
COOKIES IN THE BRANCH

by [Steve Brown](#)

Things can get really crazy when human beings are involved, particularly when it comes to trying to guess which cookies people will choose to eat from the plate in the branch. Consider that Economics 101 teaches us that people make choices to maximize their welfare because they behave rationally. Behavioral economics, meanwhile, looks inside the human brain for answers as to why the first premise is a bunch of hooey. In short, people do not act rationally, but rather make biased decisions. In fact, people will often make decisions that run counter to their best interests. Studies show that when faced with multiple choices, about 96% of the time people will become overwhelmed and as a result will select whatever "default" choice is provided. In study after study, regardless of the structure or makeup of the default selection, the vast majority of people will choose it. Scientists say default options are overwhelmingly popular because people seek inertia. Once they make a decision, such as allocating money into certain deposit accounts, they will tend to stick with the choice even if the market and circumstances change significantly. Take the results of a recent study in behavioral economics conducted in a major U.S. city. In it, testers approached 500 people and asked half of them if they would drive 10 minutes to a store if it meant they would save \$5 on a small purchase. The vast majority of the responders indicated they would definitely do so. The other half of the group was asked the same question, except the \$5 savings was on an expensive purchase. Interestingly, that group overwhelmingly rejected the idea, saying they would not drive the 10 minutes to save such a small amount of money. Remember, the questions were very nearly identical, yet they resulted in a significantly different result. At no time did either group ask for more money to make the drive and both stayed within what the scientists call their "behavioral boundaries." For bankers, there are many conclusions that can be drawn from this experiment and others like it. By putting the bank's product or service in the proper context through marketing, customers can be successfully influenced by the craziest things. One thing bankers should know is that people tend to be overly optimistic. They want to save more money, but they have a hard time putting desires into action because of procrastination and other factors. As an example, by convincing customers to commit in advance to allocating a portion of their income toward retirement, behavioral tests show clients will increase total savings by as much as 18%. People want to save more - they just need a little guidance from their friendly banker. In addition, banks that post their CD rates next to their savings account rates can create more awareness and perspective for the customer. By offering a "default" option commonly selected by a customer in a given category (such as a small business), the bank stands a much better chance of tapping into the customer's subconscious. At the very worst, hopefully it helps some bankers gain insight into why some customers eat the chocolate chip cookies and why others choose Double Dutch.

BANK NEWS

Mobile Banking

Citigroup announced it will offer mobile banking services to customers through their cell phones. The service, called Citi Mobile, will be offered throughout the country by the end of the 2Q according to bank officials. The service requires registration of a specific phone and selection of a 6-digit access code and will allow users to review balances, transactions, transfer funds among accounts, pay bills and search for branches and ATM locations.

Regulatory

The SEC last week announced that it is working with the Public Company Accounting Oversight Board to help in streamlining the process for small companies to adapt to the internal controls rules of section 404. Many independent bankers were let down as they were hoping that a delay for non-accelerated filers would not occur.

Expanding

Superior Bank (\$2.4B, AL) is building two more branches in the Birmingham, AL area, bringing the local branch network to 5. The branches are part of a 14 branch expansion planned by the bank.

Expanding

Exchange Bank, (\$1.5B, CA) has announced plans to build a new branch in Rocklin, CA later in 2007. This branch adds to the existing 19 branches the bank already has.

Competition

LaSalle Bank (\$73B, IL) is setting up a loan production office in Houston TX. The new office will be targeting companies needing credit of \$10mm to \$100mm.

Clarification

In Friday's edition, we incorrectly stated that the FRB was "phasing out" its access system. The statement should have read that the FRB was in the process of migrating only the legacy Computer Interface access solution (which provides unattended access to FRB Financial Services for approximately 400 of their largest customers), to an IP-based platform. Last year the FRB completed the migration of approximately 6,500 organizations from DOS-based FedLine to FedLine Advantage.

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