DYNAMICS OF AN AGING BANK

by Steve Brown

As we get older we find learning remains of keen interest to us. People are simply not static, so learning is an integral part of life. In most cases, it is also fun because it is inherently interesting. After all, if you knew everything by age 40, what a boring life that would be. The good news is that we don't know everything and just when we think we do, life throws us a curveball. Consider banking and the significant changes the internet has delivered for example.

It used to be that people would happily wait in line at their local bank branch until eventually being waited on by a surly teller. Now, customers do business with an average of 3 different banks, keeping each one on their toes as money becomes more and more fungible.

Things have become so crazy in fact that people are demanding more services from their bank than ever before. In fact, studies find 85% of people today will only bank with an institution that offers online banking. People want to be more mobile than ever and community bankers will have to adapt their delivery channels to hang onto customers over the long-term.

One key area community bankers should be considering as part of any technology upgrade is to more heavily utilize the Automated Clearing House (ACH) online transfer. Just when remote deposit capture seems destined to sweep the banking landscape, a full 71% of customers are saying they would rather use online funds transfers than either checks or cash. The ACH network was set up to allow banks and their customers to transfer money directly from one bank account into another without ever touching paper. Net banks, direct deposit, business-to-business payments and many other examples show how much things have changed and the level of interest there is in such technology and capabilities.

Branching is another quaint idea we all consider to be the backbone of relationship banking. Consider having a discussion with a bank CEO where you stood up in a meeting and said, "Hey boss, I think we should start closing branches in order to get more deposits." In most community banks that kind of talk is similar to saying the earth is flat and the very notion to so many bankers seems ridiculous. Yet, consider that almost 70% of people say going to the branch is about as fun as pulling weeds in the yard, 88% say they try actively to cut down on branch visits and 75% say they would NEVER go into a branch again if online banking applications could handle all of their needs. Branching isn't dead yet, but it is aging quickly.

If you are still thinking that online banking isn't for everyone, consider a 2007 ABA study that found only 36% of people still use branches as their primary banking channel. While still the largest percentage, consider the #2 method was online banking at 23%, ATMs at 21%, mail at 8% and telephone at 5%. In this era of online bill payment, direct deposit and ATMs on every corner, community banks should blow the dust off aging expansion plans to be sure they capture the ever-changing tastes, likes, dislikes and ongoing interests of their customers. In that way, community banks stand the best chance of keeping customers happy, maximizing stakeholder return and minimizing unwanted customer attrition. We all age, but that doesn't mean we shouldn't stop learning and adapting.

BANK NEWS

Small Biz

When it comes to funding their companies, studies find 49% of small business owners will tap their personal savings, while only 28% will borrow from a commercial bank.

M&A Pricing

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Board of Directors

A study done late last year by PWC found directors rated the work related to the audit committee as the most difficult. The compensation committee was 2nd.

Customers

The latest quote from the CEO of Wells Fargo indicates the average retail household now has 5.5 products from the bank and 25% have 8 or more products. Wells has the highest product per customer penetration in the industry.

Liquidity

The FHA has raised the limit on MBS that FHLBs can hold to 600% of capital. The move frees up an estimated $100B in potential MBS purchase capacity for the system.

Loan Loss Reserves

Seeking to get in front of expected future losses in the home equity, credit card and mortgage loan sectors, BofA will reportedly set aside a record $6.5B in the 1Q to cover loan losses.

Municiple Bonds

In a move designed to add liquidity to the muni sector, the SEC said it would allow municipal issuers to submit bids and repurchase auction rate securities.