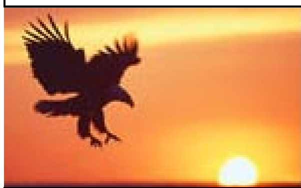
Eagle Net



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The wet, rainy days of summer provide ample time to contemplate the events affecting the financial service industry at home and around the world. For a few weeks we were distracted by health issues but hopefully that has calmed down for awhile.

The top of mind issues from where we sit are as follows:

1. Technological developments/issues
2. Branch/store strategic repositioning
3. Image erosion and negative publicity
4. Organizational leadership and agility
5. Competitive disintermediation
6. Consumer control over choices

1. The digital age continues to change transaction patterns and expectations for engagements throughout all segments from Generation Z to Seniors. The bank in the hand or at hand is common place and various “networks” are gaining increasing share of minds. Unfortunately, fraud frequency also is growing via scams, spam, phishing etc. In the past two months I have personally seen online and text attempts every week plus fictitious phone calls pretending to be a financial institution or government agency. Obviously consumers are at risk and some get “taken”. The most exciting area is Artificial Intelligence (AI) which is transforming our industry and many others with developments appearing at a rapid pace. The majority of FI’s on our radar haven’t wrapped their arms around AI to the extent necessary to sustain and built customer relationships and profitability. Partnerships with fintechs are critical for small/medium sized FI’s.

2. “Modernizing branches” is the “in-trend” from large banks to small credit unions. This declining channel does offer some face-to-face advantages if customer experiences are proactively outstanding in expanding relationships. Let’s be honest, the industry still has excessive capital tied up in the bricks and mortar, which are not delivering an acceptable ROI without “brown money” i.e. servicing financial allocations from other channels. Generally speaking rural areas and certain segments still have an attraction to traditional branches which can be downsized and more universal employees developed to proactively capture more than transactions capable of being handled by machines and digital options.

Perhaps urban and suburban locations offer the most dividends for customizing units to local, segment dynamics and one size does not suit every opportunity. Increased hours, less people, more technology and right-sized footprints will become the norm. Also, remember those supermarket branches of 300-400 square feet with knowledgeable agents housed within partner's premises? Could they see a rebirth especially with video kiosk cubicles? Around the globe banks and credit unions are grappling with their branch transformation strategies. So far there is a lot of window dressing and renovations without any quantum leaps in relationship growth and acquisitions. Changing the trappings won't generate sustainability and engagements.

3. Research continues to show erosions in FI's brand images due to negative publicity e.g. fines for overcharging investment clients or using unacceptable sales and service practices. As technology continues to facilitate transactions as well as increase the volumes, service fees continue to increase like an automated gearing ratio to profitability without any added value. Consumers are becoming more aware of the multiple fees for any reason and will continue to migrate activities to more value oriented options. This whole area of fees and service charges has to be rethought relative to costs and value provided. You can't "milk" the retail banking business without impacting brand equity/loyalty.

4. Organizations need to be agile and adaptable to all the business challenges and environmental dynamics impacting the current business models and demanding new templates. Complacency and lack of creative thinking will surely decrease survival propensities. Simply managing the status quo should not be tolerated by any Board of Directors. The culture starts with the CEO and is fuelled by energized people who believe and want to be a winner. Most organizations truly need to do a strategy and structural audit plus a talent assessment relative to current and future challenges vis-à-vis present resources and those imperative to future success. There is a lot of room for improvement among financial service organizations and CEO's have to break down the "we can't do that" attitude in their organizations.

5. If you ask executives at banks and credit unions who their competitors are, many will point fingers at each other and some of the Internet only options which are very conspicuous. On the other hand, not enough attention is paid to emerging fintech and online only players. Besides these, what is your strategic position with major networks/retailers such as Google and Amazon disintermediating financial services? Also are you ready for the fintechs which now focus on one specific customer business, to diversify and expand into total relationship objectives? How often are your customers contacted by various types of competitors or exposed to their constant media and online promotions to gain share of mind? Coopetition will become a realistic strategy for some whereas others will still attempt to downplay the erosion impacts.

6. Since consumers became financially and technologically literate in the 90's they have developed more and more control over supplier and product choices and can aggregate their dealings themselves through available apps. In Canada, the under 35 and over 55 are the dominant daily users of the Internet. Millennial, Generation X and now Generation Z are digitally dedicated with smart devices with voice activated searches and comparative charts. Every retailer has to be customer-centric to engage and to create customer solutions that meet or exceed needs. Personally, I am an Amazon dedicated shopper and Wayfair is beginning to capture more of my shopping curiosity. Amazon has constantly exceeded my expectations on products, price and delivery. In our small rural community the local post office is kept busy delivering Amazon parcels on a timely basis – even quicker than their own packages get to destinations – Amazon 2 days or less, post office one week to 10 days. Yes, customers are changing choices and all retailers, including financial services which have to adjust to their preferences. Once the boomers become less of a critical market segment, the consumer market will be more about "self" and less around traditional brands.

CANADIAN CHARTERED BANKS PAY FINES

With RBC Financial Group's settlement of $23 million with the Ontario Securities Commission for charging excess fees on customer investments, OSC has reached no-contest agreements with nine major financial firms including Bank of Montreal, Scotia bank and CIBC. The RBC settlement is approximately $22 million in customer reimbursements and a million to cover OSC costs.

ARE CANADIAN BANKS FALLING BEHIND IN TECHNOLOGY?

The Investment Executive released its report card on Banks 2017. Financial advisors generally say that their banks' technology leaves much to be desired. Average importance for "technology tools and advisor desktop" is a rating of 9.3 and their firms performance rating is 7.3. National Bank received a low 6.2 down from 6.6 last year. The highest ratings went to RBC and CIBC but concerns over outdated and unreliable technology dropped them both .7 year-over-year. Overall the process to upgrade technology has been a snail's pace.

HEAVY ADVERTISERS TARGET SHARE OF MIND

Both EQ Bank (Equitable Group) and Motive Financial (Canadian Western Bank) are heavy TV adventurers for high interest/no service charge accounts. We assume that savers are attracted to the high rates with coverage on deposits by CDIC.

HOME CAPITAL GROUP INC. GETS BUFFET INJECTION

Home Capital is the key provider of reverse mortgage in Canada and has attracted a significant number of home owners to release funds from their equity. Recently the firm was under review due to funding concerns but Warren Buffet's firm came to the rescue with a significant investment.

TOP 5 SECURITY THREATS TO FINANCIAL INSTITUTIONS LEVEL (3) COMMUNICATION

1. Network and Application Layer Attacks – description of servers and network resources connected to the Internet. (Easy DDoS attacks can be launched).
2. Social Engineering – bank customers are targeted by phishing, fake e-mails and texts.
3. Advanced Persistent Threats – back door to your systems using custom malicious code.
4. Organized Cybercrime – risk of intellectual property theft, confiscated bank accounts and loss of customers due to disruptions.
5. Major Data Breaches – highly organized hackers steal customer data and sell it.

WORLD REMIT P2P REMITTANCES FOR MIGRANTS

The leading digital money transfer service, World Remit, is enabling migrants in the USA to send money to millions of people without bank accounts using mobile money services accessible on even the most basic cellphone.

LAST WORD – DIGITAL EAGLES

Barclays Bank in the UK has placed technology experts in every branch called "Digital Eagles" to assist customers with technological resources, applications and the Internet. These Eagles host "tea and teach" sessions and give personalized advice on how to use a computer and the various applications. Anyone can access their assistance – customer or prospect. They are community computer facilitators as well as universal employees. Face-to-face assistance in a facility, over a video or Skype link, and at your place of choice with mobile agents clearly benefits those who not only struggle with financial services, self-serve devices, the Internet and confusing communications but need an empathetic advisor to calm daily stress. The Eagles have application for every financial institution, be it for personal or small business applications as well as general advice. In some regards, the original branch manager, especially in rural communities acted as a solution provider on a wide variety of questions and participated in community organizations where further contributions could be made.

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Engaging another person requires listening skills, helpful actions and timely follow-up to ensure that the person has had an acceptable experience.

We train staff to sell various products and identify appropriate needs related to our offerings. Unfortunately, too many contacts or touch points are transaction events with limited if any real customer engagement. As more changes are necessitated to transform branches into smaller facilities with less people, we need to ensure that the universal representative are first and foremost approachable, with strong interpersonal skills and broad knowledge of consumer needs and problems so that customers access us for a helpful ear and lifestyle support. If face-to-face experiences are happy, memorable moments then value added opportunities are lost. Your “Eagles” can be community referral points for everyone and your reputation will attract more prospects and satisfied customers.