

CABLE BANKING

by [Steve Brown](#)

Consider the difference between network and cable TV. These are two seemingly similar mediums, but two completely different business models. The network model has the goal of getting you to tune in to specific programs such as American Idol or The Unit while collecting advertising dollars based on viewership. Cable, on the other hand, tries to capture your dollars by getting households to subscribe. Maybe it's having more games of your home sports team, The Sopranos or the Food Network, but cable gives you enough programs to make you want to pay the \$65 per month in order to gain access. Once a household is hooked on cable, it becomes a valuable revenue stream as retention rates (not counting households that move locations) are an astronomical 92% to 97%. Of the two models, network TV produces more profitable programming, but cable is more valuable, due to the stability of the revenue stream. In banking, this comparison is an important one, as many bankers are acting more like network TV executives and are still chasing transactional business. Like network programming, such business can be wildly profitable, but it is also more volatile. Meanwhile, banks that focus on relationship banking and provide services that generate interest income and fees on an ongoing basis, are proving to be a more profitable model. In looking at 1Q data, a correlation is starting to emerge between products per customer and profitability. Looking at a sample of 55 banks, we found 77% that have a product per customer ratio above 3, produced greater profitability in 1Q versus the 4Q. Comparing this group to banks that have under 3 products per customer, we found those banks that increased earnings from the 4Q dropped to 35%. Granted, this is a small sample, is only over one quarter and the definition of "product" is still developing. However, if one takes a look at the micro-economics, things become even more compelling. Retention rates are more than 10x greater for banks that have more products per customer, giving them a stronger "hold" on their clients. Since marketing dollars for maintenance are far less than for new customer acquisition, banks that have higher products per customer can afford to devote more targeted resources to new customer acquisition. As a result, new customer conversion rates for banks with more products per customer are also 20% higher. For banks, developing higher margin products is critical, but more important is the development of products that will build a subscription revenue stream (either in the form of fees or in the form of capturing greater deposit balances). At present, the development of cash management tools is a huge push with many banks for just this reason. While our favorite show, the Sopranos is ending next week, we are not about to cancel our cable subscription any time soon. As a result, cable TV, like relationship banking, is in a much better position to excel in a fast changing environment.

BANK NEWS

M&A

The HC for Community Trust Bank (\$3.1B, KY) will acquire the HC of Eagle Bank (\$156mm, KY) for about \$37mm, or roughly 1.8x book. The move adds 5 branches to Community Trust's 84.

M&A

The HC for Gateway Bank & Trust Co. (\$1.3B, NC) will acquire Bank of Richmond (\$189mm, VA) for an undisclosed sum. The acquisition adds 6 branches and one LPO to Gateway's existing platform.

Joint Venture

Yodlee, Inc. has announced a strategic alliance with Green Armor Solutions that will allow Yodlee's online banking, bill pay and transactional services to seamlessly incorporate into Green Armor's two-factor authentication solutions. Yodlee-powered services are used by close to 8mm people at financial institutions throughout the world.

IRS Scam

The IRS is warning taxpayers and businesses not to open email that purportedly comes from the government agency, but is actually a Trojan horse. The agency said emails that contain official-looking IRS logos and information falsely notify recipients that the IRS is taking action against them or their company. The emails also notify recipients that a complaint has been filed against them or tells readers they are under tax investigation.

Competition

HSBC has launched a program offering 18 months of free business banking for customers who switch their business account to the bank. The program waives charges for cash, checks, direct debits, bill payments and includes other features.

Possible M&A

Sources familiar with the company are reporting that American Express may sell its private banking unit within the next few weeks, as the company focuses on its travel and credit card businesses.

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