



# *Eagle Net*

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## **REINVENTING BUSINESS**

As we come out on the “far side” of the global financial crisis and resulting recession, leadership has to realize that the status quo basics will not suffice moving forward. Even though the Canadian financial industry probably fared better than other countries through the treacherous turmoil, reinvention is required in Canada and elsewhere. Consumer and business experiences will have sensitized everyone to net sets of readiness, preferences and decision-making processes as well as criteria. Incrementalism within financial institutions will not energize them sufficiently to cope with economic, business and customer demands in the future. Leadership must challenge their personal thinking and their senior leadership teams to reach new levels of responsive knowledge and environmental sensitization. Strategically, there are at least six core areas, which necessitate reinvention - risk functions, customer responsiveness, product lines, integrated distribution, growth segments and productivity.

***Risk Functions:*** Within financial services we have cloistered various types of risk for functional attention, evaluation and management, covering deposits, investments, finance, lending and operations. But have we really optimized our knowledge of various risks over all the different functions? Perhaps lending, from the simple credit card to the complex multinational syndicate loan, has built the most comprehensive understanding of risks and related checks and balances. On the other hand, track records for investments in sub-prime mortgage securities may not have attracted the same degree of risk vigilance. Likewise, what risks are associated with performance pay programs, distributed technology networks or fraud detection systems? Without a doubt, the industry has a complex range of risks to understand, manage and continuously reinvent. The priority for the future has to be the integration of risk functions throughout the business organization rather than the discrete disciplines and departments. The risk infrastructure has to change to be holistic and dynamic.

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***Customer Responsiveness:*** Over the past few months, customers and the public in general have become less trustworthy of financial institutions and they are searching for new loyalty standards related to their specific needs. We have seen callous credit responses, clinical foreclosures, lack of customer affinity and uncontrollable wealth erosions to name of few irritants. Each country and financial industry segment differs in its customer responsiveness index. Yes, the majority of Canadians still have a favourable view of their banks and credit unions even more so. Complacency can be a real danger here! Accenture's 2008 Global Survey of Customer Satisfaction indicated that only 25% of customers believe that their banks act in their best interest. There are reasons for these current differences and we can be assured that 2009 will also erode perceptions further in some sectors or geographies.

"Customer Care" has been the focus of many institutions during the past decade but the future demands that we reach for higher levels in customer experiences encompassing all facets of sales and service delivery as well as public positioning on lifecycle issues. Consumers and businesses have new and evolving preferences and decision standards and remember they control choice selections and referrals.

***Product Lines:*** As leaders we need to review the complex and comprehensive range of products being supported by our business and utilized by our franchisees. Unlike manufacturers who trim SKU's regularly, there is a tendency in financial services to continuously extend the depth and breath of our products without strong rationalization disciplines. Products need to be profitability-preference ranked for critical segment attraction values and rationalized as to offerings and sourcing. "Co-packing" is also a standard manufacturing strategy in product line management and that alliance-type of fulfillment needs more attention in our industry.

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In fact, if research is undertaken properly, one could find emerging core and non-core products that customers are demanding, which could more economically and efficiently be supplied by an alliance partner.

The product management and development areas require revitalized leadership thinking and action to simplify and personalize product solutions. Management requires complete cost knowledge on all products, which encompass the total aspects of sales, service and support, directly and indirectly required with each offering. For example, many financial institutions we meet with still have difficulty in understanding the all-in sales costs associated with products, by channel and by segment.

***Integrated Distribution:*** A full range of bricks, clicks and partnerships today are offered as customer delivery choices by global and local financial institutions. There are those with extensive branch or store networks and others depending on non-branch networks such ING Direct and President's Choice Financial in Canada, where both enjoy well over a million customers plus bottom-line profitability. Naturally, even institutions with significant capital resources cannot endlessly expand high cost/low usage channels and expect to survive.

The Internet has profoundly changed consumers and businesses and some "online segments" never visit branches or stores. Predictions and research clearly support the trend to more online sales and service as well as more shopping promiscuity by customers through the Internet. At the same time, we see continuous building of new bricks and mortar i.e. standard, stand-alone multi-million dollar units by the smallest credit union to the largest bank, while investments in online channels, mobile payments and agency partnerships are a small percentage of capital allocations. These latter delivery options have the highest attract value to expanding consumer bases and offer sales and service transaction costs, which are considerably lower.

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Today's leadership need to know present and future delivery choices of customers together with their own distribution costs, as well as outsourcing options to properly plan an integrated network of the future which is dynamic and ubiquitous. Market development analysis and planning models need to recognize where the consumers' and businesses' preferences are going, what the cost structures and profit returns are, how the institution should transition to the new realities and how the integrated channel mix will look and be managed holistically.

***Growth Segments:*** Locally, regionally, domestically and internationally, growth aspects probably exist for the successful leadership that can identify and capture opportunities before the competition. Unfortunately, competitors don't sit still and are no doubt undertaking the same strategic thinking as you are so real success is through customer-centric, innovative execution. Today, insurance distribution and wealth management, especially in Canada, continue to receive significant marketing dollars amongst financial institutions. But, if we think from a customer-pull perspective, where can we find innovative segmentation possibilities? Will it be women, entrepreneurs, SOHO's, first nations, single parents, second career retirees, or some other, to be defined, critical mass of consumers or businesses? A number of large retailers and manufacturers such as Canadian Tire Corporation, WalMart, BMW, Sony, Harley Davidson etc. believe that their customers will buy financial services from them, therefore cannibalizing the traditional institutions' market share, unless you have these emerging suppliers as partners. Where there is segmented growth potential, those segments will attract old and new competitors.

Innovative, nimble, customer centric leadership will find the growth potentials at home and elsewhere. Knowledge and research should be the foundations of new opportunity identification on a continuous cycle and with an adaptable team that can respond quickly to both temporary and more permanent growth markets. At present, the economic conditions clearly indicate that real growth will come from competitor shares, which means you really want to know how customers assess value, how to better generate customer referrals, and not to target the mass market indiscriminately.

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***Productivity:*** Cost management is a never-ending opportunity for bottom-line improvements and the new realities demand a continuous investigative process. The cost creep cycles have always plagued financial institutions, especially during good economic times. When a downturn occurs, traditional management will arbitrarily cut costs everywhere. This is not a scientific methodology but a sudden brake application with some casualties along the road.

Of course, there are two sides to productivity – revenue and costs. We want to increase sales, not simply raise fees or prices to offset shrinking revenue. Also there should be less costs to generate current and new revenue. The whole sales and service cycle requires innovative rethinking related to all costs and associated revenue. Perhaps operations need streamlining; front office and back office integrations are possible; investments in knowledge management could pay dividends; independent assessments could uncover opportunities; or outsourcing options may abound. The status quo will not improve productivity and hence margins and capital resources will shrink. Don't forget to actively manage unprofitable customer relationships with improved value propositions versus encouraging exits. It is less expensive to build existing relationships than attracting new customers.

***Summary:*** Leaders need to challenge management to reinvent their businesses, functions and capital underpinnings relative to customers' needs and preferences, competitive differentiation, risk management and financial results. Innovative knowledge creation and management is required throughout the organization. Profound changes are needed for tomorrow to be successful for all stakeholders and to energize the team through leadership visibility, involvement and change. Where Eagles Soar Inc. can provide other information on reinventing your business for leadership success. Contact us at any time.

## **AUSTRALIA**

### State of Queensland Contactless Card Interest

TransLink, the state transport authority, has indicated its interest to add new features to the contactless "go card" launched in 2008 for use with buses, trains and ferries. Parking payments and event access are probable new features as is the possibility to use the card as an electronic purse for students. TransLink is seeking partner banks to discuss the possibilities.

## **CANADA**

### Inter Provincial Insurance Differences

Amongst the Canadian provinces, credit union deposit insurance ceilings differ and some industry officials say it is eroding selected deposit business. The major example is the largest province, Ontario, where there is a cap of \$100K on deposit insurance whereas to the west there is limitless coverage. Hence, deposit growth is 50% higher in Manitoba, Saskatchewan and Alberta, year over year. Officials in Ontario complain that there is a deposit migration due to the lower insurance coverage and ease of utilizing online transfer options.

### Vancity Sells Insurance Business

The Co-Operators' (Guelph, Ontario) subsidiary, Federated Agencies Ltd., is acquiring the Vancity insurance business for an undisclosed price. Vancity insurance holds about 28K residential, 48K auto, 10K travel and 2K commercial insurance policies.

### Canada Post Expands Money Gram Relationship

In 2002, Canada Post introduced Money Gram transfer services to 1,000 locations and this was increased to 2,000 more outlets in the first half of 2009. Now thousands more outlets from coast to coast will be added by year-end. Money Gram Rewards' customer loyalty program is also being introduced in Canada this fall.

## BMO Selects Unisys ClearPath Systems

Unisys has received a four-year contract from BMO Financial Group to upgrade two data centres with the ClearPath systems, with support for the Microsoft Windows operating environment.

## Canada's Senate Targets Credit and Debit Cards

At a Senate hearing committee meeting reviewing Canada's credit and debit card payment system, Option Consommateurs, a Quebec-based consumer association says financial institutions which issue cards are partly to blame for the rising tide of bankruptcies. The Senate hearings were prompted by growing consumer complaints about credit card fees and rates.

## **INTERNATIONAL**

### Mobile Person to Person Payments

ABI Research has ranked Smart Communications, the Philippines leading wireless service provider, as the top in their latest Vendor Matrix (worldwide). Smart Communications has a comprehensive and proven solution track record.

### Best Innovation in a Loyalty Program

Fiserv announced recently that its UChoose Rewards ® solution was awarded the Best Innovation in a Loyalty Program by Cards International, the leading newsletter in the industry. The Fiserv product allows financial institutions' clients to choose from merchant-funded or issuer-funded programs or a blend of the two.

### ICICI Assess ATM & POS Outsourcing

ICICI has a network of 4,000 cash machines and 200,000 POS terminals and a number of firms (Visa, Total System Services and First Data for example) have expressed interest in outsourcing management/ participation.

## **U.S.A.**

### **Twenty Financial Institutions Sued**

Actus, a U.S. Holding Company is suing organizations such as BofA, MasterCard, Visa, Obopay, Capital One, M&T Bank, JP Morgan, Chase and others (Walt Disney and WalMart) for infringing patents related to electronic payments system for e-commerce.

### **Elder Financial Abuse**

CUNA's Online Research and Advice Portal ICU360 has reported the results of a Metlife Study on elder financial abuse, which is "widespread". A conservative estimate places the annual financial loss by victims to be at least \$2.6 billion! The study further projects that elder financial abuse will continue to grow. Family, friends, neighbours and caregivers were involved 55% of the time; people unknown to the elder 21%; professionals 17% and Medicare/Medical fraud 7%.

### **U.S. Bank – The GiftCard Bank**

U.S. Bank has issued its 30 millionth gift card, which clearly places it as the leader in Visa gift card issuance and in prepaid cards across the U.S.

### **Bluepoint Solutions Offer Rental Option**

If you need a remote deposit capture (RDC) image-based item processing and electronic document management software, you can now rent the technology from Bluepoint Solutions for a monthly per workstation fee, rather than making a capital expenditure.

### **ACH System Dissatisfaction**

A Fundtech Ltd. survey shows 40% of small to mid-size banks in North America are not happy with the current ACH system.

### **U.S.A. Federal Credit Union Credit Card Requirements**

1. FCU's may not treat a payment as late unless they provide reasonable time for the member to pay (minimum 21 days).
2. When payments are to be allocated over different types of account balances, the rule requires priority be given to the minimum payment followed by balances with the highest rates.



3. All applicable interest rates must be disclosed at account opening. Only the following rate increases are allowed:
  - As disclosed at account opening an introductory rate/term
  - Due to a variable rate index
  - New transactions after the first of the year if the 45 day advanced notice provision has been met
  - Minimum payment is received > 30 days late
  - Failure to comply with a workout arrangement (WA). (Rate cannot exceed the rate prior to the WA).
4. Interest cannot be calculated using "two-cycle billing" where a previous period's days are included in the current cycle.
5. FCU's may not finance security deposits and fees for credit availability if charges assessed during the first 12 months would exceed 50% of the initial credit limit.

Note: The U.S. House of Representatives passed a credit card bill of rights, September 2008. Australia was the pioneer in credit card reform years ago e.g. retailers were permitted to charge customers more for credit card use. Canada has not been a leader in consumer centric changes.

## **LAST WORD – THE COMMUNICATIONS AUDIT**

Our organizations are challenged more than ever to be more creative, responsive and flexible to meet internal and external, formal and informal, communication needs. As CEO you want to set communication goals, core strategies and feedback mechanisms to verify message impact. Sometimes there are conflicts between or amongst communication channels and message content. Most notably this can occur internally where social norms and business needs don't mesh. Or the desire to reinforce professional promotion messages can be undermined by weak e-mail etiquette.

A Communications Audit can uncover the real communications architecture and channels in an organization and its interface with its markets. Then the appropriate plan can be designed to transition current communication to the new ideal state. We live in a maze of communication and networking like never before and everyone can receive different messages from the same memo, release or policy statement if the checks and balances are not in place. The risks are high and so can be the rewards with a superior communication plan and execution energy.