

HEURISTICS AND BANKING

by [Steve Brown](#)

The Ancient Greeks enhanced society in many ways (including the widespread adoption of coins), but one of the best is perhaps the term "heuristics." A heuristic is a learned process people will repeatedly use when trying to solve a problem. Put another way, heuristics are also referred to as "rules of thumb." People embrace rules of thumb when they are faced with complex problems or incomplete information. The impact of heuristics on the banking industry is worth understanding, as it can have a significant impact on product placement, pricing and overall customer interest in certain products and services. In short, customers are emotional and bankers should capitalize on this to maximize sales. For instance, bankers should always begin by smiling. People that have been tested will show a positive preference toward a product or service if it has been preceded by a smiling face. Perhaps even more interesting, people who are met with a smiling face will tend to like the first pitch that follows, even when a subsequent one may offer more benefits. As our mothers taught us very early on - it is important to make a good first impression. Many bankers have cookies in the branch because they feel clients like cookies and it gets them to stay longer. That probably isn't too far off the mark. Tests find that people that have a "good feeling" towards a product or service also perceive a lower risk and higher benefit - even when not logically justified. People have strong emotional responses to words and other stimuli (like cookies) that actively sway decisions, regardless of the facts (simply because one choice makes them feel better). We are not talking about mind control, but studies show bankers that are able to provide a strong emotional first impression with a product stand a better chance of ensuring a positive customer response. Consider that maybe this is why Bank of America and Citigroup have pictures all over their branches of smiling families running through flowery meadows. The pleasant images put customers at ease and give them a happy emotional connection. This leaves them more receptive to a product pitch. In the alternative, customers that enter an austere branch with grey walls and teller cages feel confined and can't wait to get out. You don't have to be a behavioral psychologist to know that happy people are easier to talk to and more open than grumpy ones. Finally, bankers should note that people also make decisions based on psychological "recognition". This is to say that when presented with multiple options, people tend to place a higher value on the one they recognize. This is why companies modify well recognized products with words like "new" and "improved". Corny yes, but they also drive more sales and repeat business. Banks could try offering a "new and improved" CD (with a slightly lower rate) that gives customers some other "added benefit" not tied to interest rates. Colorful marketing signs with happy faces and balloons may be all it takes to shift customer psyche and get them interested in the new product. As an example, Bank of America right now is offering a "compulsive savings" program that offers customers higher rates, the more they save over time. This gives people a good feeling about saving and overcomes their procrastination. The emotional bond has been made and we estimate that as a rule of thumb, the bank will see a 5% to 10% increase in this deposit type over the next few months.

BANK NEWS

M&A

Inland Bancorp Holding Company (\$703mm, IL) will buy the HC for AmeriMark Bank (\$270mm, IL) for about \$46mm or roughly 1.96x book.

M&A

Security Bank Corp (\$2.5B, GA) will acquire the HC of First Commerce Community Bank (\$252mm, GA) for approximately \$56.6mm, or about 2.65x book.

Restructuring

The NY Times is reporting that Citigroup will eliminate more than 26k jobs, or 8% of its work force, as the company adopts cost saving measures. While the official announcement won't be made until Wednesday, cuts have been speculated from 15k (WSJ) to as much as 45k (CNBC).

Online Banking

A survey from Wells Fargo/Gallup finds 67% of small business owners use the internet several times each week for business purposes. The study also found that 35% of owners said loss of the internet would have a significant impact on their business.

Expanding

The insurance subsidiary of Commerce Bancorp (\$45.8B, NJ) will open a new office in PA and hire 50 employees. The subsidiary is expanding its commercial and employee benefits offerings in the region.

Expanding

The HC of Pinnacle National Bank (\$2.1B, TN) will open a new branch in the Knoxville area by May or June. This is the first of 5 branches planned by 2010.

Expanding

American Bancorp (\$524mm, NJ) is opening a new branch in Nutley, NJ that is expected to open in May. This will bring the bank's total number of branches to 4.

Military Lending

The Dept. of Defense issued a proposal restricting the maximum interest rate military personnel can be charged on "closed-end credit" (largely payday loans) to 36%, including fees and other charges. Mortgage, auto and workout loans were specifically exempted, as were fees from delinquencies.

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