

Private Banking & Relationship Profitability

by [Steve Brown](#)

We have a client bank that does a series of loan, deposit and cash management promotions around the upcoming World Cup Soccer tournament. The game will be played on all branch plasma screens and education pieces will discuss teams and current standings. There will be a soccer ball giveaway for the kids, T-shirts for the adults and deposit promotions that pay a higher rate for each game the U.S. wins. The marketing effort reportedly triples branch traffic and increases both loan and deposit production by an average of 20% for the month. Today, the bank will be holding a separate drawing for registered private clients for an all-expense-paid trip to Europe (complete with two tickets to the semi-finals). The promotion got us thinking about the nature of private banking. There is a myth in banking that having a special department or division that caters to the wealthy or affluent customer is profitable. The fact is that looking at FDIC data, this is no more profitable than other mainstream lines of banking. The distribution of profitable departments almost mirrors that of the banking universe. For some banks, having a private client group is a necessity (due to the competition or demographics composition of the service area), while for other banks it is a method of diversification or a marketing tool. The irony of private banking is that it often results in profitable customers being moved into a special department that entitles them to greater customer service and benefits. This process turns once profitable customers into unprofitable customers. In looking at the latest survey data, while most private banking programs are profitable, the distribution is very close to other lines of business, with only 65% of clients producing positive economic value. Among the well-heeled, there are some customers that will squeeze every dime of value from an institution, while others are competitive and still others are highly profitable. Many banks make the mistake of assuming everyone in their private banking division is a sought after customer. Surveys reveal that very few customers are ever removed from private banking groups once they are admitted, including at many of the major banks. Statistically, this should not occur, proving that few banks actively manage profitability within groups. The reality is that many mainstream customers are more profitable. Customer profitability should be irrespective of net worth or length of relationship. Perhaps banks would be better served by basing private banking membership on profitability instead of net worth? One of the great myths of private banking is that these customers are also the best ones to cross-sell. This may be true in theory, but if private banking customers are unprofitable in general, they are most likely also unprofitable along additional product and service lines. While private banking can work, basic rules of customer profitability and marketing still apply. For banks that don't have in-house tools to track profitability, BIG has a low cost, outsourced solution that can help on either a 1x or quarterly basis. Better capturing and actively managing relationship profitability allows banks to continually shout "GOOOAAAALLL!"

BANK NEWS

MBA Index

Mortgage applications fell 1.4% last week. This marks the 3rd consecutive decline and a 4-year low. Refinancing applications declined 3.8% to the lowest level this year, while purchases were unchanged. Home purchases are down 17% from last year and refinancing is off 43%.

Payroll Competition

BofA is focusing on small businesses through a new program designed to help them manage payrolls online. The program will create paychecks, set up W-2 tax statements, perform withholding calculations, link to accounting and have the ability to pay and file state and federal taxes electronically.

Internet Deposits

Citigroup has raised nearly \$3B in deposits via its Internet bank. Nearly 66% is new money according to CEO Charles Prince, who equated it to opening 23 new branches.

ATM

TD Banknorth (ME) has introduced a Visa debit card that waives ATM fees at all banks worldwide.

Bankruptcy Update

According to the Administrative Office of the U.S. Courts, bankruptcy filings during 1Q 06 were down nearly 25% from 4Q 05. A total of 117k bankruptcies were filed in 1Q, the lowest level since 1985.

Healthy Municipalities

Given the number of banks that own municipal bonds, it is nice to see that 42 states expect to have a budget surplus in 2006.

HSAs

The number of people enrolled in HSAs tripled in 2005 to 3mm. Despite that, only 22% of employers with 20k or more employees offered HSAs, while only 2% of employers with less than 100 workers had them. Banks are reporting mixed success with these accounts. Some of the more successful ones offer a Web application that lets users better analyze and control medical claims. This add on service comes with an additional fee only if the application can save the user money.

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