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E-Journal Newsletter – September 2015
E-Vol. No. 78

CHANCES ARE YOUR SOFTWARE WILL LET YOU DOWN HARD

A 2014 *PWC* article on software states: *"Software failures can devastate financial institutions - and the risk of failure is rising."* That's no surprise to Capers Jones, the world's leading authority on software quality. He's declared that software has the worst quality of any manmade product since the beginning of time. On average, for every 100,000 lines of source code, Jones found, there are 750 faults with 250 of them capable of erroneous results or giving you the blue screen of death. It takes 178,000 lines of code just to run an ATM so you can see the risk involved.

Software has such a pervasive role in the financial world. Sadly, fewer than five percent of millennials (our future and most tech-savvy customers) trust the data security provided by financial institutions, states *ComputerWeekly*. Fixing faults and bugs accounts for 60 percent of software development costs.40 percent of a typical IT budget goes to software maintenance, getting the darn programs to work properly together. According to the US Office of Financial Management, in government agencies it can exceed 80 percent of the IT budget! Globally, faulty software is a $3 *trillion* annual problem.

So how stuck are we? How about half a century stuck? A 2012 article from *IT World Canada* states:
"Estimates put the number of business transactions done in COBOL at between 60 and 80 per cent of all transactions performed worldwide. The number is significantly higher for financial transactions."
COBOL is a programming language created in 1959! There's a confidence builder! Fortunately many banks and credit unions are far more current but the fact remains the technology platform in the financial world is 56 years old and we don't know how to change it.

So why aren't we fixing it? Truth is we've become so used to program failure it's become an accepted norm. Updates and "fixes" produce huge numbers of new faults in a never-ending cycle. There are dozens of testing programs available and your organization is probably using several of them. But the average test tool leaves 25 percent of faults undetected. Even the very best of them leave five percent undetected. While that may sound good, you wouldn't go to a restaurant where the waitress says "25 percent of this food might not taste too good." Nor would you buy a car if the salesperson promises, "95 percent of this car should work the way it's supposed to."

The cost of testing failure is $59 billion annually in the US. Why on earth do we settle for such mediocrity when it comes to software?

Anonymous was right when he said, "*Failure is not an option, it comes bundled with the software*."

Writing for ACM, the world's largest scientific computing society, Lawrence Paulson states: *"The software development industry claims it is simply too difficult to build correct software. But such a position looks increasingly absurd."* Fortunately for us all, correct, fault-free software ***is*** a very real option. Now, many organizations will yawn, carry on and hope for the best. But a few determined to maintain competitive advantage and increase profitability will carefully assess what this new possibility would actually mean.

For starters you could release new software programs and features into the market in half the current time and cost, and they'd be fault-free! You're also likely to reduce software maintenance costs by 40 to 80 percent. For a $500 million operation that's about $3 million saved every year. Or if you're about to integrate a new system like ERP into your current network, identifying faults and incompatibilities ahead of time would save you about 60 percent of the time and cost. As you may have found out already, ERP cost overruns are huge, averaging $7.1 million according to Panorama Consulting. One of the biggest benefits is much higher confidence and satisfaction with your overall system performance on the part of employees *and* customers! You'll also reduce privacy and security risks substantially.

Many exciting innovations are emerging with few as promising as Emendara LLC, based in Arizona.*!* Emendara (Latin for "to mend fault") blends proven proprietary and public semantic and logic processes in a mathematically rigorous way no one has thought of before. They are the only ones daring to claim that their technology can find *all* faults in software source code.

A single software project would pay for this new technology Emendara estimates. The company has proven the technology but Founder Ian Percy is quick to point out that they are still a few months from having a commercially viable product. Even so it's beginning to create a buzz. Ontario's *Information and Privacy Commission* has already produced a White Paper based on this technology titled: *A New Possibility of Security and Privacy by Design: Fault-Free Software.* We're pleased to provide that for you. Should you have early-adopter interest in this technology contact Percy directly at Ian@Emendara.com.

DISTRIBUTION IS A BUSINESS

A recent article in The Globe & Mail, Canada's national financial newspaper focused on the evolution of "banks" financial service delivery to the multichannel landscape today. The centerpiece of the article was the decline of the traditional branch in customer use at a time when Canadian institutions continue to expand bricks and mortar whereas they are decreasing in the USA. As most of you know, this is not news!

Back in the early nineties, Canadian banks, especially the Royal Bank, were leaders and innovators in distribution as a holistic business based on customer centricity. Branch networks were rationalized and investments made in emerging channels based on customer preferences – present and future.

In fact, WESI was built on this expertise with an international network of principals, recognized as distribution leaders. Not only were customer preferences changing, technology was accelerating delivery innovations. Unfortunately, many banks believed, based on gut feel, that the business of distribution was too big for one umbrella plus "politics" diluted the natural synergies. So today channels do not operate as a cohesive customer-centric business in various large banks. Instead you have silos for branches, for mobile, for Internet, self-serve etc. – all posturing for budget/capital investments. Urban and suburban branch facilities are growing in Canada with multi-million dollar units even though less transactions are processed there and "myfi" applications continue to disintermediate revenue streams.

Since the 90's one key principle has been reinforced time and time again i.e. customers control channel choices. Today they can pick and choose in a digital world – products, advice, suppliers, apps, etc. plus transact on a P2P, B2B, and P2B basis, excluding traditional intermediaries. Segment, community, geography, lifestyle, and other dynamic preferences will continue to increase customer relationship/engagement risks.

Perhaps large banks have deep enough pockets to survive while overspending in declining channels – shareholders will start questioning these moves more. Unfortunately, smaller FI's such as credit unions, regional banks and others don't have money to waste or risk alone. Collaborations will become key to satisfying customer preferences – partnerships both within and outside the industry. Then again, these necessities will depend on leadership innovations and business analytics. Those who accept the status quo or hide their heads in the sand will not survive.

Our industry is based on the customers we nurture, retain and attract and their preferences are dynamic plus they have the tools to aggregate what they want, when they want, and how they want, with or without current, emerging or virtual resources. Build and evolve your cohesive omnichannel distribution business with customer centricity the foundation of your business.

THE FUTURE OF BUSINESS

1. "The Comeback of Value Creation as the True Measure of Results in Business" by Pétur Albert Haraldsson.

   In this submission, the primary question is the future relevance of banks. Pétur is very critical of banks over the past two decades for hyping leverage based on speculation without the need to create real value. He goes on to say banks are too short term focused and reward gambling at their customers' expense. Wow! Additionally, he feels that banks will be unsuccessful in re-establishing trust in society after repeatedly failing in the public's mind.
   Whether you somewhat agree or disagree with the thought process, it is stimulating for survival.

2. "Understanding Tomorrow's Consumer Landscape" by Anne Lise Kjaer.

   "By factoring in people, planet and purpose alongside profit in any business strategy, organizations can be guided by a clearer and more customer-centric vision." A key premise by Anne is that because of all the overload of choices, consumers will prefer simple and meaningful products and services that improve our well-being and sustain our planet.

People will more and more ask themselves "How does a product make me feel?" Also how was it made, and what is its environmental impact? Naturally your purpose has to align with your brand promise. This chapter should be of special interest to credit unions.

Next issue, we will recap the excellent, lengthy chapter on the future of the Internet.

"You Don't Know What You Don't Know If You Don't Know What You Don't Know!" … Jack Webber

In all my years of continuous learning and leadership, this phrase has stuck with me and helped me be a broader thinker and more creative. Jack was an executive development coach at RBC Financial Group over a number of years. You were taught to think through paradigms and look for exponential opportunities.

Young leadership prospects and perhaps those that are currently in leadership roles, need to think outside of the 9 dots and have customer-centric views and quantum leap thirsts. I see too much "incrementalism" in financial service organizations today when it comes to people, performance, products and profits. If this is the situation where you work, shake the trees and change the environment. First, look in the mirror and see what you don't know. Next, stretch the minds of those around you with the help of some "real expertise" in change management. Third, open the challenges for change throughout the organization and create incubators as visible catalysts. Don't let hierarchy get in the way – everything centres on customer impacts short, medium and long term. Perhaps removing some comfort zones has to start with the leader's circle?

BOUTIQUE DESIGNS

During our 20 years of business, we have worked closely with our Alliance Partners, Visual solutions and CEO George Aggett. They are creative, contemporary and cross industry designers, which have unique capabilities. Visual Solutions has been great when dealing with large banks through to small credit unions. Their list of clientele in financial services and beyond is impressive.

Whether it is a new office tower, condominium complex, branch or self-serve foyer, they do the complete designs, including visual prototypes through to complete architectural plans. George can be contacted through us, or his website www.visual-solutions.com. Check it out.

LAST WORD – TO BE OR NOT TO BE? – THAT IS THE QUESTION

Working with credit unions domestically and internationally over two decades has been exciting and at times frustrating. In the former situations, dynamic leaders and dedicated staff have been the centre of positive efforts to survive in a highly competitive financial services industry. Insofar as the latter cases are concerned the inertia among some credit unions especially towards mergers or some type of consolidation has been disappointing. We all know that our industry is attracting new mega and niche competitors primarily in the digital and payments fields such as Apple, Facebook, Google and a myriad of brand extenders from other industries such as Starbucks. There should be no doubt in anyone’s mind that credit unions which have the greatest difficulty in constructing and executing merger strategies are not doing so out of the best interest of their members – they are not member centric! Complacency characteristics in these organizations threaten survival of the firm and the wellbeing of members, staff and communities.

Generally, the problem rests in two primary areas – Boards and CEO offices. Where you find patronage/ceremonial atmospheres in Boards, the problems are compounded with numbers, low turnover, lack of true governance strengths and team efforts. Regulations and public research has led to increased cross sections of talents but unfortunately the individuals tend to focus on their personal strengths and interest even to the point of interfering in the organization’s operations.

There is a lack of coordinated insight into the reasons for and the benefits from mergers plus the all-important survival synergies. Directors are basically “comfortable” in their stone-walling tactics and passive postures. Then when situations get to an erosion stage, regulators look for saviours among stronger credit unions to assimilate the weak ones, which at least temporarily dilutes business effectiveness of the acquirers. Sometimes when they are in such bad shape they should be dissolved and the Directors held accountable.

The second area of concern is in the CEO’s offices where caretakers or “blockers” can exist with their protectionist attitudes, which deflect any potential discussion or investigation into consolidation models. Their peers, who understand the industry dynamics, are real leaders and will tell you that you waste your time trying to encourage any informal or formal collaborative efforts. These postures are endorsed by the aforementioned Board types.

On the other hand, there are some outstanding leadership examples and consolidation models making significant progress in Canada and now in the USA. Desjardins is the largest cooperative in North America that exemplifies these characteristics – and there are others. Now in the USA, regulators are giving “thumbs up” to a network merger option, which we have promoted over the past five years. An article in the September issue of Credit Union News outlines a prime example. There are many other similar models that are working and being refined. Perhaps the next step is wider consolidations with cooperatives in other businesses? Is it to be?