THE FINE AROMA OF PREMIUM ACCOUNTS

by Steve Brown

Not far from San Francisco lies Napa Valley, an area blessed with a key natural element that makes this region one of the greatest wine areas in the world - namely, tourists. These tourists drive their rental cars around stopping at some of the highest priced wineries with names like Opus, Rothschild, Silver Oak and Harlan Estates. There, seemingly normal people turn into wine snobs and start using phrases like vitis vinifera and ascescence. To be expensive, wineries have to do 3 things: have a Wine Spectator rating of over 90, have proper marketing and charge outlandish prices. Wineries, like most other products, perpetuate premium branding by elevating their prices. Unlike wineries that increase their margins when they increase their prices, banks often decrease their margins. Unfortunately, too many banks have followed a traditional path when it comes to pricing depository accounts. While we will be talking in depth about deposit strategies that will save you money at the next Executive Management Conference (on March 4th in S.F. next to Napa) working with premium accounts is an important step. Banks often make the mistake of paying their highest rates on premium accounts, under the false assumption that high-balance customers are price sensitive. This is a faulty assumption, as "premium" or "elite" depository products should be about service, access and VIP treatment. Never market "premium" or "platinum" accounts on rate. Offering a high-touch, high-rate and high-balance account may destroy the very value banks hope to create. High-rate accounts should be presented and marketed as middle-tier accounts with stripped down services. Even the positioning of accounts has an affect. Well-heeled customers tend to want the "best," which savvy banks can define. Those that frame the top account by rate will end up with a rate-sensitive balance sheet. Banks that define "best" by service will end up with service-sensitive customers. By moving high-service/lower rate products to the end of the product line-up (printed materials, website, etc.) and making sure employees understand how to sell service versus rate, banks can gain an advantage in attracting lower rate deposits. When designing premium accounts, the trick is to package products into a bundle that is inexpensive to deliver, but adds client retention features and cache to the package. Safe deposit boxes, special lines/phone numbers, online banking, debit cards, overdraft protection, special events (lecture series, tickets, etc.) and credit lines are all relatively inexpensive, but collectively offer a set of services that are cheaper than paying a high rate. While many banks can benefit from adding a premium set of depository accounts to their DDA and MMDA offerings, many more banks can gain simply by restructuring their current pricing and sales approach. Don't assume all premium customers are interested in rate and make sure employees position "high-balance, low-rate/high-service" accounts as absolutely the best the bank has to offer. If you do, bank connoisseurs will start describing your cost of funds as "classically absent of rate reflection with aromas of profitability and subtle hints of top performance."

Related Links:

Executive Management Conference Registration

BANK NEWS

Massive Competition

Wells Fargo reported it generated 20% of all small business loans in the U.S. last year when calculated by dollar volume.

Employees

A new study finds only about 33% of businesses have ever tried to quantify the cost of replacing an employee and less than 10% said their company had any formal structure in place to capture business knowledge from such employees.

Compensation

Studies of companies with less than 100 employees find the percentage of CEOs that receive stock option grants have fallen to 45% (from 52% 3Y ago), while restricted stock has doubled over the same period to 25%.

Deposits

ING Group's Orange Savings account (their no fee, no minimum internet account) brings in about 100k new customers each month. Currently they are paying a 4.50% rate. Since its launch in 2002, the bank has increased deposits from $2.9B to $46B through June 30.

Capital Standards

A new draft interagency notice proposed that banks will be able to choose between the Basel I, IA and II capital standards.

FDIC

The Agency approved its $1.1B budget for 2007, an increase of 4.6% from 2006. Increased expenditures include more employee training, an increased number of examiners, more IT resources to support deposit insurance reform and enhanced security.

Online Spending

According to the Aite Group, banks are spending 14% more on their websites in order to allow for account opening online. 44% of this money will be spent in-house, while 56% will go to outside providers. BIG's research shows that this amount averages $105k for independent bank in 2007. This is the incremental amount allocated in the budget for banks with existing websites to get them enabled to receive and process new account documents (includes automated OFAC checks).