

Innovation Takes Center Stage

Competitive advantage is the key to high growth in financial services. Creating, achieving and sustaining an advantage requires managers to engage in a process of continual innovation – to define next-generation growth strategies, develop original product line features and pricing options, and improve efficiencies to drive down production costs.

The banking industry continues to struggle with managing the challenges of its legacy intermediation activities. Still, we have seen a number of innovations introduced in the last year. Some of these innovations have already proven they can move market share, and others threaten to do so in coming months. Competitors need to respond to these challenges but also need to engage in their own innovation planning processes to ensure relevancy in coming years. Below are a few examples of recent innovations that we especially like.

Decoupled Debit

Capital One partnered with Mastercard in June 2007 to offer a “decoupled” debit card that can be linked to any checking account – at any bank. Transactions made on this card are routed through the cardholder’s existing bank accounts, thus eliminating the issuer’s need to establish a new DDA account with the customer. There are no fees for the consumer, and the product offers 3-5 times better rewards than a traditional debit card (which can be pooled with rewards from COF credit cards). Some view this product as a key part of a larger Capital One strategy to penetrate the Prime/Superprime segments and capture DDA relationships from competitors.

No Fee Mortgage

Bank of America introduced its No Fee Mortgage Plus product last year. By eliminating fees, BofA has made the product simple enough for the bank’s retail branch staff to sell effectively. Some believe this product is a first move on BofA’s part to position the mortgage as a lead relationship-building product. With the recent acquisition of Countrywide Financial, the nation’s

largest originator, Bank of America seems to be making moves designed to support this strategy.

Build-to-Order Free Checking

Compass Bank has introduced a new checking account product that give customers free online banking and bill pay, free ATMs, and a free CheckCard but also lets customers choose the premium features they most value – and change these features any time. Features that can be added and changed include interest on balances, rebates on other bank’s ATM charges, one overdraft fee forgiveness refund, and more. This gets at an emerging preference for consumers – to interact with their products and customize them to suit their needs, needs that can change over time.

Savings Rate and Free Checking Finder

Fidelity Labs’ easy to use product finders enable consumers to look for the best savings and checking account deals in their markets. Fidelity Labs also offers Market Monitor widgets – just what the plugged-in generation needs on its iPhone or PDA.

Check out more of Fidelity Labs latest offers at www.fidelitylabs.com.

Umpqua’s New Innovation Lab

Unveiled at the end of 2007, Umpqua’s Innovation Lab in Portland, Oregon, is designed as a community hub and uses existing and emerging technologies to try to redefine the banking experience for consumers. Umpqua collaborated with numerous technology companies on its futuristic bank store concept. From its “Community Wall” – an interactive display that enables the store to serve as a center of community information – to its “Product Wall” – an interactive plasma wall with touch screen technology and podcasts – Umpqua continues to break through the boundaries of traditional retail banking in its search for a new, and more profitable, business model. Time will tell, but the bank’s innovation lab and its culture of pushing the envelope should serve it well in an industry where competitors struggle to grow by differentiating themselves. For more, go to www.umpquialab.com.

Innovation - Articles Worth Your Time

Harvard Business Review, *Breakthrough Ideas for 2008*, February 2008.

HBR’s annual look at ideas that are reshaping business includes a few of which financial service companies should take note. In particular, “Here Comes the P2P Economy” suggests that banking may be the next industry to be dramatically altered by the ability of individuals to lend money to other individuals within a network they know and trust. The authors argue that what has happened to U.S. newspaper publishers, where share prices have fallen drastically as a result of an individual’s ability to consume and create content on social networking and other P2P channels, is poised to happen to banks. We suspect the industry won’t be dramatically disrupted any time soon, but the article provides great food for a classic innovation workshop topic: what could put your company out of business?

The McKinsey Quarterly, *Leadership and Innovation*, Volume 2008 Number 1.

This article speaks to the critical role of leadership in fostering innovation, the need to specifically build innovation into leadership meeting agendas and performance metrics, and provides insight on building more collaborative and successful innovation networks, networks that encourage idea flow and knowledge sharing across an organization. The article is insightful and provides an excellent assessment of the role of leaders in the innovation process, even if it gets a bit too academic in describing how to design and build innovation networks.

CPG’s Growth & Innovation Workshops

Designed to spark innovation and creative thinking on key issues and opportunities that matter most to an organization.

- Define the next-generation growth and profit strategies for the institution.
- Foster collaboration across the organization.
- Challenge conventional thinking.

For more information, log onto www.capitalperform.com/GrowthandInnovation or call us at 202-337-7870.

BRAND CAMP

by Tom Fishburne



Statshot: Stock Price and Trust Revenue

Only five BHCs with total assets of \$3.0 billion or more had stock price appreciation between 12/31/06 to 1/31/08. Four of the five had trust revenue well above the industry average.

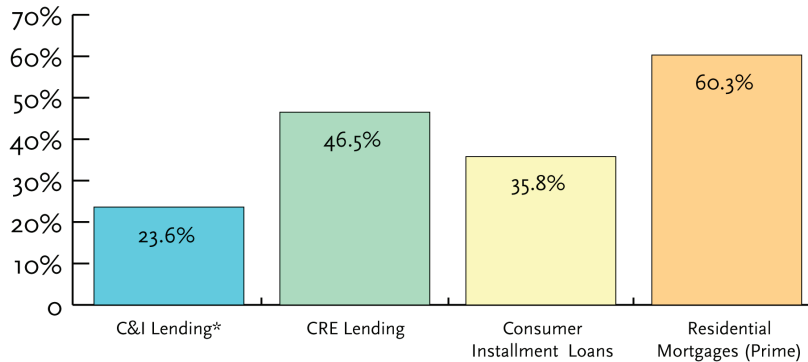
Institution	City, State	Total Assets (\$B)	Change in Stock Price	Trust Rev/Avg Assets ¹
Northern Trust Corporation	Chicago, IL	\$67.6	19.1%	3.34%
State Street Corporation	Boston, MA	\$142.5	18.7%	3.86%
Bank of New York Mellon Corporation	New York, NY	\$197.7	14.8%	4.24%
UMB Financial Corporation	Kansas City, MO	\$9.3	11.0%	1.42%
SVP Financial Group	Santa Clara, CA	\$6.7	2.7%	0.00%
Industry Average ²			-24.0%	0.31%

1. Ratio of noninterest income from fiduciary activities to average assets for YTD as of 9/30/2007, annualized.
 2. Industry average ratio of trust revenue to average assets from the FDIC for YTD as of 9/30/2007, annualized.
 Industry average change in price per share represents the change in the SNL Bank Index from 12/31/06 to 1/30/08.
 Note: Excludes banks & BHCs that were targets of an announced acquisition as of 1/31/08, such as Commerce Bancorp Inc. of Cherry Hill, NJ.
 Source: CPG analysis of data from SNL Financial LC, 2008.

Statshot: Weakening Loan Demand

(Percentage of domestic banks reporting weaker loan demand over the last three months)

A significant percentage of banks reported weaker loan demand (apart from seasonal variations) over the last three months, especially in residential and commercial mortgages.



Source: Federal Reserve Board, January 2008 Senior Loan Officer Opinion Survey. Responses from fifty-six domestic banks. *C&I loans to firms with annual sales of less than \$50.0 million.

Happenings

Closing the Proverbial Barn Door – National City Corp., announced on January 2 plans to close its wholesale mortgage unit in the wake of deterioration in its indirect home equity loans and lines. National City joins a list of banks that announced the paring back or shuttering of indirect mortgage origination channels, including Wells Fargo & Co., Webster Financial Corp., and HSBC Holdings Plc. A contrarian would see this as a perfect time for judicious expansion of indirect channels.

Gallery of Rogues – In what is apparently the largest trading loss in banking history, Societe Generale SA disclosed on January 24th that a trader, Jerome Kerviel, made unauthorized bets on stock index futures causing \$7.2 billion in losses. This, coupled with multibillion dollar losses related to the U.S. mortgage crisis, has spawned rumors regarding a breakup of the company. If this comes to pass, Kerviel will join a list of notorious traders whose actions precipitated a collapse of their institution, including Joseph Jett (Kidder Peabody & Co.), John Rusnak (Allfirst Bank), and Nick Leeson (Barings Bank).

Rate Cut Cure-all – In an effort to alleviate queasiness in financial markets, the Federal Open Market Committee reduced the federal funds rate 75 basis points to 3.5 percent on January 22, 2008. The FMOCC announced another 50 basis point reduction on January 30, 2008. It remains to be seen if these cuts will translate into higher earnings for financial intermediaries.

Announcements

CPG welcomes new Consulting Associates:

Nancy Maas, President of Intuegy, Inc., a strategic consulting firm specializing in financial services. Formerly Chief Marketing Officer and top marketing executive at two large regional bank corporations, an investment firm and an insurance company, with over 25 years of experience in strategy, brand development, marketing, research, product development, database marketing, sales/delivery strategy and marketing organization development.

Robin Klein, former Senior Vice President of Retail Banking Call Center Operations at JPMorgan Chase, with 18 years experience in retail operations, marketing segment management, Mass Affluent program design, direct banking program management, and line management.

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