



Eagle Net

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IN THE BEGINNING – PAYDAY LENDERS

I remember the money-changers in the Biblical temple stories, which probably equated to payday lenders in some cases. Growing up in small town Ontario I also recall certain merchants who would cash cheques for those with no financial institution relationships and also provide payday loans by running “tabs” until paydays. The “unbanked” and those people down on their luck depended on these retailers to provide an important financial service from the Bronx in New York to my little community in the Bruce.

The evolution of providing these services began to attract independents as well as credit unions and some banks in the “inner-city” pilot locations. The independent cheque cashers/payday lenders grew their commitments faster and even began to attract financial institution customers due to the convenience of hours and processes. Fees were quite steep but consumers were willing to pay for the quick and private service. Today as we do projects with clients in a variety of countries and communities, we see numerous offices owned and operated by the independents that have evolved into other financial services. In fact, in some locations they have rented previous bank branch sites or have built sparkling new facilities, which rival the neighbourhood financial institutions. If you have watched closely during the past few years, these payday lenders now have 7/24 call centers and websites guaranteeing responses in as little as 24 hours.

Another equally important development in many countries is governments’ efforts to move to electronic payments over specific timeframes for all their disbursements which forces the “unbanked” to setup a payment account at a depository connected directly or indirectly to an electronic funds transfer network. In North America, there probably is approximately 20% of the population unbanked today. Each country’s percentage will differ as some like South Africa and Ireland have been moving down this track earlier.

The natural strategic direction for the payday lenders and other similar independents is to develop “depository status” under permissible regulations in the various countries. One can also speculate that the credit card companies will find a way to extend their services in this way with more options than simply having prepaid cards.

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If you are a bank or credit union and do not have a strategic priority directed at the “unbanked” and payday lenders’ clients, you will be making a major mistake. In fact, according to About Payday Loan, a payday loan resource website, now that Regulation E has passed in the U.S.A. a number of reports indicated that banks are increasing their efforts to attract payday loan lenders’ customers. These are more community-targeted efforts and not national approaches by the big banks, which typically stay away from those with any credit blemishes. Strategically, the developments taking place in every country need a calculated response to the continuous expansion of the payday lending customer base and product value propositions. Perhaps the community-customized solutions are best since the pockets of inner city requirements are still different from our rural communities and those in between.

MOBILE BANKING GROWING/EXPANDING

Globally, mobile banking is transforming the financial industry everywhere – developed and emerging nations. The next phase for great potential reach will be collaboration amongst banks, payment networks and mobile network operators. People want instant access to their finances in their mobile worlds, where they can conduct a multitude of transactions on the move while accessing all other information they need and want.

Collaboration will lead to mobile financial management and secure transactions and transfers of any type. Additionally, the devices will be mobile wallets for wireless payments at vending machines, FI’s, and retail outlets.

In India for example, 200 million of the 600 million working population have bank accounts but almost all of the 600 million have mobile phones! A joint venture between Monitise and Visa in India will offer balance enquiries, bill payments, ticket purchases and soon, money for the “unbanked”.

Gartner Research states that people using mobile phones to make payments will rise 50% this year to nearly 109 million. Asians lead the pack. Worldwide users in 2009 were 70.2 million (Asia-Pacific 41.8 million) and 2010 expectations are 108.6 million (Asia-Pacific 62.8 million). In North America the number is expected to rise from 1.9 million to 3.5 million. Gartner says that the unbanked and underbanked in developing markets are driving the mobile payments growth.

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Another study by Juniper Research says that the number of mobile subscribers who use mobile phones for banking will exceed 400 million by 2013. Other findings:

- 80% of banks currently have some form of mobile banking
- Far East and China will experience the highest number of users

CANADA

ICBC Chinese Bank Enters Canada

The world's largest bank (market value) Industrial and Commercial Bank of China is entering the mainstream of competition with domestic financial institutions. They have bought the six branches of the Bank of East Asia. Their target is naturally newcomers from China and businesses with interests in both countries. The cities of Toronto and Vancouver are the focuses geographically.

Citi Sells Mastercard Business

CIBC has purchased Citi's Canadian Mastercard business, which represents a \$2 billion book. October 31, 2010 is the close date.

TD in USA Converts Fast Food Outlets

TD Bank has targeted old burger and chicken outlets for conversion into branches as a key component in their 200 new USA locations. Currently they have more than 1,200 branches in 15 states.

Credit Unions Voice Opposition to FCC

Credit Union Central of Canada has contacted Ottawa to voice its concerns on Farm Credit Canada's expansion into agriculture and related lending. FCC enjoys a favoured funding position as a federally owned corporation, which the CUCC indicates provides unfair advantages. FCC enjoys over a quarter of all agricultural lending from a position of less than 10% in 1993.

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U.S.A.

Opportunities for Payroll Direct Deposits

NACHA's PayItGreen Survey 2010 is out.

- Small business lags larger organizations in direct deposit adoption (only 37% of small businesses use it versus 63% for mid to large size organizations.)
- Based on employee size: companies with 30 or less only 35% do direct deposit and fewer than 100 the number is 48%. 79% said their employers don't offer direct deposit where there is less than 100 employees
- Overall, 27% of U.S.A. employees still receive paper cheques

Note: This is a double edged opportunity for FI's

U.S.A. 2010 Data Breach Key Findings

- More than 1 in 4 of all U.S.A. consumers have received a data breach notification on debit or credit cards
- New accounts fraud represents the largest growth in identity theft in the past two years
- Re-issued cards either get used less or not at all
- The FI's are viewed less favourably by 38% of consumers after receiving a breach notification

Credit Unions Consider Strategic Transformations

CUNA's Credit Union Magazine highlights the following thoughts by industry leaders.

1. "We're going to see more consolidation, more margin squeeze and more opportunities for credit unions to improved their value to members".
Judy Thorp, CEO Piedmont Advantage CU, Winston-Salem, North Carolina
2. "Credit Unions have a golden opportunity to showcase a spirit of innovation, trust, transparency and integrity".
Carl Sargatz, CEO Hawthorne Credit Union, Naperville, Illinois

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3. "Our competitors can replicate any product or service we can invent".
John Benoitl CEO North County Federal Credit Union, South Burlington,
Vermont

Credit Unions Services Offered to Prevent Foreclosures

Priority Order:

1. Loan Payment Deferrals
2. Other Loan Modifications/Workouts
3. Extension of Maturities
4. Reduction of Interest Rates
5. Conversion to Fixed Mortgages
6. Specially Trained Foreclosure Counsellors
7. Capitalization of Delinquent Amounts
8. Reduction of Principal Balances
9. Foreclosure Hotlines

Federal Reserve Database Launched

The Fed's online database listing the terms and conditions of credit cards from more than 300 issuers is now available at

www.federalreserve.gov/creditcardagreements/

Regulation E Impacts

In 2009, reports indicate that the U.S.A.'s major banks made in excess of \$38 billion dollars in overdraft and non-sufficient fund fees! With Reg. E enacted this summer these banks are faced with a significant revenue erosion possibility as customers decline the overdraft protection option. Banks are making changes! Many have stopped offering free chequing accounts to new customers.(Will the rest lose them soon?) New charges are being imposed to generate revenue e.g. monthly account charges, online charges etc. Also, in follow-up to our lead article, some FI's are investigating the payday lenders business with acquisition tactics. It is estimated that there are 20 million regular payday loan customers in the U.S.A.

Similar regulations are being put in place or being investigated in other countries. We have two messages for our industry.

1. Don't wait for the regulators to mandate a change in your business practices
2. Improve your customer centric research to identify key consumer irritants for early resolution.

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THE LAB CREATES INNOVATIVE LIFT

Since WESI began almost 15 years ago, our “lab approach” to accelerate change in financial institutions has continued to be an excellent method for innovative lift in growth, productivity, technology and even knowledge management. Today we are working with a couple clients in customized lab structures. Basically, the approach isolates a branch, function, business etc. or segment therein to act as a testing centre for a team of enthusiastic employees and eagles (WESI). To get started there is important customer centric research with vital stakeholders and considerable statistical and strategic analyses of the current situation. The culture is to solicit and develop innovations for testing in a controlled but free environment over say a 90/120 timeframe. Once the employees have worked in a “lab setting” they can perpetuate the culture for continuous improvements. The critical catalyst is the CEO’s commitment to make the lab a success and to be involved visibly throughout. One of the current labs we are involved with is probably from a lab leadership perspective, the best we have seen. The local leaders are empowered, enthused and engaged – and it is contagious. The results speak for themselves but equally important is the knowledge growth and people development.

In a highly competitive environment, the lab approach is a successful key to unlock discretionary thinking and effort. Network-wide change needs an energy centre and the lab is exactly that.

THE LAST WORD: ADAPTING TO CHANGE

The financial industry has continuously led change in many business practices such as technology, distribution and product innovation. The impetus for this adaptive capability has been driven by external and internal events and factors. Unfortunately, the recession has created change in many countries introduced by regulators and legislators due to poor leadership and unethical practices in the industry, which will haunt the banks especially, for years to come.

WESI continues to focus its clients on consumer and commercial customer knowledge as the key to positive, profitable adaptation to change through delivering value propositions identified by customers who are always willing to provide this valuable input, if asked.

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Unfortunately at this time of year too many senior leadership teams at FI's, involved in strategic and business plans, fail to invest and involve customers in deciding their directional priorities. "Internal experts" use this time to push pet agendas, which are not necessarily innovative and can distract the organizations' resources from its business foundation for success – customers.

At times, internal defensive mechanisms prevent external expertise with exceptional environmental knowledge from being brought in "to disturb" the myopic agenda.

The customer knows best! Take the time to ask and have them participate in building your successful future. Planning is not a mundane process, it is a window to open for knowledge building blocks to gain competitive, customer centric advantage.