

## SETTING THE HOOK AND FISHING FOR CUSTOMERS

by [Steve Brown](#)

To catch more fish, experts suggest people stand quietly, cast and repeatedly reel their fishing line back in. This is important, because on Tuesday of this week, USA Today ran a graph that should have been of keen interest to banks – particularly those fishing for new customers. It wasn't so much what the graph showed, but rather what it didn't. It was based on a survey of people with accounts at financial institutions. The question asked in the survey (a 2006 IBT/MCA Market Pulse survey) was "What promotional program would persuade you to change your financial institution?" The results found 41% of people would not change financial institutions regardless of amount of money or promotion; 33% would change for a \$250 gift card; 20% would change for a 1 point higher interest rate on deposits; 5% would change for an iPod and 1% would change for a toaster. We encourage readers to pickup a back issue for many reasons. First, millions of newspapers are sold each day in the U.S., so rest assured that some of your customers saw the graph and are thinking about your financial institution. This is particularly important when you also consider that USA Today is ranked #1 in the country in readership (with over 2.5mm daily readers). Suffice it to say, a large percentage of your customers and competitors probably saw the graph and are trying to figure out what it means to them. Admittedly, the graph did not indicate who exactly was surveyed (consumers, business owners, etc.) and it also did not define what a financial institution was (bank, thrift, credit union, insurance company, etc.). Be that as it may, there are some interesting takeaways that may not be so obvious at first glance. The graph showed one-third of a bank's clients are at risk of being lost for something as cheap as a \$250 gift card. That is a lot of potential deposit money for very little marketing outlay. Another interesting point that seems counterintuitive is that four-fifths of people do not care about the interest rate paid on their deposit and more would rather have a gift card. Think about that for a moment. The math shows the breakeven is only about 5bp for every \$500k of new deposits. Consider that the ugly group (those demanding 1% higher interest rates) is a full 20x more expensive. Smart banks will let the expensive customers go over to the competition and focus efforts instead on the 5bp (or \$250 gift card) group. Mull over as well that about 60% of customers are open to moving their account from their current bank to another one. That means less than half of current customers are "safe." Consider the impact of an aggressive marketing plan from a competitor focused on drawing away either 60% of one's deposit or loan customers. That is probably about as painful a thought as getting dragged across the river with a hook in your mouth. As we all struggle to hang onto customers, it is important to constantly remind ourselves that studies show customers expect their bank to contact them about 14 times per year. Finally, consider a recent study that finds 16% of households with investable assets of \$100k to \$500k own a small business and that nearly 68% of them also have their business accounts at the same institution as their personal accounts. The graph highlights some key items independent banks may want to consider putting into their tackle box in an effort to land more customers.

# BANK NEWS

## **Acquisition**

Beulah Bancorporation (\$128mm, SD) will acquire Valley Bank & Trust (\$50mm, IA) for an unnamed sum.

## **Competition**

Wells Fargo and A.G. Edwards will form a joint venture to provide mortgages and home-equity loans to customers. Terms of the deal were not disclosed.

## **Lending Trends**

The Fed's most recent loan officer survey found that consumers were demanding more loans and easier credit terms from lenders during the past quarter.

## **Charter**

BOK Financial Corp (\$17B, OK) is seeking approval to purchase the charter of the State Bank of Colony (\$13mm, KS) as BOK eyes expansion plans.

## **Verification**

Regulators have released guidance to help banks comply with enhanced online security authentication procedures due December 31. The guidance, which applies to both retail and commercial customers, specifically addresses the need for risk-based assessment, customer awareness and security measures to reliably authenticate customers that remotely access their financial institution.

## **Repayment**

Benjamin Franklin Federal Savings and Loan (OR) shareholders will receive nearly \$31mm in cash, according to the FDIC. The thrift failed in 1990 and had 4,773 shareholders on record. The funds are left over from the receivership of the thrift.

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