

Eagle Net



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E-Journal Newsletter – December 2012

E-Vol. No. 59

FOCUS FORWARD WITH ANY EYE IN THE REARVIEW MIRROR

Another year of historic events socially, economically and financially around the world as recessionary dynamics linger and populous unrest persists. Europe continues to stagger from its historic hangover of socialist policies, underground economies and cancerous debt. U.S.A. has yet to find its lost cooperative spirit for the good of the nation. China's artificial economic development projects have slowed. Plus, people everywhere are fed up with the legacies of economic and financial failures, which is manifested more and more in social unrest and government implosions!

At WESI, we have highlighted a few critical subjects for the financial services industry to assess and determine lessons learned, strategic repositioning and of course composite performance improvements in leadership, image, customer connections and sustainable financial results. To us, the customer is where the business starts and ends! Today, local, national and global populations are "connected" and have truly become technologically comfortable with the online environment for day-to-day purchases and service transactions as well as extensive socializing. The sophisticated mobiles and tablets that consumers demand have expanded capabilities and connectivity plus innovations and virtual value propositions. Preferences are evolving at a rapid pace and customers control access choices with an ever-expanding array of options and providers. In many ways, these technologically and financially literate consumers are comfortable online shoppers and commoditizers. But on the other hand, they still want unique or personalized value plus relationship benefits in terms of propositions and rewards. The customer is truly accelerating change in our key business – distribution.

Delivery channels have exploded from bricks to clicks, from captive to partnerships or syndicated options and from time sensitive space to open, virtual choices. Some key factors are:

- Well less than 10% of service transactions are over the counter in branches/stores
- Countries such as Canada have a majority of the population comfortable with online relationship management
- Debit and credit cards dominate payment transactions
- Social media is a critical channel but many have not captured the virtual vitality this commands

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- Bricks and mortar are into a strategic conversion phase (or as we said a decade ago “communitization” of designs and sizes)
- Branches and stores are evolving into financial destinations shops where universal employees operate with new technology platforms and education support
- Footprints are decreasing; are flex facilities; are relocated; and are partnership layouts
- Branch productivity will be a direct result of new adaptabilities, segmentation and proactive sales resources

Unfortunately, many FI’s don’t understand how the era of online and mobile distribution really impacts their ability to improve customer retention, attraction and growth. Customers are interacting differently but many still hold to channel choices and practices that have been marginalized. Experimentations and incubators will become more evident with a variety of channel options individually or as an integrated whole. The consumer is in control! Their preferences and priorities for personalized delivery for purchasing and relationship management need to be understood – they are the key performance drivers!

Productivity is an immediate problem! This does not just apply to delivery channels or distribution but to the organizations as a whole. Many executives are not proactively managing the productivity equation. Productivity results from both revenue and expense relationships within all the financial dynamics of an organization. The two sides are interrelated i.e. increasing revenues and decreasing the relative relationship of expenses. Generally, major FI’s react with broad surgeries once costs climb faster than incomes by cutting headcounts and slashing budgets. Whereas smaller organizations know that revenue growth is key to sustainable growth in their business model but they struggle with the proactive sales and service culture dynamics. Let’s face it; financial improvements are implicitly connected with leadership and the performance management culture. You walk the talk and measure performance on results – not efforts. With margin under the continuous contraction pressures, productivity has to be understood and improved with sustainable revenue increases and decreased expense relationships. Underlying productivity performance is the customer. The real leaders in our industry realize that customer loyalty over the long term versus short-term profitability gains will provide the sustainable bottom-line improvements needed. This dichotomy is pervasive in our industry.

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We see some organizations catering to quarterly results as the overall priority and no long term, balanced scorecard. Insecurity in the executive offices can fuel this. On the other hand, strong leaders are creating long term customer value propositions and continuous productivity improvements with their dedicated, customer-centric teams of motivated people.

Brand image has also become more and more important for FI's in their marketplaces and delivery environments. Unfortunately, we continue to see negative examples haunting various organizations on a grand scale such as Visa, MasterCard, Bank of America, etc. through regulatory/legal challenges and extremely poor public relations and consumer-centric management. The credit, debit and gift card strategies of "nickel and diming" customers with a multiplicity of fees and creeping discounts has eroded trust and partnership profiles. Greed continues to be associated with our industry due to previous actions being dragged through the media or courts plus the reluctance of organizations to reevaluate their value propositions instead of using another revenue grab from unsuspecting customers. Another important brand management dimension, which has suffered in some areas, has been "executive visibility". When times are tough leaders are out front leading and strengthening their brand, not hiding from their public and staff. This is more prevalent than normal with recessionary pressures.

Competition is expanding the challenges also. Our industry continues to attract more and more competitors who disintermediate product and market positions locally and nationally. Major retail brands find it easy to do product line extensions into financial services. In the USA, the bank backlash has resulted in a significant membership growth within the credit union sector – an area that still can't consolidate and collaborate voluntarily for economies of scale and strategic survival. Yet, there are effective models that demonstrate that credit unions can have a better way to grow collectively.

Another segment which deserves continued watching is the payday lenders/cheque cashers which are everywhere and even online e.g. www.wonga.com (new virtual player).

Competition by sector and channel is not stopping horizontally or vertically. The channel transformation by consumers to online and mobile will undoubtedly hurt those who cannot adjust with consumer preferences either due to resources or vision problems. Credit unions in most countries still spend too much time competing against each other rather than targeting banks and niche players. Also rationalization within the sector continues at a snail's pace due to ego barriers at the Board or CEO levels. Come on man!

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Australian credit unions are now less than 90 individual entities with further consolidation needed. Revenue growth during the recessionary era of 2008-13 will be in excess of a negative 3%. The top two credit unions now represent over 30% of industry revenues whereas the top 5 building societies hold 89% of sector assets and four banks hold 83% of banking assets.

2013 will not be a walk in the park recovery year! Foundation dynamics – political, economic, social and financial are still very precarious and in some cases on “quicksand”. If we add a continuation of negative weather patterns affecting worldwide food production, social unrest will grow. At the same time, we applaud those financial institutions such as the Canadian chartered banks that have learned from the dynamics of the recession and have built stronger performances and public images. Canada’s Central Bank is losing Mark Carney as Governor when in mid-2013 he assumes a similar role in England, which we expect will have positive implications beyond the U.K.

All of us can contribute to a better world, a better industry and a better business year if we focus on the customer, our people and our strengths/opportunities.

1. The online world should be an advantage to us with our technology infrastructure, investments and knowledge. We can expand our reach, value propositions and partnerships.
2. Viewing the customer holistically – preference behaviours, influence and needs, will build value-based relationships and deflect commoditization trends and margin squeezes.
3. Productivity improvements should be a continuous strategy and performance priority – concentrate on both revenue and expense improvements including reallocation of resources.
4. Build and protect strong customer-centric brands, which are simple and effective. Beware of image impacts from your activities and actions.
5. Identify your competitive strengths/opportunities and weaknesses/threats and manage your business on a segmented value proposition basis. Protect your franchise and react to any persistent competitive erosion.
6. It is a time for leaders! You can set yourself apart with a customer centric vision, “out-front” visible leadership, and team performance which includes innovation and consistent focus.

The status quo is not an option especially during these recessionary dynamics. We have to lead forward versus managing based on the past. The future is yours. Don’t forget to make it fun for everyone.

WHAT IS ADVICE WORTH?

Wealth management, financial planning and information/education resources are built on the premise that advice is valuable and customers will pay for it under the right conditions and realistic performance contracts. Consumers on the other hand, get advice from many sources. A recent Canadian Pollara survey showed that people get financial advice from:

My bank	56%
My financial advisor	47%
Friends and family	39%
Financial websites	31%
Online news/blogs	24%
Print media	16%
Social media	6%

Obviously, financial institutions have a great opportunity through all these sources of influence with the general public. At the upper end, in wealth management, one pays thousands of dollars to have a customized plan well managed for them. This is probably well less than a 5% segment of the total population. So what about the other 95%? What will they pay or are they more self-directed using multiple resources as surveys suggest? Are businesses more apt to accept advisory fees than consumers? Who and why? Research of your customer base will be important to determine the right answers.

Over the two decades that WESI has conducted proprietary research, we know that commodity competitors will have a hard time charging for advice or anything else for that matter. The organizations that build true value propositions which include advice and built-in relationships, can generally benefit from better rates and/or fees. Therefore, advice implicitly is a differentiator that benefits the organization's revenue stream.

BROKERS SURVEY – WHAT DOES IT MEAN?

The results of a Canadian brokers survey were recently released in The Globe and Mail national newspaper. The ranking were as follows:

1. Virtual Brokers (BBS Securities Inc.)
2. Qtrade Investor (Privately held)
3. BMO Investor Line
4. Scotia iTrade
5. RBC Direct Investing
6. TD Waterhouse Discount Brokerage
7. Credential Direct (Credit Union Movement)
8. Questrade (Privately held)
9. Disnat (Caisse Desjardins)
10. CIBC Investor's Edge
11. National Bank Direct Brokerage
12. HSBC InvestDirect

The ratings were based on a combination of cost, account information, trading tools and innovation. Many more Canadians and other countries citizens are active or periodic online traders than in the past.

THE LAST WORD FOR 2012

Thank you for being part of our experience this past year. As a team, WESI continues to be a boutique, international consulting partner with organizations in many countries. Our clients are customer-centric and leaders in their field of thought, vision and performance.

This past year on the social side we have become more acutely aware of young adults plights on entering the job markets where they are the highest unemployed segment: who carry significant student loans: and their educations are not generating job opportunities. The synchronization of career dreams and job realities is poorly planned. Regardless of who is at fault, this is a major political, social and economic problem moving forward, especially as retirement for older workers is not an option due to pension levels. Together in business we must try to address this problem with our leadership, advice and support. Communities and countries have to collaborate on education – employment synchronization plans, to address the 25% or more young adults that don't have jobs and the others who studied in a field where there are not employment opportunities.

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We can never say enough about true leadership and privilege we have had to work with some of the best in Australia, Canada, U.S.A. and elsewhere. As leaders your works and actions have helped your employees and customers have better life experiences. We are proud of your commitments and our partnership with you. Thank you for allowing us to be a part of your successes.

We wish you a blessed Christmas, happy holidays and a successful 2013. Our prayers for peace and prosperity for all will hopefully be magnified by you. Happy New Year!