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E-Journal Newsletter December 2017
E-Vol. No. 86

2017 is heading for the exit and 2018 is knocking at our doors. Your friends at WESI wish you a blessed Christmas plus health and happiness in the months ahead. Many challenges were faced by our countries, communities and corporations as well as within our families and among our friends this past year. In particular we remember, Ron Huggins a principal of WESI, Mike Chin-Leung and Aubrey Lytle, retired Associates, and "Buster" Johnston our Executive Leader's husband. Also friends at Redwood Credit Union endured wildfires in Santa Rosa, California and many lost their homes. To them, we extend a heartfelt prayer for recovery and rebuilding.

In this year-end Journal there will be some highlights on newsworthy events and articles, which have our normal advice and action recommendations plus thoughts on strategic issues facing the financial service industry locally and globally.

We always welcome your feedback.

MCKINSEY & COMPANY: REMAKING THE BANK FOR AN ECOSYSTEM WORLD

The subject report was released in October 2017 and we recommend it to all our readers. We follow McKinsey's insights regularly and find them thought provoking, strategic and applicable to large and small institutions.

The headline, "Global banking – industry performance has been lackluster", should attract your attention. Those institutions that are better performers have strategic clarity and relentless execution in their core businesses and improvement directions. Most are bogged down with slow revenue growth (3% globally 2016) and poor performances – margins continue to fall! Market shares are being eroded as well as relationships by new digital disintermediators.

The new heavyweight competitors are platform companies such as Amazon and Alibaba who are targeting bank customers. Banks variations differ primarily due to their business model and execution strategy, well aligned initiatives and other levers at their command. Digital disruption impacts necessitate a full-scale digital transformation.

At WESI we question our clients on their core profitable businesses moving forward. Is it product development, manufacturing, marketing & distribution, servicing or combinations with other partners? Mobile only lifestyles now penetrate financial service preferences by consumers who are getting more banking products from non-banks which will be further stimulated by AI as we have previously reported. The winners will be digitally relevant, low cost with highest customer satisfaction by outperforming others with personalized solutions.

Back to McKinsey! Fintechs are moving into commercial and corporate banking, especially with payments solutions for large companies. Digital platforms & pioneers are bridging the value chains of various industries to create ecosystems that reduce customer costs, increase convenience and provide new engagements and experiences. They have exceptional data resources and exploit it for superior customer experiences plus target the larger margins in the distribution business. Our industry has to develop digital platform capabilities supported by big data distribution partnerships and exceptional customer experiences.

FUTURE PAYMENTS: PREFERENCES & POSSIBILITIES

Much is being written about the current trends in payment technologies and consumer utilizations. We all know that the revenue associated with payments has been the lifeblood of the financial services industry and that is at risk in various segments and sectors. A North American consumer survey by Accenture entitled 10 Mega Trends Driving the Future of Payments, really captures the landscape variables and industry issues – the greatest of which are a sense of complacency and rapidly changing preferences.

The young Gen Z (18-21) segment is focused on digital technology and the mobile phone as they demand relevant, personalized experiences now! Actually, customer experiences for Gen Z and Millennials will be delivered more by third parties outside of the traditional FI boundaries. Sources which are successfully enhancing these experiences such as providing aggregated account data will significantly help acceptance of mobile payments. In this consumer spectrum they want customized rewards that are simple to earn and redeem e.g. via POS terminal swipes.

Expanded, collaborative payment networks with partners inside and outside the financial services industry, including fintechs are key to strategic success. With EMV the power or code will make payment credentials virtually controlled by the consumer. Payments will be P2P, P2B or B2B as people choose when, where and how to originate and accept.

Accenture reports that they expect $31.3 billion in global card losses in 2018! – increasing 18% annually. So the payments industry must become leaders in evolving security features to curtail fraudsters. At the same time payment infrastructure needs to be real time, digital processes, which necessitates new open, flexible and expandable systems. The current backbone networks and systems will be obsolete in the virtual, mobile world of consumer-centric payments.

<u>CUSTOMER EXPERIENCE CX HEADLINES</u>

At points of customer engagement, digital choices are critical today and we see various reports which add to the dissatisfaction drift with banks or try to rebuild damage downfalls.

- TD Canada Trust recently saw customers e-transfers disappear between senders and recipients and the bank wasn’t providing any explanation
- CIBC new Simplii Financial direct banking brand’s mobile application wasn’t working and customers tweeted that it is the worst banking app in Canada
- Canadians can now top up their Amazon accounts by handing over cash or debit cards at their local post offices
- ATB Financial (Alberta Treasury Branches) launched a virtual banking assistant to make access to secure, day-to-day banking as easy as initiating a conversation in Facebook Messenger
- Scotiabank, RBC, TD, CIBC and BMO along with other Canadian FI’s disclosed they charged a total $354 million in excess fees on mutual funds and other investments
- RBC integrated Wave’s financial service platform into their small business banking to provide invoicing, accounting and business financial insights.

SYNOPSIS

Customer experiences are framed by many variables, positive and negative, which affect them or which they see or hear through media. Many institutions could do a better public and media relations job, nationally and globally, as well as locally. There is an impression that what is retained is more negative than positive media hitting consumers. On the other hand, we see more reactive, defensive postures than perhaps "feel good" announcements so people search for more personalized solutions. Also there are numerous websites and social media activities that focus on financial institution mistakes, comparisons or disgruntled ex-employees. Since we know this is our environment, can't we do a better job to over compensate the positive every day?

CANADA'S OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS INTRODUCES NEW MORTGAGE RULES JANUARY 1, 2018

The hot housing markets in Vancouver and Toronto plus continuous publicity on Canadians' debt loads as well as political posturing has resulted in new mortgage rules, even after foreign ownership taxes were levied to cool the major urban markets. The key component of the January 1st rules is a new "stress" test on borrowers with uninsured loans to ensure they can withstand higher interest rates – i.e. at the 5 year average posted rate or 2% higher than their actual mortgage rates, whichever is higher. The stress test rules do not apply to mortgage renewals. Also the new rules require lenders to have more scrutiny around loan-to-value ratio relating to the underlying value of the home. Plus there are new limitations on so called co-lending or bundled mortgages.

Since these announcements, it appears that home sales have stayed strong as people may be trying to get their transactions in before year end. It remains to be seen if there will be a slowdown in 2018 or if funds will be streamed to lower cost market opportunities.

LAST WORD

The digital transformation of our industry plus the continuous influx of local and platform competitors should stimulate serious strategic assessments of your organization internally and externally by an objective resource. Disintermediation by non-traditional players will grow and erode customer relationships and financial margins. The social media giants and awesome platform partnerships such as Amazon will touch every corner of our business from urban to rural, from young to seniors, from consumers to corporations. There is a sense of complacency in many quarters which will undoubtedly lead to a slippery slope of dumb demise. Digital decisions are needed now by every FI participant plus updated consumer channel preference research is a necessity. Solicit the services of an objective partner to help plus look into the mirror. You have choices. For example, capitalize on current relationships with new digital services, be a catalyst aggregator with partnerships inside and outside the industry, or invest in an integrated digital hub for extensive retail experiences. Future profitability is in marketing and distribution plus excellent leadership in customer experiences and relentless digital innovation. Strategic survival decisions for digital transformation and expansion are today's priorities.

Welcome to 2018!