

THE KISS PRINCIPLE

by [Steve Brown](#)

Let's face it - a good kiss is hard to beat. Perhaps that is why the KISS ("Keep It Simple Stupid") principle, advising people to keep simplicity as a main goal has stood the test of time. KISS is a concept that can be directly linked to Albert Einstein who said "everything should be made as simple as possible, but no simpler." In banking, as in most other endeavors, whether one enjoys a good kiss, believes simplicity is a good thing, or simply does not wish to argue points with Einstein - the principle makes a lot of sense. That is why we were not surprised to uncover a recent study from Harvard that seemed to back up Einstein's premise and connect it to business. To begin, extreme competition is driving banks to design, develop and launch products and services at an increasing rate. Proliferation boosts profits, but it can also add complexity to the management and measurement process. Understanding this paradigm is important. According to the study, roughly two-thirds of overall profitability comes from just a handful of products or services. Try telling that to bankers, however, where in an effort to stay at the forefront of customer relevance, they continue to add product and service offerings in an effort to attract and retain customers. The days of a single checking and savings account are gone, as banks try to differentiate themselves in a crowded market. Being able to offer tailored solutions to meet specific customer needs is now the norm, rather than the exception. All of this is unavoidable, but it also comes at a cost. For banks, understanding which offerings are profitable, where competitive threats may surface and which customers are not yet using the most profitable offerings (to know where additional profitability can be achieved), is crucial to ongoing success. Given heightened pressure to compete, bankers must remain focused on maintaining a balance between offering too many products and services and not enough. While simple enough to state, the study indicates why this task may not be that easy. First, consider that roughly half of respondents said their company had increased product and service offerings by at least 50% over the past 5Y. Of those who had seen increased profitability from this additional complexity, roughly 75% said leveraging existing platforms was the key to their success. Banks expected to offer more products and services in upcoming months should take a lesson from this group and seek to leverage existing platforms and processes wherever and whenever possible. This helps increase the odds of success, while reducing "launch" costs. Next, the study found that roughly 50% of the successful group formalized the process for adding or removing offerings to ensure only the strongest survived. Capturing the cost structure, economic value and project probability of success were all critical elements successful companies build into their review process. Keeping things simple and tailored for each client is important, since studies also find that customers given 6 or fewer options are more than 10x more likely to "buy" something than customers given more than that. Pucker up your offerings, but remember how you KISS can be as important as who you kiss.

BANK NEWS

M&A

Sun America Bank (\$321mm, FL) will purchase Independent Community Bank (\$141mm, FL) for \$41mm, or 3.1x book.

M&A

Bank of America will buy U.S. Trust, the private banking arm of Charles Schwab for \$3.3B. BofA will look to increase market share in assets under management, enhance cross-sell opportunities and

expand its deposit base.

Credit Scoring

A recent SBA study supports the notion that credit scoring allows more credit to flow to small businesses. In a study of more than 327 banks, credit that would have normally turned down on a manual basis was approved under credit scoring. The study found that the net result of using credit scoring was more profitable loans were originated by banks and more credit was extending to small businesses. Separately, our research shows that only 10% of independent banks currently use credit scoring.

Going Direct

Studies show roughly 75% of small businesses are aware of direct deposit, but only about 25% use it to pay their employees.

Hiring

A study of recruiters finds 60% of their time is spent on non valuable activities such as reentering resumes into their systems and other administrative work. Perhaps that is why 81% say hiring is harder to do than last year.

Bubble

HUD studies find 57% of first-time homebuyers are classified as earning low or moderate incomes, defined as less than 120% of area median income.

Competition

M&T Bank said it plans to continue to expand its small-business lending, including plans to open branches focused on such clients. The CEO said the bank will boost its effort to originate loans to "community" businesses he termed "mom-and-pop stores." The bank reported commercial loans increased 9% in the 3Q compared to the same time last year.

Customers

VISA reports small business transactions on its credit cards jumped 32.2% over last year, reaching \$103.5B. The company has been actively trying to woo customers away from using checks.

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