



Eagle Net

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E-Journal Newsletter – October 2009
E-Vol. No. 37

DOWNUNDER REVISITED

Canada and Australia have many similarities in financial services but their rate of technological and consumer centric evolutions continue to differ. Two decades ago banking concentration was frowned on politically and publicly in both countries even though the dominant majors, five in Canada and four in Australia, wanted to grow through domestic acquisitions as well as foreign footholds. Now the four large banks in Australia control well over 90% of the financial industry assets with regional banks such as St. George and Bankwest having been gobbled up plus mortgage brokers like Wizzard disappearing and Aussie Home Loans selling a third interest to CBA. At one time the mortgage brokers were dominant originators in most states but counter strategies and ownerships by the big four have weakened their role considerably.

Remaining competitors are three regionals, Bank of Queensland, Bendigo Bank and Suncorp; plus building societies and credit unions. Bank of Queensland has built a national competitive footprint using their owner-manager franchise model. Likewise, Bendigo has concentrated on a public partnership model in the rural areas. The Suncorp organization is attempting to reposition itself after poor financial performances. David Liddy, CEO of the Bank of Queensland, was recently named the country's financial industry executive of the year. Congratulations, David.

From all appearances, building societies are struggling with liquidity strains and the credit unions, like those in North America, suffer from lack of productivity, collaborations and mergers.

Virgin Money has now announced its arrival in Australia, concentrating on car insurance at a 35% discount to begin, followed by credit cards, loans and deposits. Eventually Virgin will no doubt introduce a version of the Virgin One Account, depending on their platform source.

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This could finally tip the scale for the consumer and force others to offer an equivalent daily netting account for all borrowings and deposits.

The two major retailers, Coles and Woolworth, could learn from the President's Choice model in Canada for supermarket banking success. Watch for "the Post" expanding back into banking services also – a retro competitor.

Undoubtedly, Australian banks' public relations are at another low point with continuous political and media bashing over salaries/bonuses and a myriad of ever increasing fees – until now! The retreats by the banks are startling and will be discussed later. New executive pay regulations will change remuneration cultures also.

The bottom-line, like Canada, is that the banking sector has been a conservative force during the global recession without mishaps such as those experienced elsewhere. In terms of the future, the India-Asia basin proximity to Australia should represent a leapfrog benefit to Australian banks' international expansions with China representing the prime partnership target.

Islamic Banking And Finance Footings

The Muslim Community Cooperative, Australia, is the new domestic catalyst for Islamic Banking in Australia, if they can overcome regulatory hurdles in the next few months.

Regional Banks Get Equal Treatment

It appears that lobbying by the regional banks to have government guarantees at the same cost as the larger organizations could be succeeding. To date the regionals had to pay a higher fee to gain the guarantee benefit on wholesale funding.

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Citibank is Virgin's Australian Partner

Citibank and Virgin Money have signed a ten-year deal to cooperate on providing the infrastructure, networks and funding to Virgin Money.

Big Four Makeover Fees

In response to public pressure, all major banks have reviewed their transaction fees resulting in fees slashed or eliminated. Others such as Citibank have followed suit. For example, their dishonoured cheque fee was reduced from \$40 to \$9 and the overdraft fee to \$10 from \$35. It is estimated that the money to be handed back to consumers by the four majors is \$750 million.

Top 5 Powerful Bankers – Financial Review Magazine

Gail Kelly, CEO Westpac/St. George

Ralph Norris, CEO, CBA

Mike Smith, CEO, ANZ

Cameron Clyne, CEO, NAB

John Laker, Chairman, APRA

First-Time Homebuyers Borrowing More

In 2008 first-time homebuyers mortgages averaged \$246,500 and today the average has jumped to \$269,100. Through the current recession, house prices have declined to various levels; maximum in some places at 25%; but the mid 2009 rally has recovered a significant portion of losses everywhere. At the end of September in Sydney there were almost 700 auctions listed and many final bids exceeded reserves. Many property owners are also property investors in "fix-ups" to attempt to take advantage of related tax-breaks on costs, renovations and appreciation based on inflation. One has to manage all expenses carefully with receipts and ensure that the property is rentable.

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Mobile Phone Growth & Banking

Seven days a week in and around Sydney during our time between meetings, we saw countless mobile phone stores very active and the majority of pedestrians walking with phones in hand or on the ear. Consequently, mobile banking is growing rapidly. NAB for example says 3 million customers logged on 180 million times in the past 10 months. (Potential users still cite security as a fear). NAB, CBA and Westpac all have two-step password systems. It is predicted that 3G mobile phones will overtake ordinary Internet banking. Westpac for example is investing millions in technologies and targeting iPhone users since they are avid mobile banking clients. CBA and St. George offer a handy GPS branch and ATM locators. Insofar as transaction charges are concerned, ANZ are mainly free; similarly for Westpac except for online; CBA has text alert and enquiry charges of \$0.25 and \$0.20; whereas St. George charges for group transfers and everything else is free.

Infrastructure Priority

The Australian government has made a national broadband network their top infrastructure build priority. Technology investment in both the public and private sectors will accelerate the development and introduction of more dynamic and robust Internet options serving every corner of the nation.

Recessionary Damage

Australia's and Canada's banking systems have helped their countries survive the recession better than most, except for China, which is a highly advantageous capital availability state. Unfortunately, key executive remuneration in the industry has been a black eye during profitability declines. Leadership changes in the big four at the senior levels are taking place daily and one would expect similar adjustments at Board levels.

Both national governments have the ear of other G20 members and their Prime Ministers' thoughtful recommendations receive positive responses. Additionally, both leaders appear to be strong President Obama supporters.

Australian Ombudsman Dispute Report

Although the global financial crisis has not seriously damaged the Australian economy, the financial industry Ombudsman, Colin Neave, has faced a significant increase in consumer and small business complaints reaching his office.

- 68% increase in investment disputes
- 36% in credit disputes
- 34% in general insurance
- 28% in life insurance

The key catalysts have been areas of financial advice relating to margin loans and consumer credit, as well as "break costs" related to fixed rates on business loans.

The consumer group Choice, recently did a survey on consumer attitudes towards financial institutions and found that people were more unhappy with the big four banks versus credit unions and building societies, especially relating to fees, service and passing on rate concessions. (Sounds familiar!). Still consumers are reluctant to change due to the perceived difficulties in switching.

The Australian Banking Association responded saying that the vast majority of complaints are resolved without the Ombudsman i.e. 94%. Consider how many consumer issues never reach the organization's headquarters! Judy Johnston, COO of WESI has consulted on this area for years to ensure all concerns are captured across the organization to ensure core issues are identified and dealt with by correcting root causes. You can contact Judy at judy@whereeaglessoar.com

Invest with the Church's Financial Institution

Australia has always exhibited innovative local financial service solutions and one example can be found in Brisbane, Queensland. Anglican Financial Services branch sits across the road from the majestic cathedral and is known as ANFIN, which also provides Internet banking services. Visit them at www.anfin.com.au ANFIN is the trading name of the Corporation of the Synod of the diocese of Brisbane and is not prudentially supervised by APRA. Deposits are not covered by the protection of Bank act provisions. The branch looks like any bank branch in a church park setting. I had a pleasant discussion with an employee, who is a proud Roman Catholic!

Owner-Managed Branches – Bank of Queensland

Previously we have covered the successful, unique distribution strategy of David Liddy, CEO Bank of Queensland. Visit www.boq.com.au to acquire more information.

THE LAST WORD

In all of WESI's work in Australia, and our tracking of the financial industry, we are still amazed at some obvious dichotomies. People who work in Australian financial institutions are paid well! (We do note that the cost of living is higher). Many employees switch jobs amongst competitors regularly. Head offices appear to house large bases of middle management where the leadership has both a challenge and an opportunity for productivity and innovation improvements. More than not amongst the big four, there are multiple signs that customer centricity maybe a priority but in practice it is not happening. Employee behaviours within the branch network and contact centres leave much to be desired.

The variety of institutions in the financial service industry need to exhibit stronger consumer and business focused leadership with strong brand differentiations and innovations. The Internet based dominance on the horizon will attract new virtual competitors who will erode wallet shares of complacent participants. Value propositions, cost optimization, change management and breakthrough innovations need to be exhibited in the short term to build the long term customer centricity which drives profitability.