

THE HALO EFFECT

by [Steve Brown](#)

Much has been made recently about the "Halo Effect." Back in 1920, psychologist Ed Thorndike came up with the theory that humans tend to make specific inferences based on a general impression. Look no further than stellar bank performance over the last several years for investors, analysts, media, employees and management to conclude that a particular bank has a sound strategy, visionary leadership, outstanding customer service and bullet-proof loan underwriting. Throw in some declining margins, slower loan growth and some credit losses and that same bank, with the same strategy is now accused of having inept management, complacent customer service and a misguided strategy. This is the Halo Effect at work and is the belief that often times outcomes are mistaken for inputs. One test to conduct internally is this – Can your bank quantitatively know how you made money last year and how you are going to make money this year? If you don't, then you may be subject to the Halo Effect. At the next High Performance Bank Workshop to be held June 7th in New Orleans, one of the four items that we will focus on is what is it within a bank that really drives profit. Specifically, we will provide a list from our research that quantitatively lays out the profitability of key customer groups. The workshop will then focus on hearing from banks how they market to different customer sets and what products will be successful in the sales process. This will be an interactive session designed for senior executives that explores the true drivers of performance. We will present data on not only what customer types are profitable, but what products, services and product bundles make the most sense in terms of profitability. We will find out why title companies are more profitable than medical groups (unless the bank is interested in just increasing fee income), but why certain retail shops may be the best to go after with a targeted marketing campaign. If you are looking for loan growth, developers are a bank's best bet; unless they are worried about risk, then non-profits should be the focus. Once you find the right customer, it then means delivering the right product, which usually means a package of deposit, loan and services that are bundled around a solution. The important part here is that we will be honing in on a framework and methodology that bankers can utilize to determine how to match the right customer, with the right product, at the right price and leverage the right approach. In this manner, banks can sharpen their skills on how to think both strategically and tactically in all markets and against all competitors. Banks that can do this effectively will find that their business will skyrocket in terms of profitability. While success can happen by accident, it will not stay that way for long.

BANK INVESTMENT PORTFOLIOS

For the month of March, the average bank portfolio gained about 12bp in price, helping the mark-to-market valuations. Yields fell 7bp in the month, so new purchases decreased the average book yield slightly and average life shortened by 2 days. Allocations stayed largely constant with only a slight increase in mortgage holdings. Effective duration decreased by 1bp, due to faster prepayments on the mortgage holdings and more calls in the agency portfolio. All in, the average bank portfolio picked up about 13bp in total return.

BANK NEWS

M&A

Marshall & Ilsley Corp. (\$56.2B, WI) is separating its Metavante Corp. payment processing subsidiary. Warburg Pincus, a private equity firm, will invest for \$625mm for 25% of the company. The split comes on the heels of First Data Corp. announcing plans to go private.

SOX

The SEC agreed to make changes in the internal controls provision of Section 404 in order to make the requirement more streamlined and scalable relative to the size of the firm.

Someone is Watching Me

A new piece of software allows banks to track what employees do with sensitive information such as customer social security numbers, customer lists and other sensitive information. The software can detect unwanted activity (such as an employee downloading information to a thumb drive) and alert management. During the process, the software also can take screen shots of the employee's activity. The technology was originally developed for government use to stop terrorism and is now being adapted for general corporate use.

Competition

Valley View Bancshares (\$2.5B, KS) is introducing a program allowing customers access to their accounts from any of the seven banks owned by the holding company. This will allow the banks to maintain separate charters while adding greater flexibility for their customers.

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