commitment front and centre in everyone's mind.

Some of your senior managers may need personalized coaching to adjust properly to the consumer circumstances, since they have never worked through tough, volatile times such as these. Weekly, review the impacts of efforts and adjust where needed to meet the evolving priorities of customers requirements.

POST SCRIPT

The Credit Union Times October 1, 2008 edition, report six CEOs of large credit unions in the U.S. are advocating that their credit unions would be better served if CUNA and NAFCU merged and that they see advantage in one voice for credit unions.

The CEOs of Western Federal Credit Union in Hawthorne, California ($1.4 billion in assets), USA Federal Credit Union in San Diego, California ($697 million in assets), Mountain America Federal Credit Union in West Jordan, Utah ($2.7 billion in assets), Xceed Financial Credit Union, El Segundo, California ($770 million in assets), Financial Partners Credit Union, Downey, California ($658 million in assets) and Bethpage Federal Credit Union in Bethpage, N.Y. ($2.3 billion in assets) said that they had “received support and encouragement from a range of credit union CEOs including many in the aerospace field”.