

CUMA CONFERENCE 2010

“Outlook – A Canadian Financial Services Perspective”

September, 2010

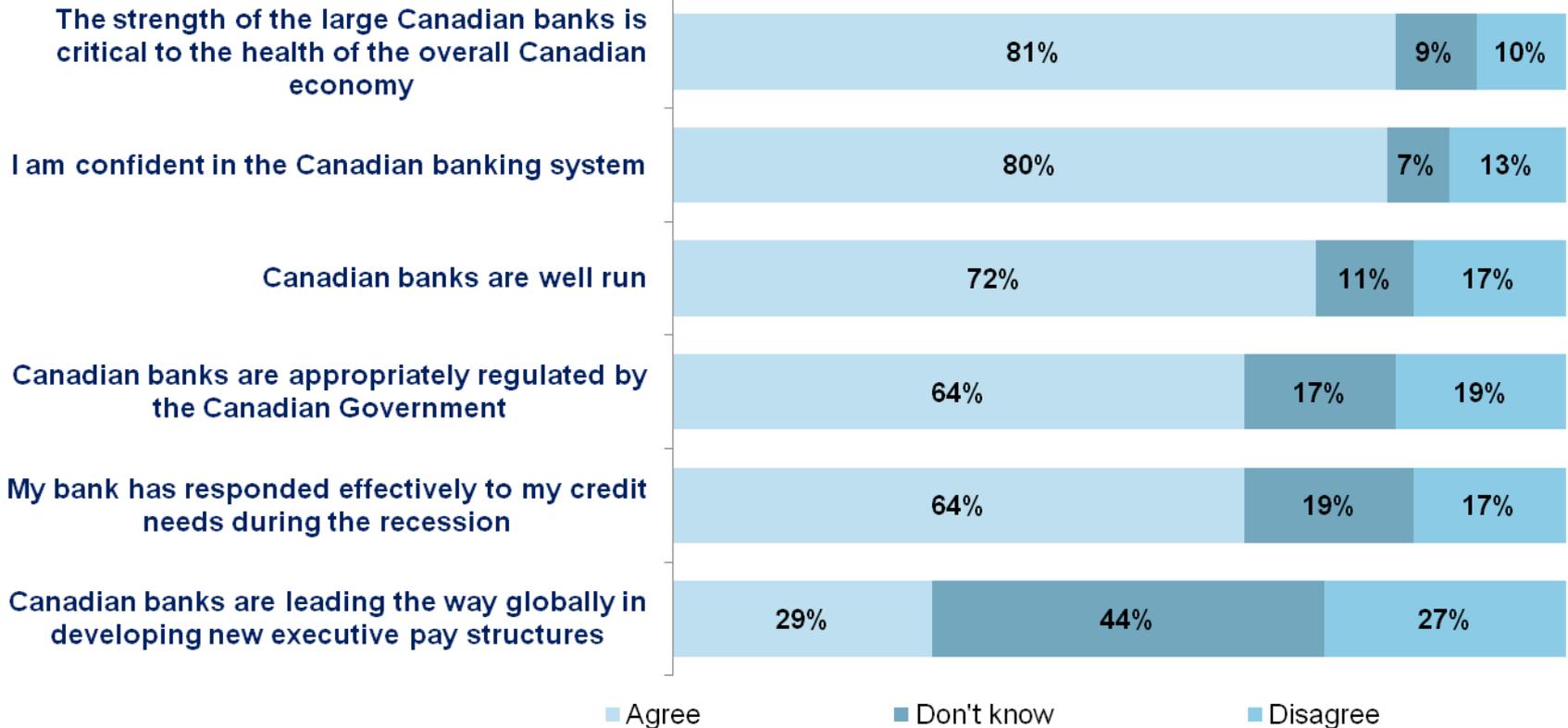
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While the Canadian financial system has weathered the storm remarkably well...

PwC Canadian banking results survey

Question: To what extent do you agree with the following statements related to Canadian banks or the Canadian banking system?



... the industry is still struggling to return to historical earnings level. The most popular questions we hear in the industry are:

- How do companies grow in a challenging market?
- How do they respond to customer needs that continue to change?
- Do we understand our risks and which ones do we focus on?
- How do we continue to manage our costs down?

Let's discuss one or two topics in each of these areas

Growth

- Small business lending

Changing customer demands

- Re-emergence of the branch
- Emerging social media

Managing risks

- Where are they and what do we focus on?

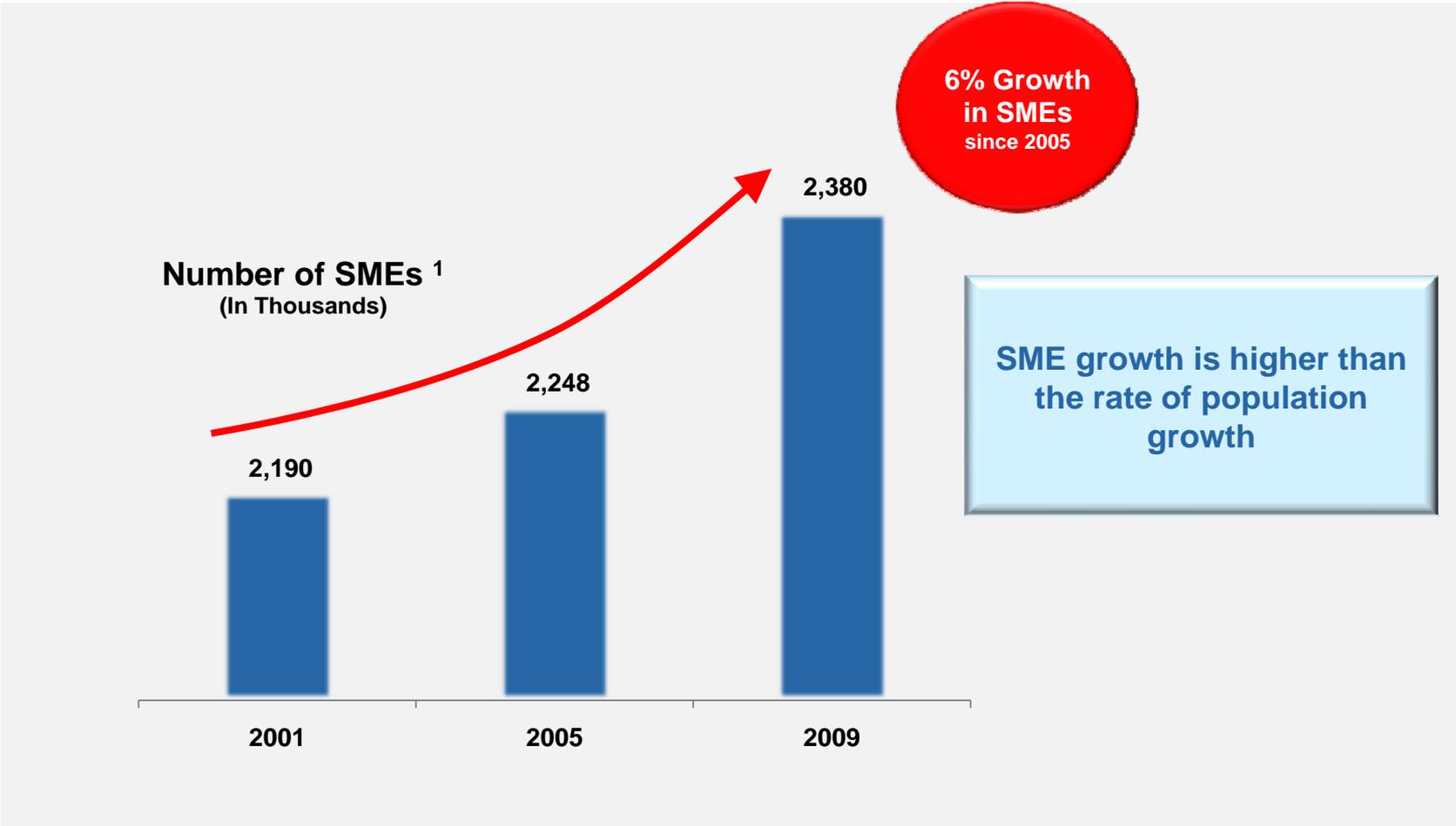
Lowering costs

- ...through joint venturing



Growth

The small business customer segment is a key segment that represents a growing opportunity for credit unions and banks

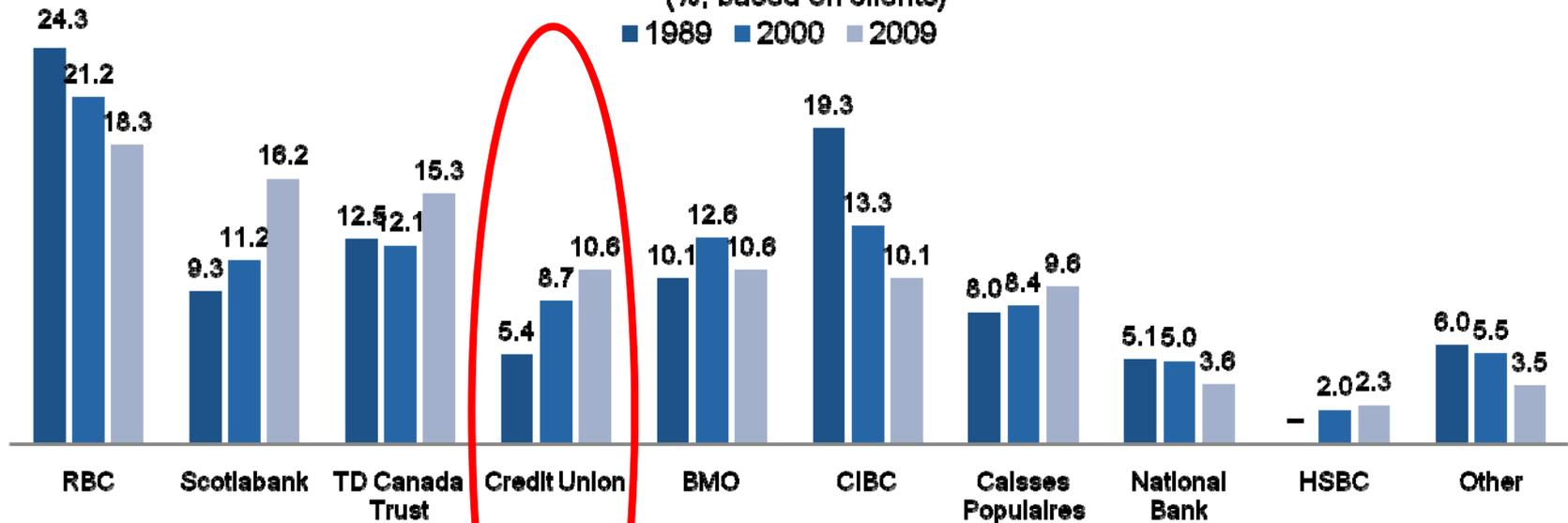


The credit union movement has made excellent progress over the last 20 years in penetrating this space

1989-2009 SME Market Share

(%, based on clients)¹

■ 1989 ■ 2000 ■ 2009



Rank (2009):	1	2	3	4	5	6	7	8	9
% Change (1989-2009):	-25%	+74%	+22%	+96%	+5%	-48%	+20%	-29%	N/A
Bps Change:	-6.0	+6.9	+2.8	+5.2	+0.5	-9.2	+1.6	-1.5	N/A

Source: (1) Canadian Federation of Independent Business (CFIB), Banking on Better Business, April 2010

Note: Data for 1989 and 2000 does not reflect market share for Canada Trust given TD Bank acquired this trust company in 2001; Market share data based on CFIB surveys for HSBC is not available prior to 2000.

But the banks are re-focusing on this area, and looking to better understand customer needs and priorities...

Segment:	SOHO / Micro Business	Small Business – Simple	Small Business – Advanced
Complexity	<i>Very low</i>	<i>Low</i>	<i>Low - Medium</i>
Manage personal & business accounts in one place	●	◐	○
Research banking transactions	●	●	◐
Reduce the number of trips to the branch	◐	●	●
Electronic payments	◐	◐	●
Wire transfers	○	◐	●
Access to credit	◐	◐	●
Delegate financial responsibilities	○	○	◐
Download transactions in financial management software	●	●	●
Access to advice	●	●	◐
Support of tax and payroll functionality	○	◐	◐

Sources: Addressing the Untapped US Small Business Online Banking Market, TowerGroup, October 1, 2007; CFIB; PwC experience.
PricewaterhouseCoopers

○ Low Importance

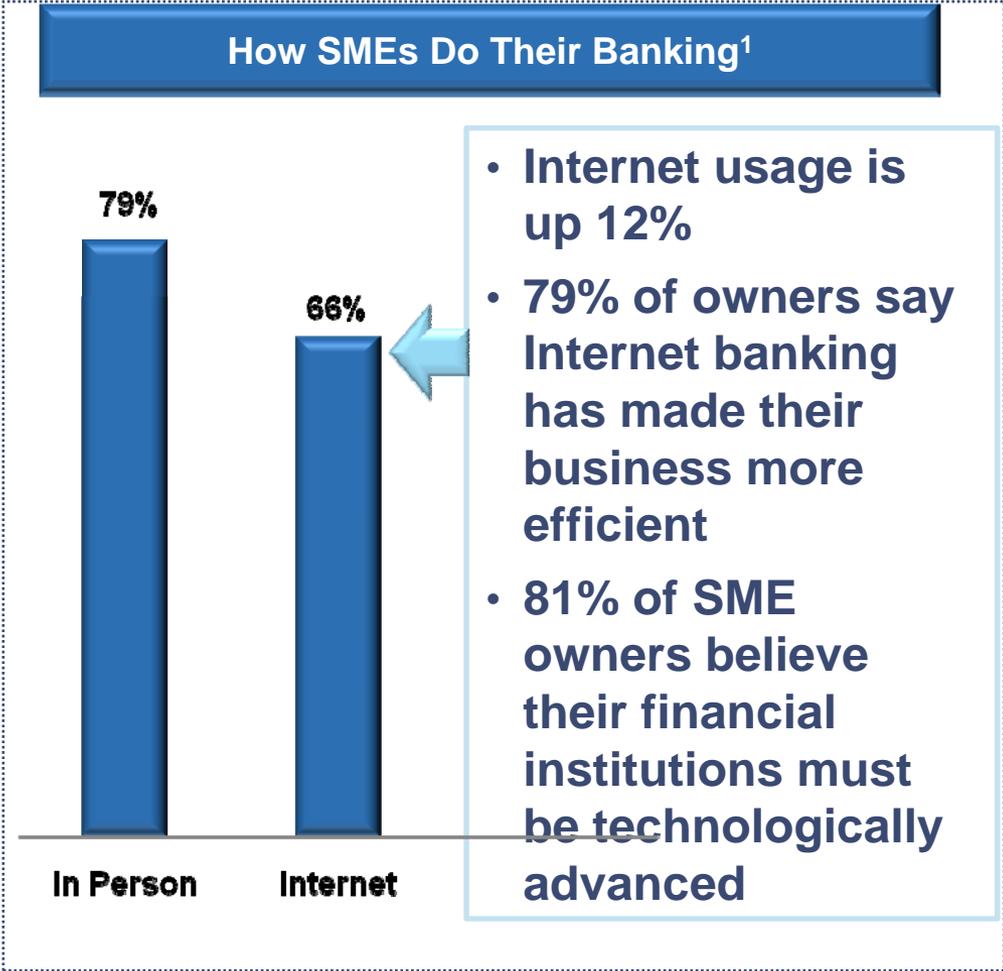
◐ Moderate Importance

● High Importance

As a result, they are developing new service approaches

	Description:	Example:
Alerts & Fraud Management	<ul style="list-style-type: none"> • Confirmation of invoice payments • Fraud alerts and user confirmations of recent payment transactions 	<ul style="list-style-type: none"> • Scotiabank
Payment Approvals & Positive Pay Decisioning	<ul style="list-style-type: none"> • Approve/reject outgoing payments • Positive pay decisioning of exception items 	<ul style="list-style-type: none"> • Wells Fargo CEO Mobile
Person-to-Person (or Business-to-Business) Payments	<ul style="list-style-type: none"> • Use mobile to make payments. • E.g., Pay someone by using the email address 	<ul style="list-style-type: none"> • JPMorgan Chase • CIBC
Self-Service	<ul style="list-style-type: none"> • Self-service activities that enhance and speed up the customer servicing process. 	<ul style="list-style-type: none"> • TD Insurance • USAA • Nationwide
Leverage Social Media	<ul style="list-style-type: none"> • Use social technologies and social communities for customer service • Real-time customer feedback and product development 	<ul style="list-style-type: none"> • Foursquare
Services That Encapsulate a “Business Event”	<ul style="list-style-type: none"> • Package functionality so that a life event 	<ul style="list-style-type: none"> • USAA Car Circle • USAA Home Circle

And are looking to better leverage non-branch channels



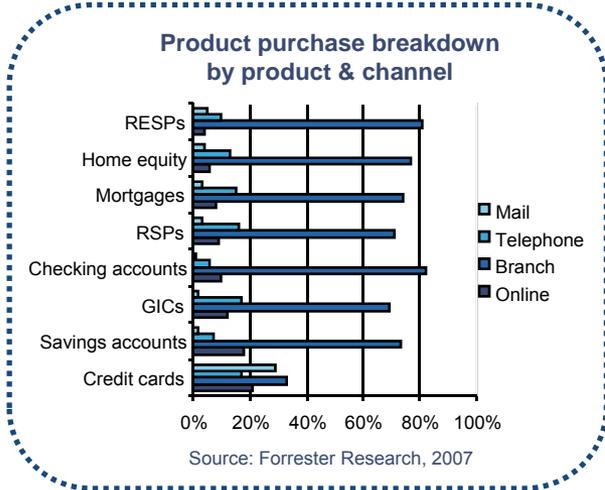
- Online Banking Offering Strengths:**
- Balance reporting
 - Tax and payroll deduction
 - Multi-user access
 - Transfer & payments
 - Financial management software

- Offering Gaps:**
- Deposit functionality
 - Credit functionality
 - Payment functionality
 - Advice

Source: (1) "Small and Medium Sized Enterprises", November 2009, Canadian Bankers Association

Changing customer demands

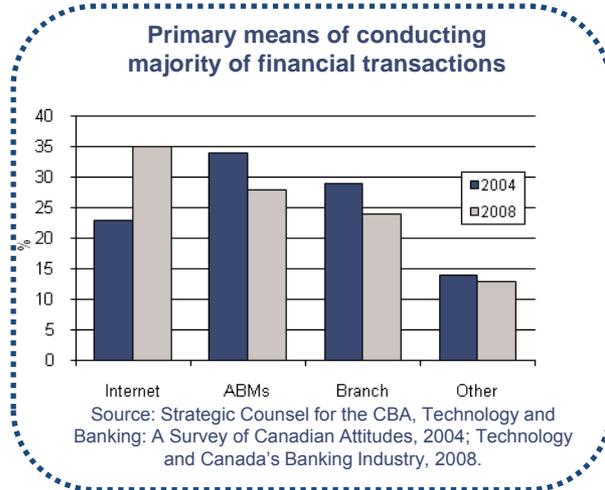
The branch continues to be a key channel to institutions of all sizes



The branch is dead; long live the branch

While branches continue to be the main channel for sales activities...

...Canadians are increasingly identifying non-branch channels as their main means of banking



- Customers prefer to use certain channels for certain tasks and hate to be pushed from one channel to another.
- Customers who use self-service banking channels for routine transactions make greater than average use of branches when they consider buying a new product

And so there is continued tweaking of branch networks

Sample challenges:

- Product-centric processes that do not facilitate an effective branch sales experience
- A high-turnover, increasingly part-time and under-trained branch workforce
- Lack of incentives for staff on their activities with the customer
- Channel and product competition

Focus areas:

- “Retail banking is all about customer loyalty”
- Identifying interactions that really matter and designing right experience
- Focus on “empathy and service quality”
- Policies and procedures that are rationalized and focused on the client

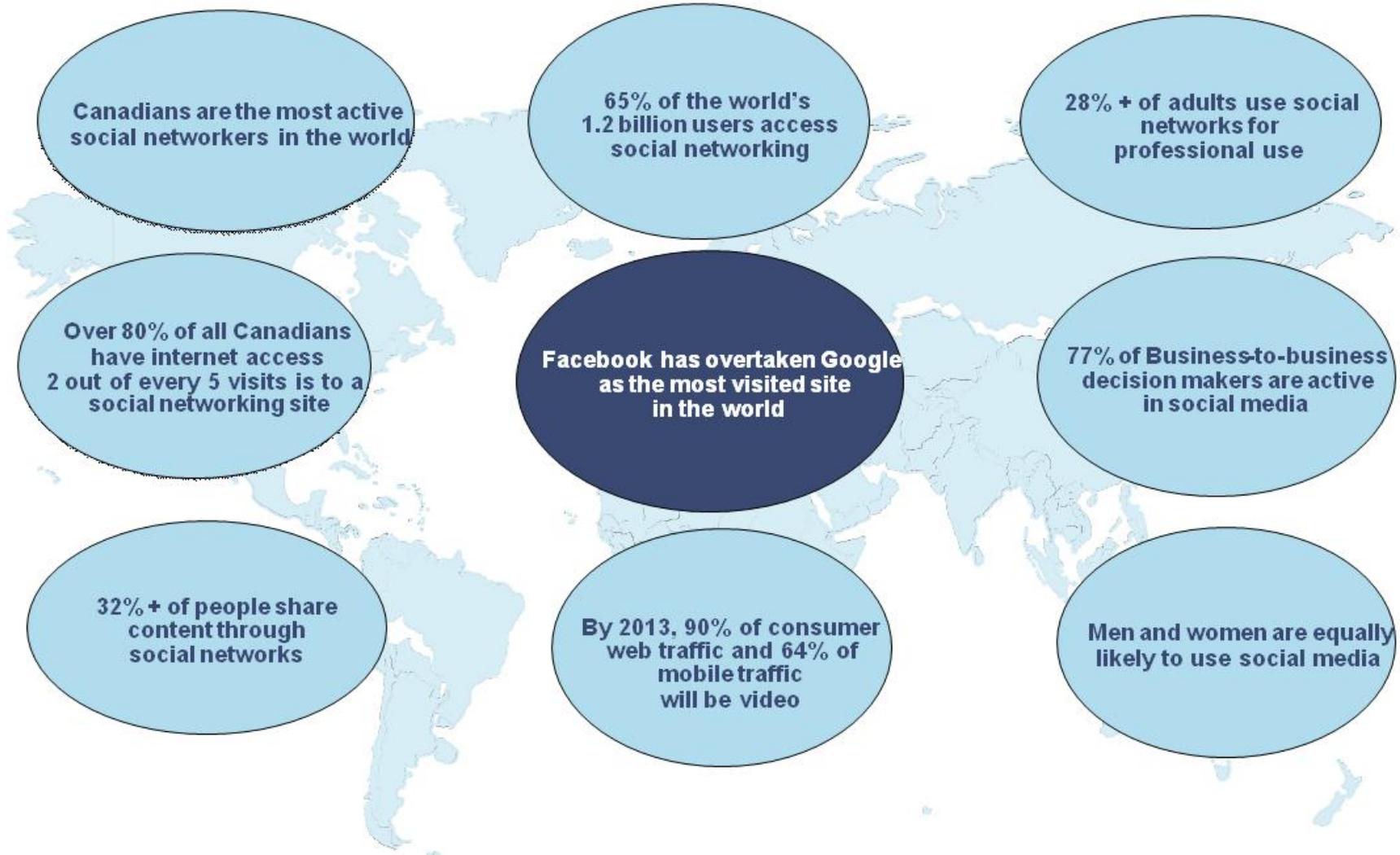
An emerging banking channel – social media – is gaining attraction in the US, and garnering attention in Canada.

What is it?

- New ways that people are interacting with each other using web technologies.
- It's where social meets technology. It's about online engagement.



How big is it? BIG. Social media for personal reasons has been flourishing and now usage for professional purposes is on the rise.



Some recent examples include:

Improving brand recognition

- Nicolet National Bank - the Vault blog where President answers questions directly and posts thoughts on the troubled banking and finance system

Expanding customer reach

- FiServ - My Money facebook app for credit union customers in the US lets customers monitor and access bank accounts

Increasing customer satisfaction:

- First Direct U.K. (HSBC) - Little Black Book is an active customer community where customers share best experiences, favourite things and reviews.

Some recent examples include

Driving sales:

- Citi Cards - One Friend at a time campaign on Facebook, City donates \$50 to a charity of choice for every approved credit application
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Cementing customer loyalty:

- Missouri Bank - “Be the difference” online community, young, hip, eclectic customer base interact in an exclusive online neighbourhood

Reducing service costs:

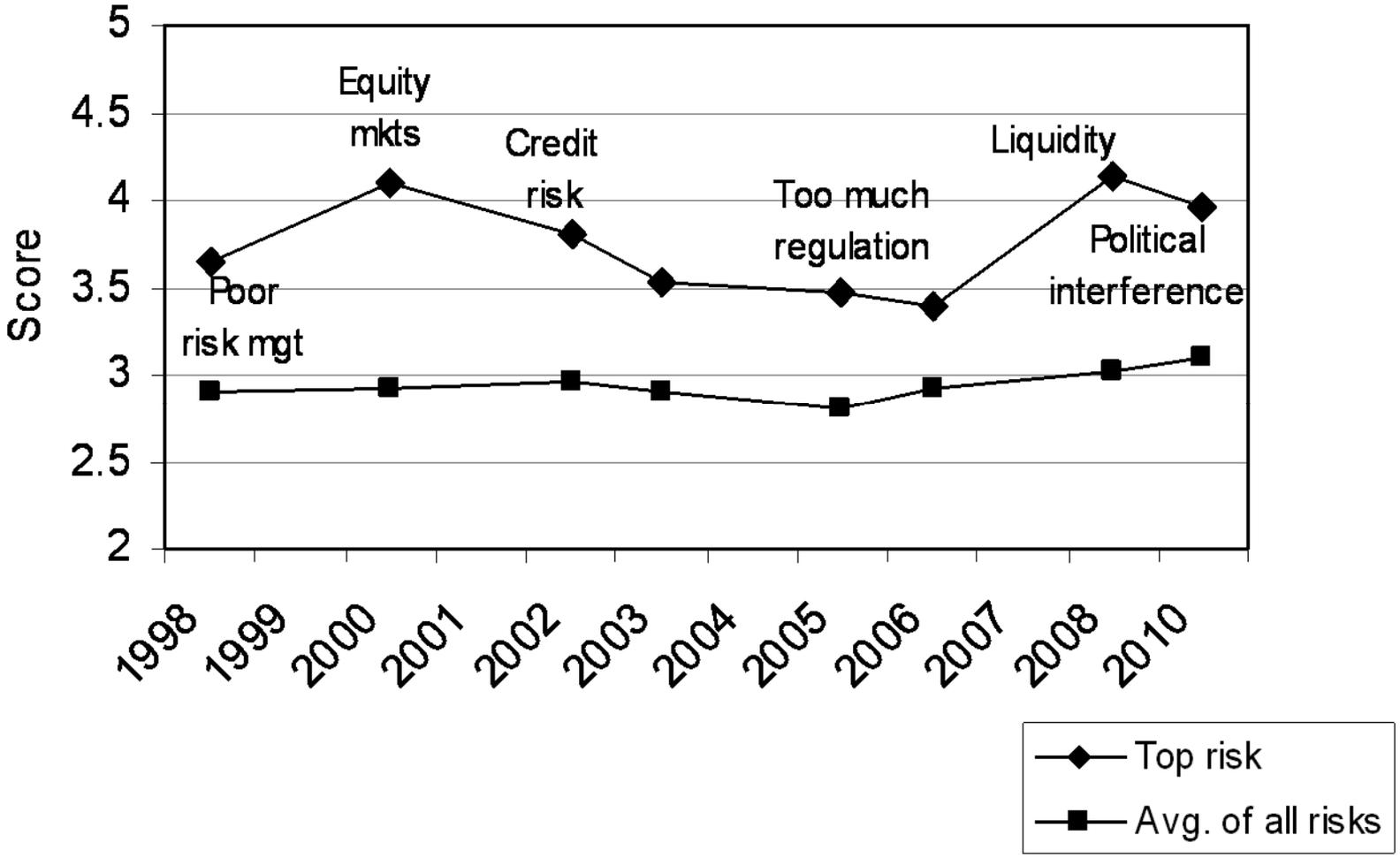
- Bank of America - Twitter resolution for credit card issues

Creating relevant products:

- 1st Mariner Bank - Building new products based on customer feedback

Managing risks

Our biannual “Banana Skins” survey of banking risks reveals that critical risks change on a regular basis.



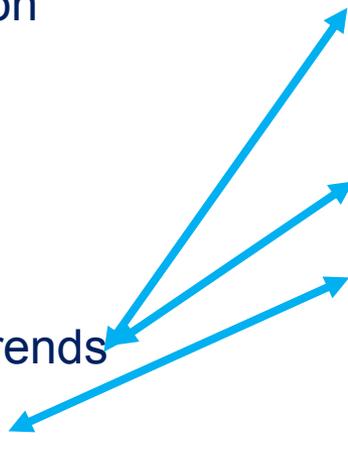
In 2010, both bankers and bank observers had a consistent review of key risks, but they differed greatly from 2008

Bankers

1. Political interference
2. Too much regulation
3. Credit risk
4. Liquidity
5. Derivatives
6. Macro-economic trends
7. Capital availability
8. Risk management quality
9. Credit spreads
10. Equities

Observers

1. Political interference
2. Macro-economic trends
3. Credit risk
4. Too much regulation
5. Capital availability
6. Risk management quality
7. Liquidity
8. Credit spreads
9. Currencies
10. Equities



And were relatively consistent in Canada

World

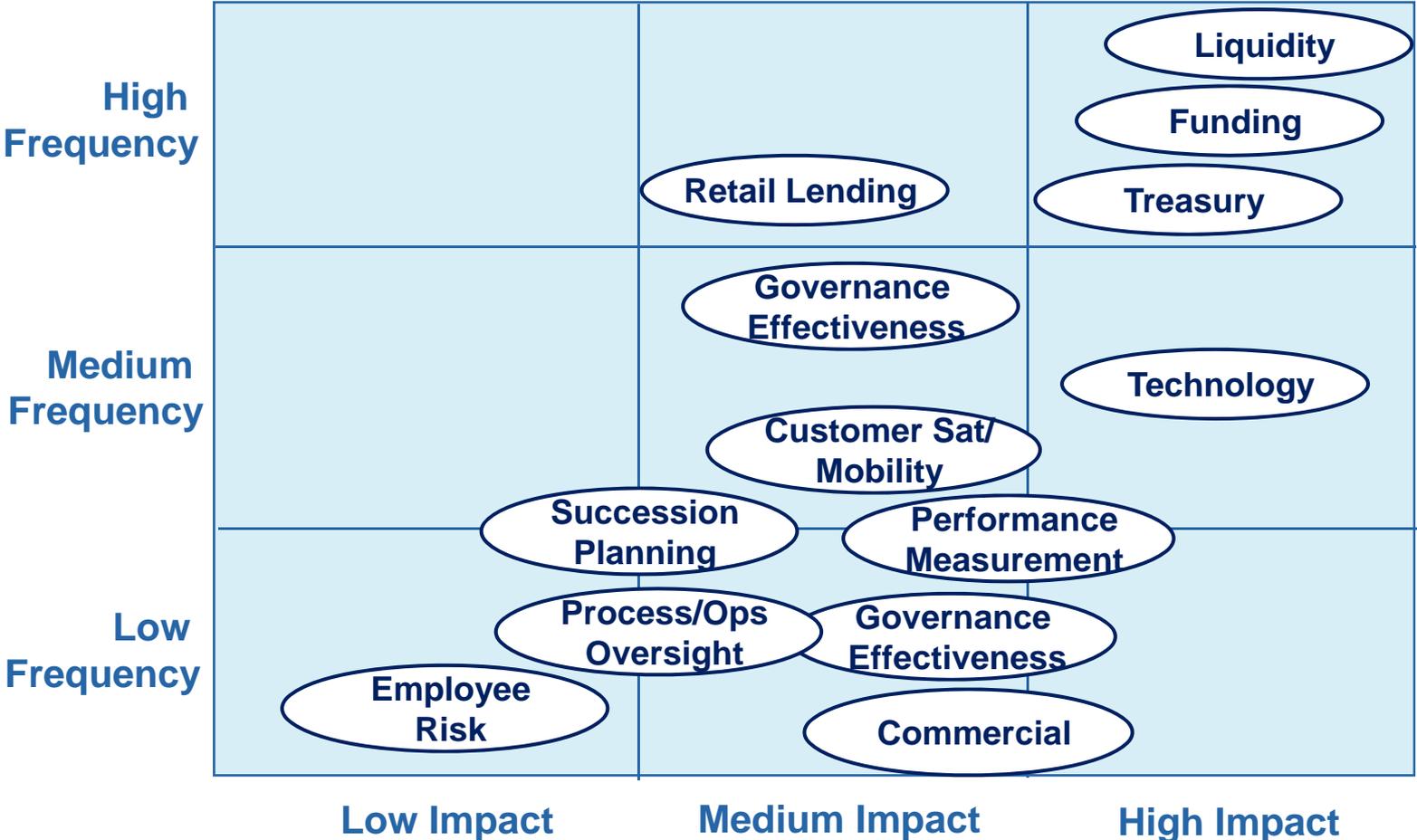
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Canada

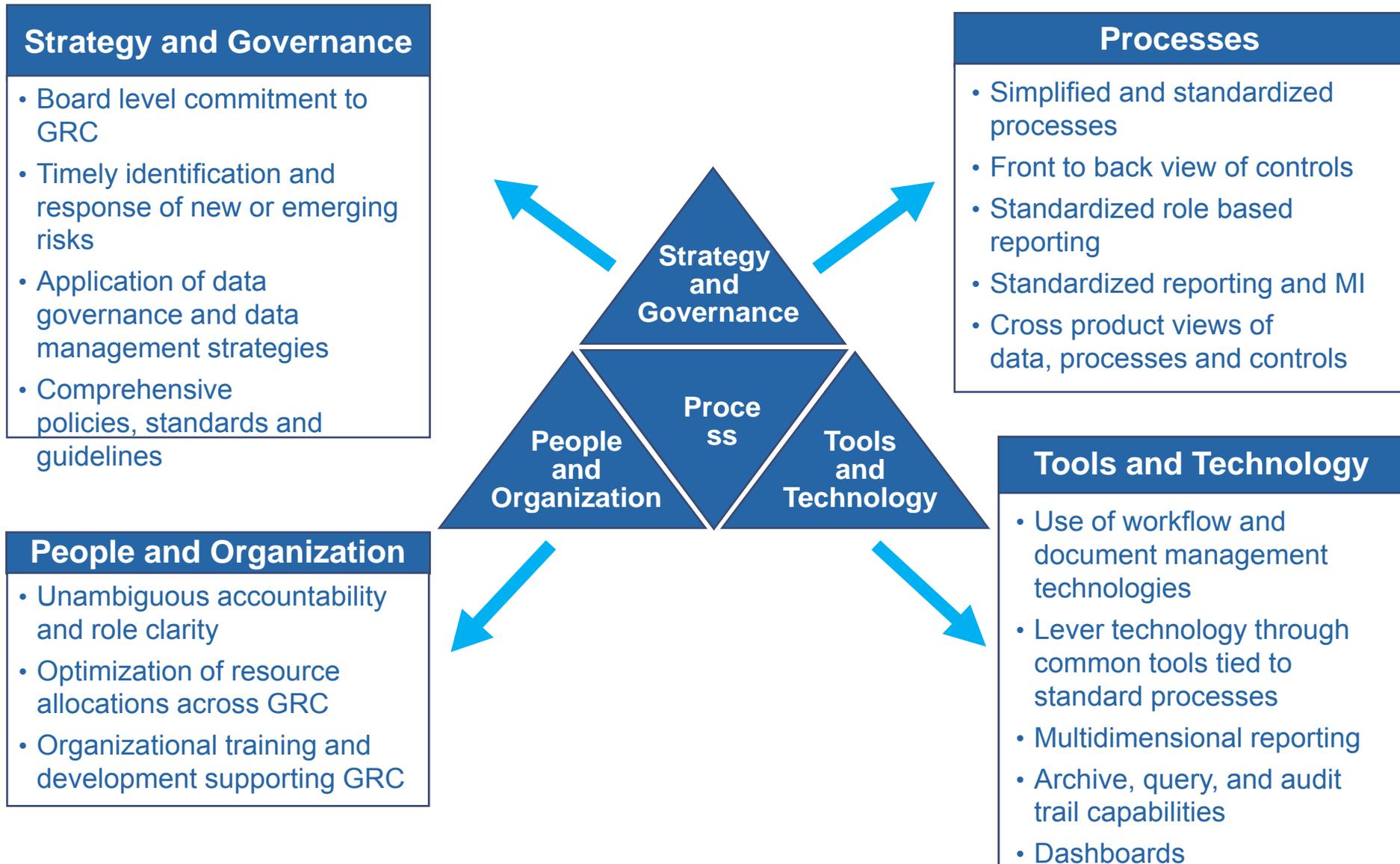
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9. Commodities
10. Currencies
- 24.



Many institutions are prioritizing their key risk areas...



... and focusing their risk mechanisms on the most critical near term risks.



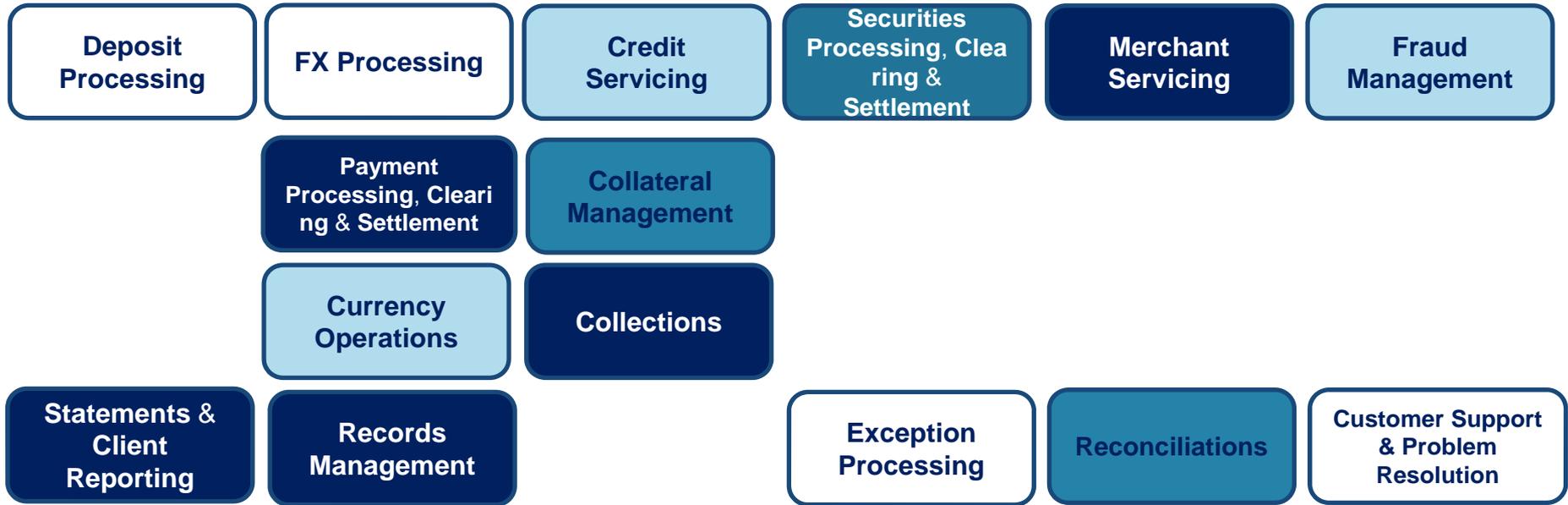


Lowering costs

Joint ventures in banking are back on the table:

Rationale	Description
Entry into New Markets	<ul style="list-style-type: none">• A strategic venture can minimize risks when entering into new markets• Eg. Enstream (to provide mobile payments in Canada)
Economies of Scale	<ul style="list-style-type: none">• Market participants can not conduct a specific activity in an economic manner• Meaningful economies of scale can be achieved and can reduce the cost of operations• Eg: RBC and BMO on Moneris (merchant services)
Establishing Standards	<ul style="list-style-type: none">• Forming JV can help establish standards (processes, technology, etc.) by achieving critical mass• Eg: Canadian banks on Interac
Lowering Capital Costs	<ul style="list-style-type: none">• Involves significant up-front investments. High capital costs can be shared• Example: TD, RBC and BMO on Symcor (cheque and item processing)
Seeking New Capabilities	<ul style="list-style-type: none">• JV partners bring specific expertise to the venture.• Example: Barclays / Sumitomo Mitsui and Nikko Cordian on SMBC Barclays Wealth Division in Japan

Based on our expertise, we believe there are some operations areas that credit unions can investigate. Here is the current thinking from a banking perspective.



But the area and focus needs to be carefully selected

Criteria
Venturing Fit
Financial Benefits
Ease of Execution
Risk Profile
External Considerations

Business Issue
Agreement on Scope
Analyzing Cost Structure
Organizational Buy-In
Commercial Focus
Governance

Business Issue
People Strategy
Business Controls
Technology Solutions
Vendor Involvement

Conclusions

Growth is a challenge throughout the industry:

- Large institutions are going down market while smaller are going up
- All areas for growth are being assessed
- Customer needs continue to change
 - Loyalty and service is important again and is being reassessed
 - Social media is coming mainstream
- Key risks continue to involve
 - Reassess and pick your spots
- There is continued pressure on costs
 - Can JV'ing provide other options to reduce cost and increase focus?