

RAINING HAMBURGERS

by [Steve Brown](#)

Millions of raindrops hit the ground every day all over the country. Thanks to modern science, we now know many facts about raindrops that we didn't know before. For instance, many are not aware that most raindrops actually begin as snowflakes. They are initially formed in clouds high enough for the air temperature to be below freezing and then melt as they drift lower, eventually becoming raindrops. Perhaps the most interesting thing we have learned about raindrops is that they are not teardrop shaped at all. Wind experiments done in laboratories have made it possible to suspend raindrops in midair for analysis. In so doing, scientists have found that large raindrops are actually shaped more like hamburger buns, while smaller ones are spherical. The misguided belief that raindrops are teardrop shaped is probably a result of the observation that when raindrops hit a surface and roll off, the front becomes rounded, while the back is pointed. Whatever your long-held beliefs in banking, it is interesting to find out that the following are also true. 1) There is no statistically supported relationship between having a high net interest margin and having a high ROE. We analyzed nearly 5,500 banks with assets ranging from 50mm up to 2B. Looking at the results, we found the correlation (i.e. proportion of ROE that could be attributed to NIM) of the two metrics to be only 0.51. Put another way, NIM is as correlated to ROE as getting struck by lightning walking home today – it could happen, but it isn't all that likely. 2) To transform an industry rapidly, a new product must be perceived to offer 10x the value of what existing alternatives can provide. Remote deposit capture (RDC) is such a product. Once bankers demonstrate the ease of RDC to merchants and small businesses, adoption is nearly guaranteed. In fact, adoption has been so rapid, that in the 2Ys since Check 21 came into effect, more than 33% of all banks have adopted RDC and 112k scanners have been deployed. At this blistering pace, RDC is being adopted at a rate about 800% to 1,000% faster than online banking. By the end of this year, projections indicate 50% of all banks will have rolled out RDC to their customers and more than 250k scanners will have been deployed throughout the country. In addition, projections show 25% of all business customers will be using RDC within the next 2Ys. Adoption of RDC is unprecedented and clearly customers see its value as being 10x better than walking into a branch and standing in line (or using courier services) to deposit a check. 3) Bankers are generally not supportive of innovation. Compared to executives in other industries, in fact, bankers are 21% less supportive of innovative ideas than executives in other industries. This is probably because bankers are notoriously risk averse, worrying about compliance, development costs, reputation risk and other concerns. Meanwhile, 80% of businesses want their bank to give them a technology-based electronic payment platform and about 60% say they will switch banks if another bank came in and offered it to them. To grow and expand, bankers must learn to embrace innovation and support it within the organization. 4) Large national banks are targeting small businesses with a vengeance, with a goal of taking them away from community banks and other providers within the next 5Ys. Studies find that 69% of national banks consider winning the business of the small-business customer segment "extremely" important to their overall success. In addition, 82% of large banks expect small business customers to use an average of more than 4 products by the end of 2008. Whether or not you already knew raindrops were shaped like hamburgers, as with banking, sometimes the proof is difficult to swallow.

BANK NEWS

M&A

Fulton Financial Corp (\$15B, PA) will acquire Resource Bank (\$1.4B, VA) for an undisclosed amount. The purchase will add 91 branches to Fulton's 260 bank portfolio.

Fee Increases

A Bankrate survey found that monthly service fees (\$11.72 average), bounced check fees (\$28.23 average), and ATM surcharges (\$1.78 average) have hit an all-time high.

Bankruptcy Forecaster

VISA and credit-data company Experian have developed a technology that analyzes credit and spending records in order to identify consumers that are likely to go bankrupt in the next 2 years. The product, named Bankruptcy Predict, will help reduce credit and fraud risk losses and is scheduled for release early next year.

Internet Only

By year's end, First Horizon Home Loans will no longer accept deposits as parent company First Tennessee Bank focuses on transitioning to an Internet-only bank.

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