

Eagle Net



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MERGERS AND COLLABORATIONS: CREDIT UNIONS CONTINUE

In North America the consolidation of credit unions continues for strategic positioning, and out of financial necessity. The U.S.A. has seen more mergers as a result of the latter condition particularly as a result of the recession and perhaps a less than conservative approach to past lending, especially in second mortgages.

Unfortunately personalities tend to block mergers that should evolve sooner rather than later. Canada's cooperative movement consists of over 900 credit unions and caisses populaires but the top 10 controls approximately 45% of the assets. Obviously many small credit unions are finding it harder to compete and generate necessary survival growth. Even collaborative efforts have not evolved as quickly as needed, again due to individuals' agendas. Presently, the credit unions have the highest service satisfaction levels, as they have had for years, but they do not convert these scores into growth, while the banks, especially TD Canada Trust, are closing the gap.

Australia has come a long way with collaborations and mergers with just over 100 credit unions nationally, with strong capitalization and stronger Board representation. On the other side of the Atlantic, Ireland is a growth model for credit unions with the majority of the public having a credit union membership. There is still lots of room for cooperation in the Canadian cooperative movement.

P.S. Meridian, Ontario's largest credit union, announced in early March its intention to merge with Desjardins Credit Union, which was previously Province of Ontario Savings Offices. Meridian obviously will continue to look at other opportunities, perhaps nationally.

CANADA

Moneris Investigated by the Finance Department

Last year, Finance Minister Jim Flaherty warned payment processors such as Visa and MasterCard and other intermediaries that if they did not adhere to a voluntary disclosure and competitive code, the Government would legislate one. Now the country's largest payment processor, Moneris, owned by Bank of Montreal and Royal Bank of Canada are under investigation, prompted by retailer and consumer criticisms as well as lobbying by the Canadian Federation of Independent Business and the Retail Council of Canada.

(Note: on February 24th it was reported that the Canadian Federation of Independent Business withdrew its complaint after reaching a deal with Moneris).

HSBC continues SME Business Blitz

HSBC Business Direct continues to promote its no monthly fee, 24/7 access to online business banking, ATM's and telephone banking.

A few focus groups by WESI in Ontario cities attracted feedback of less than satisfactory branch/account manager service for SME's by HSBC.

Banks' First Quarter Earnings Double Digit Growth

The major banks showed strong Q1, 2011 earnings in basically all business lines including capital markets.

Action Canada Task Force on Household Debts

Having banks accept more responsibility for smarter consumer borrowing is the main thrust of the Action Canada Task Force report just released.

Other highlights:

- Household debt is about \$1.5 trillion (3 times the national debt)
- One in 10 Canadians are not able to handle a \$500 surprise expense
- 63% of Canadians feel that their debt levels do not allow them to prepare properly for retirement

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Tax Fee Savings Account Education Required

Canadians have found themselves inadvertently violating the rules for their TFSA's by withdrawing and contributing in the same year. Financial institutions' promotion material, advice and ongoing communication need to highlight the requirements and reinforce the rules – don't put it in the small print.

U.S.A.

"Unbanked" Priority Continues

Green Dot Corp. and NetSpend Holdings Inc. are two young companies targeting the unbanked or underbanked in the U.S.A. (Estimated at 40/60 million). Both offer Visa or MasterCard "reloadable" debit cards. They are the fastest growing products in the prepaid card sector. The companies are experiencing double-digit growth rates and price to earnings ratios of 35.

Green Dot's cards cost up to \$4.95 to purchase and monthly maintenance fees up to \$5.95 plus there is a reload fee of up to \$4.95. NetSpend is different with more "back end costs" e.g. overdraft charges. Green Dot is focusing on the unbanked plus those making less than \$75K per annum or another 100 million. Only approximately 10 million reloadable cards are in the current market with 50% belonging to Green Dot and NetSpend. One of Green Dot's captive retailers is Walmart (Walmart Moneycard) and speculation is that it will be key to the future Bank of Walmart.

Note: The value of the non-interest bearing balances is not discussed but is sizeable and will far exceed any amounts previously enjoyed by travellers cheque companies.

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Gen Y's Mindset

Western Union Payments' Money Mindset Index finds that Americans 18 to 24

- Are saving less and feeling more stress with the economy
- More than a quarter don't save
- The financial stress is impacting personal lives
- Employed consumers are canceling their second credit card whereas others are canceling mobile bills and intend to pay with cash or debit

The index provides additional details for Gen Yers on finances, employment and spending.

Cash Use to Decline 17% 2010 - 2015

A new report from Aite Group says cash used by Americans will continue to decline over the next five years. Gen Y is the only segment that is likely to use more cash.

Predictions for 2011

Renown blogger Ken Tumin, who provides articles to major news organizations predicts:

- Interest rates will stay low
- Free chequing becomes harder to find
- Debit card reward programs suffer
- High-yield reward chequing growth slows
- New bank products from bank-like companies
- Remote deposit capture grows in popularity
- Fewer bank failures
- Bank failures continue to hurt savers

New Bank Fee Systems

New regulations are prompting banks to find ways to recover lost revenue and grow.

Bank of America: Dividing customers into four groups and charging monthly fees based on relationship size and balances

Chase: New customers are enrolled in Total Checking with a \$12 monthly fee (waived when balance exceeds \$1,500). A number of other transaction fees are increased.

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Citi: Started charging monthly maintenance fees with concessions for higher balance levels in the total relationship.

Wells Fargo: Replacing free chequing with a \$5 monthly maintenance fee and a \$6.95 monthly online bill pay fee. Balances can lead to fees waived.

WESI Note: These changes will be a shopping incentive for many consumers and credit unions may be an attractive alternative.

INTERNATIONAL

Mobile Banking Provides High Returns

An international study by Accenture shows returns on investments in mobile banking by banks can reach as high as 300% (Middle East). Their study shows that high mobile adoption and returns depend on:

- Providing a relevant suite of services
- Educating customers on using services
- Measuring customers' usage/satisfaction

Also, the study recommends that successful programs

- Fully understand customers expectations/preferences
- Minimize customer fees
- Monitor and leverage device functionality

Innovation In Mobile Banking Required

Forrester Research reports that mobile banking lacks any clear differentiated functionality and more are adopting the channel. Therefore, functionality needs to be enhanced significantly to create attractive value propositions – innovate to win.

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THE LAST WORD: THE GROWTH PRIORITY

In the optimum environment, there would be no inflation and unlimited economies of scale. Don't hold our breath unless you are a tax collector!

Growth objectives are essential to continue business that satisfies all stakeholders – especially customers who are always looking for innovative value propositions. Financial growth is the bottom line objective and how do you get there? Every organization needs to understand their productivity ratio (revenue/expense) and the key underlying performance drivers. There is the revenue side and the cost side to evaluate, redesign and energize. Sometimes you have to consider tradeoffs or offsets with outside advice and experience to develop the optimum solutions. Perhaps eliminating a nuisance fee and adding a referral incentive will generate four times or more in business value than the fee revenue lost. Co-sourcing and outsourcing options can not only change cost patterns but also keep you in a better investment resource position. Or perhaps innovative strategies around collaborations/partnerships can significantly increase your market base of customers and prospects while decreasing sales costs. Yes, growth is there if we think outside the current paradigm.