Eagle Net

WHERE EAGLES SOAR INC.
500192 Grey Road 12
Markdale, Ontario. N0C 1H0
Tel: 416-347-2469, 905-873-7733
Pat Palmer – Principal Leader
Judy Johnston – Executive Leader
E-Journal Newsletter – March 2013
E-Vol. No. 61

INNOVATIONS, ENTREPRENEURS & PARTNERING

The concepts of innovation, entrepreneurship and partnering are demonstrating increasing synergies inside and outside the financial industry. Whether you are small, medium-size or a dominant player, innovation must be a strategic objective to sustain profitable growth by increasing your brand's attract value. Many organizations have innovation processes, committees and incubator or test centres. Naturally it takes an entrepreneurial spirit and empowerment to fuel these successfully. In many cases it involves partnering with customers or other organizations to make the strategic breakthroughs. A recent GE Survey found that 80 –85% of Canadian firms are willing to partner to enter new markets or improve existing products, service or distribution channels. In the same study, only 11% of Canadian executives said they were open to sharing revenues or losses generated through such collaborations – somewhat of a divergence. The global average is 28%! More and more innovative partnerships are emerging such as Kickstarter, which we will comment on later.

Those companies with an innovation vision have clear objectives as to the revenue to be generated by successful implementations.

The natural world of social media is based on partnering, sharing and creating new excitement. The principles and cultural dynamics are necessary in our corporate lives, leadership and energy levels. Do a quick diagnostic! Ask yourself how many collaborative, profitable innovations you have introduced in the past 2/3 years? Your answer will indicate where you are on the Competitive Readiness Index. Current and future competitors have you on their radar to disintermediate your customer relationships, which have become complacent and boring. Time to unleash your entrepreneurial energy with new vigour and vision.

KICKSTARTER – AN EQUITY RESOURCE

Kickstarter is attracting considerable attention in the financial world, as are other new models of finance – Simple, Moven, Zopa, Smarty Pig, Funding Circle and Fidor Bank.

Kickstarter is the "crowd funding" website resource where anyone can "donate" money to entrepreneurs, artists and other creative people seeking seed funds in exchange for a finished product or token of gratitude. Last year USA legislation allowed "crowd funding". Other countries such as Canada have yet to specifically address it.

In 2012, $274 million was spent on Kickstarter projects! Over the 3 years, 2010, 2011 and 2012, approximately 45% of the projects annually are fully funded. In 2012, 86 million people visited the website! Have you? 2,242,475 backed at least one project (over 450 backed more than 100 each). In 2012 Kickstarter surpassed the USA National Endowment for the Arts in money distributed to artists and other creators.

Yes, there are growing pains but here again "society participates" and certain segments like the concept of surfing the options. Last year, over 80% of the projects were launched with videos – take a look?

BURGER KING HACK CAUTIONS BANKS

Recently hackers held Burger King's social identity hostage, changing its Twitter icon to a competitor's and announcing a fake acquisition by McDonalds.

Now banks are getting more serious about social media software that hedges against reputational risk. Actually the whole area of enterprise risk assessment will need serious social media insights and continuous vigilance in protecting your differentiation and social network relationships.

TD BANK HIT BY CYBER ATTACK

On the first day of spring, TD Bank was the victim of a cyber attack which knocked out its website and mobile banking app temporarily. Other channels such as ATMs and telephone were not impacted. The whole area of high profile mobile banking could be an ongoing target for cyber attacks.

MASTERCARD'S VIRTUAL WALLET COMES TO CANADA

MasterCard wants to dominate the mobile payments market with its virtual wallet that allows consumers to use their smart phones to keep personal payment details and to avoid checkout cashiers by scanning bar codes. Called MasterPass service it creates digital receipts for proof of purchase and can be used for online purchases without inputting card details. Canada and Australia will be the incubator countries followed by the USA.

Visa Inc. will also be rolling out its V.me digital wallet service.

The major banks will be assessing these initiatives as well as others by PayPal, Google and eBay as to their disintermediation impacts on the important payments revenue stream.

ALLIANCES/PARTNERSHIPS CONTINUE TO GROW

The major banks continue to expand partnerships to capitalize on partners' customer bases and to improve delivery options at less cost. For example, RBC Insurance and Shoppers Drug Mart have added enhancements. Canadians can purchase RBC Travel Insurance through Shoppers website and earn Shoppers Optimum Points. What's next? Heath insurance?

RBC CONSOLIDATES ALLY'S ADVANTAGE

As we reported in an earlier edition, RBC purchased Ally Financial Inc.'s Canadian deposit and auto financing business and on April 30th, when the consolidation takes place, rates will be different. Ally customers were attracted by unconventional TV ads and a high rate of 1.8%. At RBC the rate will be 1.2% or an option for a one-year locked in guaranteed investment certificate at 1.8% or a cashable GIC at 1.5%. Ally was a virtual or digital bank and competed against online banks such as Canadian Tire's, ING Direct and others.

Obviously, RBC has done some retention modeling and it will be interesting to see if the "price was right" or too much down the road.

ATB FINANCIAL'S FUTURE

In Alberta, ATB Financial is a dominant player with its branch, agency and partnership network including almost 175 traditional units plus the province's guarantee on deposits. There has always been speculation about having the Provincial Crown Corporation turned into a public entity, worth billions. Perhaps the current deficit culture in the province will heighten this interest in the government. Concurrently, investment bankers are encouraging this more and more for obvious reasons.

Historically, ATB has run into credit quality crunches due to a number of regional factors and capabilities. Would diversification to other parts of Canada help insulate the future state?

Stay tuned as oil royalties continue to fall well below expectations.

PAYDAY LENDERS PUSHING POLITICAL BARRIERS

In 2007 the federal government passed the responsibility for payday loans to the provinces. In Ontario, the provincial government capped the interest and fees that could be charged, which put payday lenders like the Cash Store in the position that their total costs were over the legal limit. The Cash Store Financial Services Inc. is Canada's largest homegrown payday lender with over 500 stores (25 in the UK). In February, the company through its Ontario Cash Stores and Instaloans units, started to offer lines of credit, not payday loans, to consumers in hopes that it comes under federal regulations. Since Ontario revoked their payday lending licence earlier, this is their answer to try and move out from under the technical definition of a payday loan. The 6-month term credit line is offered at 59.9% plus a $21 fee per $100. Consequently the composite cost is well over the federal 60% usury cap.

It is now in the courts to decide if it is legally a payday loan or not. The decision could have major industry consequences.

MORTGAGES ON WHEELS

The car loan market has heated up with the auto manufacturers offering financing terms out to 96 months or 8 years. Research indicates that more than half of new car buyers finance for terms of six years or more. Terms such as these plus very low, even 0% rates, attract buyers more than sticker prices. It is all about monthly payments, same as with mortgages, during the past low interest rate years. Consumers end up with negative equity and keep rolling over cars as long as the monthly payments are where they want them. This may help car sales now but what about when interest rates rise? Sales could drop as cars are kept longer and repair costs may be the decision driver to the day of reckoning.

ONLINE SALES OPENING EXPERIENCES

Many customers today want to access financial institutions online and manage their relationship through this preferred channel. But take time to check out your online apps opening experiences. Better still go into a branch and sit through an account opening, loan or mortgage application, then go to your online option.

Recently, a new CEO I am partnering with went through the branch experience (at least an hour) to set up a relationship. A quick review of the online option was not much better. In fact, it couldn't be completed online.

All segments are into online experiences today – not just those under 35. An efficient online, opening experience will be more economical for the FI and more satisfying for the customer. Actually, online should allow you to offer more predictive cross-selling automatically and yes, even a more personalized event. You need to have all the Q & A options available as well as the ability to opt out to a chat where real time solutions can be provided.

Online selling needs continuous, sustainable improvements plus regular "experience testing" by a variety of staff, comparing yours against selected competitors. If you operate "fill in the information only" screens, you are not in the game.

THE LAST WORD – FINANCIAL INTEGRITY

Countries and our industry always need to protect their financial integrity – trust and respect, or they risk major confidence losses.

As I watched the state of affairs unfold in Cyprus, my anger percolated continuously against the politicians, bankers and the broader European community. The first solution of grabbing a percentage of all saving account balances was totally unacceptable and will have disastrous effects on people placing their savings with an industry that depends on that lifeblood. All politicians should realize "you can't have more than there is" in running your fiscal and monetary affairs. In many countries, financial problems are not addressed until they are in a crisis state – which is too late. Early warning signs are there, so act and don't avoid the difficult choices.

As bailouts continue for countries and banks, you have to wonder if this is not a never ending cycle that will eventually lead to extreme social problems and yes, bankruptcies. When you assess the packages you must ask yourself how can the parties survive under the restricted conditions in an environment of decreasing growth and therefore public revenues? So will Europe be renamed with one or two countries controlling everyone's financial systems and cash flows? "Where will it all end?" asks the average consumer and a private sector that is the only real taxpayer. Wealth will shift to safer countries and institutions more and more, and foreign exchange restrictions won't be the solution.

Financial integrity has been lost because of greedy people in governments and in our industry. They have to be held accountable. Politicians should suffer the same governance liabilities as any private sector director. Otherwise we will continue a legacy of excessive debt on generations to come.