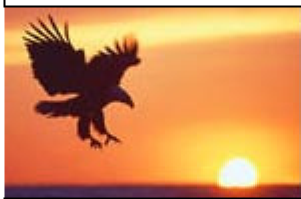
Eagle Net



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ELASCTICITY OF SERVICE FEES & RATES

The past few weeks saw a wave of fee and rate increases by banks on a variety of products as well as a continuation in eroding seniors' benefits. On the surface, the actions appear to indicate that banks feel they have an inelasticity in service compensations or they really don't get excited with a revenue runoff in a commodity business! We all realize if anyone can afford extensive primary research it is the large banks that undertake studies regularly. In other words they should know the elasticity in their prices and rates.

During the past four recessionary years, WESI has tracked, through secondary research and consumer focus groups, trends in attitudes towards customer commoditization and compensating banks. Even though price and rate increases were slower than normal due to the recession, consumer sensitivity has grown substantially and service satisfaction has gradually eroded. These findings lead us to conclude that elasticity has grown and banks have to complete two key initiatives:

1. Convince senior executives that elasticity is detrimentally changing and fee and rate increases are not slam-dunks.
2. Reassess value propositions and compensation to move away from dependencies on commodity competition.

Executives need to analyze every request or proposal for schedule increases to understand the cost benefit analyses and subsequently demand post mortem, quantitative and qualitative impact studies. Additionally, they need to assess revenue leakage implicit in operations as well as exception authorities to ensure the true elasticity is understood.

The bottom line message is not to assume that consumer and business compensation sensitivities are more inelastic in the current and future environments.

UNETHICAL PRACTICES HIGHLIGHT THE RECESSION

The financial industry and in particular the banks have represented a series of unethical practices which have especially become known during the recession. The sub-prime fiasco was only the beginning as other examples erode what trust is left in people's minds. In recent months, Barclays and the Bank of England, J.P. Morgan Chase & Co. and Perigrine Financial Group capture major headlines as well as HSBC for its money-laundering scandals. Practitioners shake their heads and ask where is governance, internal controls and leadership character. The industry has major damage control and corrective strategies to implement, including a closer look at leadership gene pools, which appear murky!

AUSTRALIA: SHIFTING PAYMENTS

Payments are a critical revenue stream in the financial industry and consumers have a variety of choices, which has expanded substantially with Internet/online options. No the cheque has not disappeared, nor has cash! Banks would like to see cheques in a museum but not for a while. Australian Payments Clearing Association (APCA) says it is too early to consider abolishing cheques.

About 75% of Australians no longer use cheques! A survey by APCA found 5% of the population would severely struggle without the cheque. Monthly cheque volumes are about 1.1. million ($6 billion) down from 3.9 million ($25 billion) in 1995. Credit cards handle 2.3 million transactions <u>a day for 17.5 billion</u>. The Reserve Bank's study says that the average cost of processing a cheque is $7.69: $1.20 for credit cards and ½ cent for eftpos.

CANADA

New Rules for Bank Complaints

July saw Canada's Federal Government announce new rules intended to strengthen the consumer complaint process for banks. The new system <u>forces</u> banks to allow consumers the option of taking unresolved complaints to any approved independent organization, which will be supervised by the Government. Previously, a bank supported Ombudsman was the singular resources. In the end, decisions still aren't binding!

CIBC Saved By The Clock

A potential multi-billion dollar class action suit against CIBC for misleading investors regarding sub-prime exposure in 2007 has been scrapped by an Ontario judge since it broke the time limit!

Seniors Losing Benefits

The TD Canada Trust will now charge new senior citizen customers for banking services, which used to be free. Those over 60 in the past got free services and new customers only get a 25% discount on scheduled package prices. Other banks are making incremental changes at a time when the senior population is growing. On the other hand, these people are some of their best customers.

Desjardins Award

Desjardins Group was named top corporate citizen by Corporate Knights.

New Mortgage Regulations

1. Central Mortgage and Housing Corporation (CMHC) and other commercial insurers will not insure properties over $1 million in sales price
2. Buyers must have 20% equity
3. Maximum amortization period – 25 years
4. Qualifying debt service ratios increased (GDSF 39% and TDSR 44%)
5. Home equity lines of credit capped at 80% of property value

Registered Disability Savings Plans

Controversy continues with RDSP's and the attention given to this product by FI's in Canada. In fact, many organizations don't actively promote the product in their channels. Technical information on RDSP's can be looked up at www.cra-arc.gc.ca. Basically, for those under 40 it is a tax savings option as well as a protection against disabilities down the road.

There are limited, expensive options for investments at the chartered banks and the RDSP's are only available at branches or through a full service brokerage but not on a self directed basis. Online access is not available. Account holders have limited channels for investments as well as product types i.e. no individual stocks, bonds or EFT's.

The whole area of RDSP's needs equal attention and flexibility as other RSP's by those offering the products. The perception by many disabled people is that the Canadian banks treat them as second class.

Premium Credit Cards Maybe Refused

The large credit card brands with their product line extensions and variety of high fees and interest rates have attracted the ire of regulators and the public alike. Some governments have actually legislated controls since the companies did not respond to pressures voluntarily.

New Canadian retail organizations are urging the federal government to create a stronger code of conduct for the card industry to protect merchants from transaction costs. Also the influential Canadian Federation of Independent Business is calling for discretionary rights for retailers' acceptance of cards and ability to limit surcharges. To add to the mix, the Competition Bureau has concerns with VISA's and MasterCard's restrictive contracts.

The continuation of these negative investigations without any proactive initiatives by the card companies doesn't bode will for their strangle hold (92%) of the Canadian card market.

ING BANK OF CANADA AND U.K. FOR SALE

After selling its U.S. online banking operation in 2011 for $9 billion, ING Groep NV of the Netherlands has put the Canadian and U.K. entities on the auction block. The Canadian online banks has >$30 billion in deposits and is profitable with a good brand reputation across a diverse section of the population. The 2011 figures show assets of $38.5 billion, $31.5 billion in residential mortgages and a net income of almost $120 million.

Obviously the large Canadian banks will be assessing the potential acquisition thoroughly at possibly $1.5 - $2.0 billion. The brand will not likely be available so the purchaser will have to demonstrate an equal value proposition to retain the customers since they deal with ING due to dissatisfaction with the banks. If a bank did acquire the asset, the implication for both ING and the purchaser's customers have to be thought through thoroughly. In fact, it may be a better fit for Manulife with the Manulife One Account.

U.S.A.

PNC Joins the Settlement Club

A class action suit over excessive overdraft fees has cost PNC $90 million. J.P. Morgan Chase, Bank of America, TD Bank and others have reached similar deals. The actions relate to debit card transactions processed to maximize overdraft fees. (What happened to the people who thought up these practices?)

NCR Under 10 Seconds

New software from NCR will allow consumers to initiate cash withdrawals on mobile devices and then complete those transactions at an ATM by scanning a 2D barcode. The company says transactions will be faster and more secure by removing cards and PINS.

THE LAST WORD

Revenue improvements are a business necessity but trying to squeeze more income from the same customers with the same products and services is "skating on thin ice" in a commoditized industry. In fact, recent industry practices have heightened everyone's attention to fees and costs from credit cards to standard products and services.

First, if you have your organization captive in a commodity competition strategy – rethink it!
Second, if your operating costs are the real problem – reduce them!
Thirdly, if your innovative mindset is dull – revive it!
Fourthly, if you don't know consumers' price elasticity – research them!
Finally, if you want sustainable new revenue – reach out in your relationships!

To incrementally increase periodic fees or rates for your customers, marginalizes your ability to have real relationship loyalty, which has proven to drive revenue and hence bottom lines. Value propositions tied to customers' preferences – consumer and business, will provide loyal revenue streams. Additionally, their satisfaction will lead to referrals (if you properly ask for them), which add to your revenues and cost economies. The rule should be "give customers real benefits and don't reverse them if you can't grow your business". Otherwise, it is a treadmill to disaster.