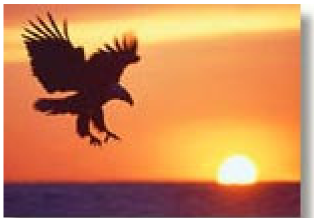

Eagle Net

WHERE EAGLES SOAR INC.
16 Mountainview Rd. South, #301
Georgetown, Ontario, Canada. L7G 4K1
Tel: 905-873-7733
Pat Palmer – Principal & CEO
E-Journal Newsletter May 2007
E-Vol. No. 19

Innovative, Intimidate & Invigorate

Every CEO needs three "I's" (or eyes?) in their strategic vision for success in our dynamic, competitive industry. The status quo is not an alternative nor is introducing only one or two major (big bang) innovations in 3 to 5 years. Innovation has to be a cultural catalyst nurturing ideas every day from a variety of sources to ensure a continuous stream of "newness" for customers/members, staff and all other stakeholders, as well as bottom line improvements. Some corporations actually state strategic innovation goals, such as 20% of total revenue comes from innovations introduced in the past three years. Others build their annual report around innovation impact and recognition, and some have outstanding rewards ranging from financial gain to community profiles/charitable donations in the idea generators' names.

There are some consultants who are innovative in their approach and knowledge of the business we are in but we still believe staff represent the greatest reservoir of ideas to tap, especially those closest to the customer – the tellers. To unlock this latent asset CEO's need to start with a vision and corporate message around innovation that is believable and can stand the test of time and the freedom of dynamic minds. Next, we need to identify the groups to involve in soliciting ideas – customers/members included. It helps to give some general focus to the current innovation thinking by proposing questions, stating where change is needed or allowing a process to stimulate ideas for a particular problem or issue. Naturally, having a respected clearing centre for all ideas to be evaluated quickly is a foundation necessity to give creditability and encourage unbiased ideas.

Once you have a stream of innovations throughout the organization, your communications strategy needs to take over internally and externally to intimidate competitors. Front line staff must be alerted to all innovations and the benefits to consumers and the organization. They should be encouraged to share this information with pride.

Public relations/media releases can also build your innovation force in the market. Media interviews need to be encouraged and consumers' testimonials shared throughout the team. Some ideas can be basic e.g. magnifying glasses on customer/member counters, where seniors frequent. Also, they can have significant financial gain for the consumer such as with the umbrella mortgage and home equity line coverage. Whatever the ideas are, don't keep them secret, tell people at every opportunity. Soon, the questions will be "What's new for me this week" or "Why doesn't the competition learn from you".

Building and maintaining the momentum is as important as the ideas themselves – so invigorate your environment to innovate. Rewards and recognition techniques are obvious but take the time to show the endorsement and participation of senior management. I visited a large midwestern financial institution a few years ago to speak to the EVP who championed their innovation culture. When I entered the office there was a wall of windows and three walls of pictures of staff with him as part of the idea reward system. There are many ways to invigorate the innovation culture but the key comes for leadership's conspicuous involvement.

Footnote: The McKinsey Quarterly recently found that financial service executives rated their institution as no better than adequate in following innovation.

"Nickels & Dimes"

Returning from an international location, I contemplated the consumer criticisms I hear in my travels and at home. It is an old issue that keeps dissatisfied conversations flowing readily amongst people when we ask about financial service institutions. "We are nickel and dimed for every little thing!" It is not my intention here to rationalize the fees or the customer knowledge thereof, but this perception is a business loyalty erosion concern that should not be taken lightly in our dynamic competitive markets. Large institutions with millions of customers may increase the amount and number of fees annually without really understanding the perceptual impact on customers/members, only the millions added to the bottom line. Smaller players may follow the market leaders in fee increases to see some financial impact and a growth in latent dissatisfaction rather than the bottom line.

It doesn't matter the size of the organization, generally consumers are not a satisfied group when it comes to multiple account fees.

In the industry, we must ask continuously if we are approaching cost recovery on the right basis. With almost complete commoditization of products and Internet comparative sites available, consumers' knowledge and emotions have grown. There are financial institutions that offer "free chequing/checking accounts" now as a base product. Others are proffering service menus with one customized fee, which forces the consumer and supplier into a set of educated choices – a good approach! Others have the historical belief that every activity should have a separate fee. When you look at published schedules of charges sometimes it is a laundry list of potential irritants and some non-published fees still creep into the account statement to raise dissatisfaction levels.

One financial institution set up a service charge help area in their call centre to assist individuals' understandings, to save on fees and perhaps to establish different, more economical accounts. They realized that the chequing/checking account was core to customers' consideration in defining their primary financial institution and in building a portfolio of services, without which, the relationships would be marginal. Also our studies continue to show that peripheral products are switched before the chequing/checking account, even if this account is the dissatisfaction stimulus. Many customers/members still do not realize that most financial institutions have "switch kits" and they will facilitate the transfer of all account related, preset debits and credits.

More transactions are visibly made through the chequing/checking account so it is natural that people's perceptions are moulded around such activity. No wonder most new or emerging financial institutions such as ING Direct stay clear of the core chequing/checking account and concentrate on less volatile transaction services. This competitor would hope that consumers continue to criticize the mainline financial service suppliers who "nickel and dime" people.

Every supplier should have more than a product strategy around their main activity account. There needs to be a customer/member relationship strategy for the suppliers' strategic segments. Listening to customers/members is a first good step but action has to take place thereafter.

Listening without action only frustrates people more – on both sides of your counters. Staff will have great feedback and ideas for relationship and product improvements. In fact we have always found staff extremely willing to help if asked and feedback is provided along with agreed to changes.

So where are you with your core account operation, fees, research and competitive improvement plans? It could be time to change the nickel and diming to relationship propositions and pricing before the commoditization erosion leaves you with the least profitable product along with dissatisfied perceptions.

Growth is the Number One Challenge – Column #1

Net real growth in business, customers/members and financial results is the challenge of everyone in the industry whether they are giants or neighbourhood only institutions. You will note, I said **net real** growth, which implies absolute gains not churning product volumes or consumers. Since growth is the strategic focus of the executive leaders we deal with, this publication will in every future issue, provide some ideas, guidelines or successes that hopefully will be beneficial to you.

In this first column I want to highlight growth costs and tailored multiple product packages. For years every executive could quote you chapter and verse as to what their transaction costs were by channel activity. Unfortunately, many were unfamiliar with the "sales costs" associated with growth. For example, it is quite possible that your complete sales costs will be close to the following branch/product averages:

1. Residential Mortgage $1,500
2. Personal Loans/Line of Credit $450
3. Deposit Account $150

Let's consider the following situations:

a) A financial institution puts 25 mortgages on the books this quarter, lost 10 to switches, and all payments equated to the average balance of 15 new mortgages. It cost $37,5000 to put the new mortgages on the books, probably $3,500 to fulfill switches, and then there are the normal transaction costs.

The NET is no balance growth and over $40K in incremental costs.
b) A new chequing/checking account is developed with contemporary features in order to retain and attract consumers. In the first quarter 500 existing account holders switched to the new product – cost $45,000. No new customers or members were attracted!
c) The umbrella mortgage is introduced at "special rates". Basically, this home equity line will cover the average mortgage, the personal loan, line of credit, overdraft privilege and credit card, all at the same rate, approved and booked as a composite figure one time. The sales cost per consumer is somewhere between $1,500 and $2,000. Sold individually, the total sales cost would be $3,300!

Value propositions for priority segments, which include the core product suite in a package, will always show faster growth and increased loyalty plus lower sales and setup costs. Stimulating individual product churns is a cannibalization of revenues as well as specific product volumes – costs without benefits! We must also keep an eye on consumer segment preferences for various product purchases and transactions. The branch is the most expensive sales channel but can, with the proper training and coaching, be more "package effective". Other channels e.g. call centre, Internet and commissioned sales forces cost less and could be the favourite of one or your segments. Growth comes at a cost and you want the optimum consumer satisfaction – sales cost solutions.

Know peoples composite, not commodity, needs and build your sales proposition accordingly, putting more new business from more satisfied consumers on board at lower costs.

CANADA

ATM Fees Political Football

Federal MP's continued their large bank bashing during the past quarter around ATM fees. The ATM networks are not dominated by big bank fees but by third parties who have many retailer shared fee relationships. We expect that many bank ATM's are loss leaders on a fully absorbed cost basis. The POS ATMs in retail establishments are usually third parties or "white brands" and collect individual transaction fees up to $5. If the banks only operated profitable ATM's perhaps their economical convenience would disappear across the country in small or rural communities: Watch out MP's – you may get more than you bargain for.

Best Places to Work (Canadian Business)

Four financial institutions made the top 50 list – congratulations!

#6 Vancity Credit Union
#7 Edward Jones Canada
#17 Windsor Family Credit Union
#39 TD Bank Financial Group

Corporate Leaders from Financial Institutions

Canadian Business has published the top 50 companies' leaders based on market cap in their May 21, 2007 edition.

#1 Gordon Nixon, RBC
#2 Dominic D'Alessandro, Manulife Financial Corp
#3 Richard Waugh, BNS
#4 Edmund Clark, TD Canada Trust

The top four are from the financial industry.

BMO Takes Hedge Hit

The new CEO, Bill Downe, has to deal with his first catastrophe – a major trading loss somewhere north of $450 million due to energy traders after Hurricane Katrina as they bet on the direction of gas prices.

RBC Financial Group USA Strategy

RBC continues to show weaknesses in its USA strategy, which has plagued top management for years for a variety of reasons. This quarter it is related to the subprime market positions they have.

U.S.A.

People Select FI's with Convenient Branches

Forrester Research Inc's study shows that the branch channel is still heavily popular when people select a chequing/checking account provider to open the relationship:

All U.S.	18/26	27/40	41/50	51/61	62+
56%	50%	56%	51%	61%	58%

Chairman Helps Students

Our "Hats Off" to Huey May, Chairman of Dallas City Credit Union, who out of his own pocket gives money to help low-income students develop a habit for saving money. This is not a one-shot deal. He has committed to continue the practice until he dies. Students have to write an essay on "What a Savings Account Means to Me". WESI's vice-president, Randy Gilbert, who is familiar with Huey May, indicates this is just one of a series of charity contributions of time or money he commits to. We wish Huey May a long and healthy life.

Credit Union Fees

American credit unions continue to try and build non-interest fee revenue but the top three generators are traditional services – overdraft fees (25.15%), debit cards (20.65%) and credit cards (15.30%).

AUSTRALIA

Domestic Bank Fees High

The Fujitsu/JP Morgan – Australian Mortgage Industry Report (Vol. 5, March 2007) states that British and Canadian customers mortgage account fees are between $150-$170 per annum. The report also found that the Australian transactional account fees are higher. These are based on fee indices not absolute amounts.

INTERNATIONAL

Consolidations There – Not Here!

Two major Italian banks, UniCredit SpA and Capitalia SpA, have joined to create the world's 5th largest bank by market capitalization. ABN Ambro Holdings NV is the largest shareholder in Capitalia (8.8%) and it is trying to cement a deal with Barclays PLC while fending off Royal Bank of Scotland. Europe is still trying to do more consolidation in the financial service industry. Cross border deals have been harder to come by.

Canadian and Australian banks are still left out of the action by their political masters!

Green Policies Growing

Banks are focusing more on making money through green policies. Citigroup Inc. announced a $50 billion directive over 10 years to support their own and clients' investments, financings and other activities that show alternative energy solutions and clean technology. Green branches and operations are appearing in a variety of financial institution plans globally.