

Eagle Net



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SEGMENTATION FOCUSES

Our marketing expertise in segmentation has grown significantly since the early days of demographic groupings and associated target programs plus the early use of psychographics. Segmentation is now an art of identification, innovation and implementation excellence.

Developing critical segments around common bonds/homogenous characteristics will continue to be a constant search by most progressive organizations in a highly competitive market such as financial services. Even technology is creating new segmentation possibilities be it through specific mediums such as iPhones or Internet user access habits and time preferences. Undoubtedly, technology, especially with wearables and applications, will create evolving groupings.

Other organizations are using affiliations and memberships to build segment communities, which is exciting for those who understand collaboration and co-opetition benefits.

The bottomline results will indicate your successes and failures. Identifying new segments could be the easiest first step. Innovation that will attract your targets is where difficulty builds since differentiating an offering requires insight into preferences, direct and indirect competitive propositions and emerging trends i.e. dynamic customer centric scanning. In the end, implementation excellence is where the rubber meets the road. If identification and innovation has required considerable resources, then double your dedication for execution at the customer interface. Keep your antennae up and listen to early signals of weaknesses, strengths or inertia. You have to be prepared to ramp-up or cut losses.

Segmentation is both an art and science like any area of marketing. Continuous improvements are essential to attract, retain and build the proposition values for customers and your organization.

ACCENTURE REPORTS ON DIGITAL DISASTORS FOR TRADITIONAL FI'S

In two reports, Accenture says 35% of banks' market share in North America could be at risk by 2020 as new digital players erode traditional branches. Plus the research suggests 15% to 25% of today's financial institutions could disappear! It is not just the evolving technology that is impacting digital trends. The rapidly changing customer preferences are a critical catalyst and complacent FI's, which are branch dependent/focused, will be at considerable risk.

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In Accenture's research, more than a quarter of their U.S. sample remain with their primary supplier because they perceive switching as a hassle, and others say they haven't seen a competitive enough offer to motivate them to change. The study also pointed that over a third of the respondents have acquired traditional banking services from non-primary institutions. Growth in online products has significantly increased in the areas of auto loans, mortgages, personal loans and home equity loans.

Customers still use branches due to their proximity. The Internet is without a doubt the most frequently accessed and fastest growing channel today. Restructuring branch networks is an imperative. In fact, the network of the future will continue to represent an evolving mix of channels.

10 WAYS TO MAXIMIZE GROWTH

- Review sales culture engagement (staff & customers)
- Compare customer preference research with strategies
- Assess leakage, churn and customer care
- Investigate competitive differentiations
- Build proactive sales initiatives series
- Expand value propositions with partners
- Cultivate a strong referral culture
- Personalize reward & recognition frequency
- Include sales in every delivery channel
- Set aggressive growth targets

TANGERINE – LEGAL BATTLES

Tangerine (Bank of Nova Scotia subsidiary, previously ING) has found itself in legal battles over its right to use the label especially in British Columbia where a small financial business says it owns the name. (Who checked the registries?) Bank of Nova Scotia has still gone forward with its multi-million dollar advertising campaign.

CANADIAN BANKS CONTINUE PACE?

Canada's chartered banks continue to set new profit records at home but the USA market has not been as good for them. Retail and commercial business in the USA remains slow and margins are under pressure.

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Both TD Canada Trust and Bank of Montreal bought into major US positions. Last quarter TD's personal and commercial arm generated 43% ROE whereas its US counterpart was at 9.1%. BMO's returns are down 11% in 2014 over 2013. In the past RBC divested its Centura Bank interest to PNC.

PAYDAY LENDERS/CHEQUE CASHERS – BRITISH COLUMBIA

Jeff Nagel (Surrey North Delta Leader – BC) recently reported on a survey of payday users in the Lower Mainland & Greater Victoria B.C. (Insights West Survey for Vancity Credit Union).

- 3% of the population use payday lenders
- 2/3 of users resort to these high cost lenders at least 3 times a year
- 35% go to payday lenders at least once a month
- 32% said a few times per year
- More than 100,000 B.C. residents took out \$800K in payday loans in 2013

Note: B.C. legislation lets payday lenders charge a maximum of \$69 on a \$300 loan for a minimum 2-month period equivalent to a 600% annual interest rate.

In previous issues WESI has reported on Payday Lenders/Cheque Cashers (PDL/CC) in a variety of articles. Vancity in response to the above study has introduced a "Fair & Fast Loan".

Most research shows that the vast majority (over 70%) repay their loans on time and probably have a relationship with at least one mainline financial institution. One does not have to go far in any fair size community to find a PDL/CC unit open for business with late hours at convenient locations. Innovations to combat these high cost alternatives are not difficult to design and implement. Generally, the solutions here can be used to assist the unbanked as well.

HOBBY INVESTING

This could lead to some very interesting segmentation possibilities. A Bank of Montreal study finds that just over half of Canada's wealthy engage in some form of hobby investing to diversify portfolios and to hold things they like the most. The major types of hobby investing in Canada are:

- Coins – 22% (B.C. – 33%) (Counterfeits a danger)
- Art – 21% (Alberta – 28%) (Long term investment)
- Jewelry – 20% (Alberta – 36%)
- Antiques – 12% (Ontario – 15%) (Considered illiquid for short term investors)
- Stamps - 11% (Ontario & Alberta – 14%) (Counterfeits a danger)
- Wine – 10% (Ontario – 15%) (Long term investment)
- Classic Cars – 7% (Alberta – 10%)
- Sports Memorabilia – 6% (Ontario – 10%)

AUSTRALIA'S REGULATOR TARGETS VIRTUAL SETTLEMENT OF PAYMENTS

All financial institutions (banks and credit unions specifically) are federally regulated in Australia whereas in other countries such as Canada and the USA there are combinations of state/provincial and federal regulations.

The Australian regulator has set a 2016 date for virtual (well, 6 seconds) settlement of payments, which will further accelerate digital applications.

It will be interesting how countries with split regulators will keep up with the trend. Incidentally, the Aussie Post wants to get back into payments – a field today dominated by two retailers, Coles and Woolworth.

DIGITAL ENGAGEMENT

This is the most frequently headlined challenge in industry publications today, and rightly so. If many customers are already building "myfi's" and apps are everywhere, how are you going to maintain or build relationships in a digital environment?

Banks are being encouraged to develop and offer a variety of apps dealing with budgeting, finance, credit etc. around traditional product focuses such as mortgages, loans and certificates of deposit. Unfortunately, today's customer already has access to apps and online sites that go further than a traditional FI's product line and education focuses. Access to dynamic apps that can be self-integrated are growing in leaps and bounds.

FIs need to think beyond traditional lifestyle experiences for engagement and build the foundation and connections for evolving experiences with primary partners and contingency resources. You want to be the preferred conduit and connector to an omni engagement experience. We have to think like a customer; listen and research customers and build engagements with customers one-on-one.

SOHO'S BANNED BY NCUA

How many people do you know who operate a SOHO (small office, home office)? The numbers have grown significantly and new entrepreneurs are created which fuel our economy and needed jobs. In fact, in my banking and consulting careers, I have promoted SOHO's for employees, agents and partners. Over 20 years ago we created "homepreneurs" to replace branches in rural, remote or bush communities. Additionally, most mobile representatives and distributed employees (members growing) have their primary offices in their homes. Overheads are lower and work satisfaction higher.

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In the USA there are less than 75 SOHO credit unions, which according to NCUA must relocate to "commercial space" by the end of 2015. (Incidentally, the federal/provincial/state government considers a home office as commercial space). Starting this year, contacts with NCUA staff must be held in "public places". (These can be less private than a SOHO).

NCUA highlights:

"Safety risks for examiners"

"Unfavourable settings for doing business"

"Lack of security, service shortcomings and succession risk"

Personally, I would like to see reports that show all SOHO's exhibit these situations more than "external commercial offices" as well as if it is more something blown out of proportion. Any type of office can demonstrate these problems. It is not because they are SOHO's. How do members feel about their SOHO credit unions?

As technology proliferates we will have "virtual credit unions". The principals will carry the records on a secure digital device to access their "clouds". Perhaps some people have their heads in the clouds already at NCUA.

IBM – APPLE COLLABORATION – IPHONES & IPADS

After this recent announcement, BlackBerry's shares tumbled again. The collaboration is seen as good for large banks that have legacy systems written in old codes like Assembler or COBOL. IBM has a solid security reputation, which has been one of BlackBerry's advantages over Apple. Additionally IBM intends to add significant apps to its mobile suite on top of its Watson technology now used by ANZ Bank. With IBM adding more mobile clout, the collaboration will be a danger to Google and Microsoft.

U.S. GOVERNMENT SETTLEMENT – CITIGROUP INC.

Earlier JP Morgan, Chase & Co. agreed to pay a \$13 billion dollar penalty to settle government probes over packaging of toxic mortgages. Now Citigroup has agreed to pay \$7 billion - \$2.5 billion in consumer relief, \$4 billion to the US Department of Justice plus \$300 million to settle probes in 5 states and \$200 million to FDIC.

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CUNA HIGHLIGHTS 10 STRATEGIC PLANNING TRENDS

Competition with deep pockets and the rate of change are accelerating, so adaptability and resources are key.

1. Mobile Payments (US – 68% annual growth)
2. Mobile Banking (dominant customer engagement channel)
3. EMV Card Standard (Europay, MasterCard & Visa – against fraud)
4. Stronger Lending (growth in originations)
5. Key Operating Ratios (expect improvements)
6. Life After Mortgage Refis (originations down, sales partnerships)
7. Lower Fee Income (new sources?)
8. Interest Rate Risk (Examiners toughen up)
9. Recruitment & Retention (top performers needed)
10. BIG DATA (omni data needed)

WORLD CREDIT UNION CONFERENCE IN AUSTRALIA

The annual WCUC is being held Downunder in the great country of Australia – our partner nation. Last year Canada hosted the event in the nation's capital, Ottawa. The meeting will take place on the eastern Gold Coast – the home territory of Credit Union Australia, the largest in the country. Many types of cooperative institutions will be in attendance from the largest like Desjardins Group and small credit unions with less than \$10 million in assets.

From our perspective, we hope that more collaboration will come out of the conference to benefit an "increasing" number of members in a highly competitive digital landscape.

THE LAST WORD – SMALL BUSINESS

Small businesses are the job creators in our democratic economies even though entrepreneurs face too much red tape and hot and cold financial institutions. To register, set up and operate a small business, the reports and regulations can turn one off. Then when the economy gets tough so do some lenders as they arbitrarily cut off or cap loans to vibrant small businesses that are growing.

Some universities, like Lakehead University in Thunder Bay, Ontario, do annual studies on the small business market to learn their obstacles and desires. Not all FI's in that city acquire and read the reports.

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Small business risks are many and varied and require specially trained account managers and risk approvers. Unfortunately some FI's treat the small business under the owners risk umbrella consolidated not as a standalone business entity. I have seen many entrepreneurs cultivate their businesses exceedingly well to the point that they can't accommodate the rate of growth. Some bankers will turn off the flow of needed working capital; a few will provide survival advice and even hands on support.

A true, lasting commitment to small/independent businesses is a catalyst for growth in your communities and countries. Once you have the resources right, the market targeted, and everyone operating with a cooperative knowledge, the dividends for you and your customers are truly great. Ensure that you are prepared for the long haul and have a diversified strategy for growth. Our future is in small businesses.