

OVERCOMING THE MALADY OF NON-INNOVATION

by [Steve Brown](#)

Let's face it. When it comes to product innovation, some bankers act like they have brucellosis. For those that aren't up on their Mediterranean diseases, this misfortune is characterized by malaise and fever, resulting in rapid talk, but physical inactivity. That sums up innovation at many banks. At our upcoming High Performance Bank Workshop in July, we will attempt to cure that affliction. We will be looking at what works at other banks and what doesn't. More importantly, we will be giving bankers the tools to conduct their own audits to uncover fee and deposit products that will drive growth. Creating new products at a bank is not a one-time event, but a process that must be continuously managed, measured and carried out. When most bankers think about innovation, they frame it in terms of technology. However, it is usually a quest for a better process that helps drive technology, instead of the other way around. The best innovations in banking have been driven by combining a new business platform with new products/services and enabling them with technology. The banking industry now has record efficiency. An informal survey of our client banks revealed that document scanning, credit scoring, call centers and e-mail all contributed to the largest advancements in product delivery and cost savings. What is on the horizon? As banks will learn at the Workshop, the first step to developing better loan, deposit or fee products is to identify a need and the resources available. Do you have a strong high net worth presence? Are other banks uncompetitive with commercial money market accounts? Should you offer trust services, real estate or insurance? Is there a college, retirement community or a high growth area nearby? Can products be bundled to satisfy a need? Once a need is identified, the next step is to map out existing products/services, their value proposition, their target customer base and how they are delivered. These are the fundamental elements in every business strategy and the logical focal points for innovation. Filling in the gaps and removing bottlenecks can instantly boost productivity. Innovation can be paradigm shifting or incremental. Adding a new twist to an existing product, like overdraft protection to checking, is just as innovative as inventing an ATM. Innovation can also relate to how a product is distributed. Delivering credit through the Internet or 3rd party, instead of a branch, has dramatically increased profitability at many banks. Innovation also includes changing the target customer segment. Currently, providing cash management and credit to the unbanked is a focus of many banks (a customer set banks have historically ignored). Banking innovation can also take the form of "enabling technology." Rather than changing the functionality of a product or process, enabling technology pushes the bank to execute a strategy much faster and turns time, information and risk management into a competitive advantage. Customer profitability, management information systems and better financial reporting all ensure better decision-making and risk management. No matter how you slice innovation, for banks looking to earn an above average return on their investment year in and year out, the process must be managed.

DEPOSITS

All banks that signed up for the 1Y CD at 5.00% got filled and will be getting their confirmations and money today. These banks will be receiving money at almost 50bp below Libor, or about the same level as the U.S. government borrows. Thanks to all for participating and we will be announcing our next issuance soon.

BANK NEWS

Acquisition

Wells Fargo will acquire national multifamily real estate finance company, Reilly Mortgage Group (VA) for an undisclosed sum. This adds a \$10B multifamily portfolio to the bank and capabilities to expand origination another \$1.5B per year. In addition, this makes Wells the largest multifamily loan servicer in the world.

Going Public

Alliance Bank of PA (\$391mm, PA) announced plans to pursue a partial second step conversion, with plans to take another 25% of its shares public in early 2007.

Loan Extension

The SBA extended the maturity on its hurricane related disaster loans for small businesses by several months (until the end of July).

Assessment Change

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Real Estate Trends

Home prices rose 2.0%, the slowest growth rate since 1Q 2004. We are starting to see the secondary affects of slower mortgage production and lower home builder activity.

ATM Innovations

More banks are adding imaging capability to their ATM networks to increase efficiency. The technology allows customers to deposit checks without envelopes, cutting down on fraud and allowing for faster processing.

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