

## FIXING IMPERFECTIONS THROUGH CHANNELING

by [Steve Brown](#)

The Romans used to call it a "Tribute to God Flourish." These self-inflicted imperfections in art work were an acknowledgement by the Ancients that only God is perfect and deserves to produce pristine beauty. Recognizing that it is only human to make mistakes, banks can improve how they channel their customers. Moving customers to an optimal channel to match profitability will never be perfect, but it can be an area of vast improvement for independent banks. While much has been made about the use of internet, traditional channels are currently being overlooked. Not all customers represent the same value. To better channel customers, one \$600mm client bank developed and implemented a program that has proven effective. First, each customer is ranked on a scale of 1 to 5 with 5 being in the top 20% of profitable clients. In addition, each customer is ranked (H)igh, (M)edium and (L)ow, as to future earnings potential (based on the relationship manager's perspective). "5H" customers represent the highest value, while "1Ls" the lowest. Customers with an "L" designation represent those already giving the bank a majority of their business. A 5 person call center group handles all "1L" through "3L" clients on a reactive basis and makes outgoing sales calls on those in the "1M" to "3M" designations. These "contact managers," never see clients in person, but handle approximately 250 customers each. In addition, they serve as a training ground for future RM officers. Training is important and the group receives ongoing coaching on selling, product training and customer experience on a quarterly basis. All other clients are handled by traditional RMs staffed at the branches. These RMs handle 40 to 60 clients each and are responsible for face-to-face selling. All clients in this channel receive at least 1 in-person visit per year, while "4" or "5" designations are seen quarterly. Clients labeled "4H" and "5H" are seen monthly. Customers are divided so "4," "5" or "H" make up a third of every RM's portfolio. An overall "Channel Management Team," composed of the heads of each group (including marketing and senior management) ensures collaboration between the various platforms. This team also is responsible for developing products and orchestrating promotions. Shortly, this bank will roll out its enhanced website, which will serve to further channel clients. Note the difference in this business model compared to the traditional bank structure, which allows the client to choose their channel. The new model is proactive in managing the customer experience based on profitability and potential. This allows for a better allocation of resources and puts your most effective sales channel to work on the most profitable clients. This bank found that being proactive in contacting customers and targeting them with specific promotions, significantly enhances profitability. In fact, while the bank expected their largest boost to occur with their most profitable customers, they were surprised to find that their largest gain actually came from the "3M" category. The extra calling effort shifted more than 40% of customers from a "3" to a higher category (due to improved cross-sell). Overall, the structure has worked effectively, increasing sales by a reported 50% over the past 18 months. While channeling isn't for every bank, for institutions looking to get serious on relationship profitability, fixing your channeling imperfections is a great start.

# BANK NEWS

## **M&A**

City National Corp (\$14.3B, CA) will acquire Business Bank Corp. (\$458mm, NV) for \$161mm, or about 4.11x book.

## **M&A**

As part of a deal with the DOJ and FRB related to the agreement to merge with Regions Financial, AmSouth will sell 52 branches to 3 buyers. RBC Centura Bank (\$20.8B, NC) will acquire 39 branches in AL with about \$1.5B in loans and \$2B in deposits, Citizens Bank & Savings (\$841mm, AL) will buy 6 branches in MS and First Bank (\$1.4B, TN) will buy 7 TN branches with about \$400mm in deposits.

## **Cash Flow**

FHLMC is reporting that in the 3Q, 89% of homeowners refinancing their loans took additional cash out. This is the highest level in 16Y.

## **Credit Quality**

Rating agency S&P is reporting that Sept. defaults on high-yield bonds fell to their lowest level in history.

## **ARMs**

A study by Wells Fargo finds 80% of homeowners with ARMs are concerned about pending rate increases, while only 20% said they were prepared for them. Interestingly, more than 50% said they hoped to refinance their loans to solve any potential issue.

## **Extreme Competition**

Banks should note that the MA Division of Banks has given Wal-Mart stores permission to cash checks at its stores throughout the state. The regulator said the commercial location of the stores, hours of operation and competitive fee structure provided a platform to meet public needs.

## **Hard to Manage**

Studies find the average internet savvy user now has an average of 30 password-protected accounts. Banks should note that requests to reset forgotten passwords account for 50% of help desk calls on average.

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