THE FINE AROMA OF PREMIUM ACCOUNTS

by Steve Brown

Not far from San Francisco lies Napa Valley, an area blessed with a key natural element that makes this region one of the greatest wine areas in the world - namely, tourists. These tourists drive their rental cars around, stopping at some of the highest priced wineries with names like Opus, Rothschild, Silver Oak and Harlan Estates. There, seemingly normal people turn into wine snobs and start using phrases like vitis vinifera and ascescence. To be expensive, wineries have to do 3 things: have a Wine Spectator rating of over 90, have proper marketing and charge outlandish prices. Wineries, like most other products, perpetuate premium branding by elevating their prices. Unlike wineries that increase their margins when they offer premium products, banks are one of the few industries that often decrease their margins. This point is timely, because banks are about to enter a period of historically slimmer margins.

Banks often make the mistake of paying their highest rates on premium accounts, under the false assumption that high-balance customers are price sensitive. This is a faulty assumption, as "premium" or "elite" depository products have balance correlations tied to level of service, access and VIP treatment. Never market "premium" or "platinum" accounts on rate. Offering a high-touch, high-rate and high-balance account may destroy the very value banks hope to create.

High-rate accounts should be presented and marketed as middle-tier accounts with stripped down services. Even the positioning of accounts has an affect. Well-heeled customers tend to want the "best," which savvy banks can define. Those that frame the top account by rate will end up with a rate-sensitive balance sheet. Banks that define "best" by service will end up with service-sensitive customers. By moving high-service/lower rate products to the end of the product line-up (printed materials, website, etc.) and making sure employees understand how to sell service versus rate, banks can gain an advantage in attracting lower rate deposits.

When designing premium accounts, the trick is to package products into a bundle that is inexpensive to deliver, but adds client retention features and cache to the package. Safe deposit boxes, special lines/phone numbers, online banking, debit cards, overdraft protection, special events (lecture series, tickets, etc.) and credit lines are all relatively inexpensive, but collectively offer a set of services that are cheaper than paying a high rate.

While many banks can benefit from adding a premium set of depository accounts to their DDA and MMDA offerings, many more can gain simply by restructuring their current pricing and sales approach. Don't assume all premium customers are interested in rate and make sure employees position "high-balance, low-rate/high-service" accounts as absolutely the best the bank has to offer. If you do, bank connoisseurs will start describing your cost of funds as "classically absent of rate reflection with aromas of profitability and subtle hints of top performance."

TLGP

With the deadline today we thought we would bring up a couple of extra points. A) Holding companies must file separately from the bank. That is, Master Agreements must be completed for each operating company and the HC (and returned within 5 days to the FDIC). B) There are no upfront fees for the guarantee. The "no guarantee on long-term debt" input is checked by default on FDICconnect and should remain such, unless your bank wants to preserve the right to issue both guaranteed and non-guaranteed unsecured debt. If that is the case, then the bank will pay 37.5bp as a "down payment" on the future use of the guarantee (most banks will not use this feature). Finally, C) When completing the online form, if you don't input a debt level, the default level will be 2% of total liabilities as of 9/30/08.

BANK NEWS

Tighter Rules

The SEC unanimously voted to tighten up rules on credit rating agencies such as S&P, Moody's and Fitch. Changes include barring such companies from advising investment banks on how to package securities to secure favorable ratings; taking gifts with a value greater than $25; issuing ratings where the firm made recommendations about corporate structure; disclosing statistics on upgrades / downgrades for each asset type and disclosing how much verification was performed on complex securities. The new rules take effect in 60 days.

More Job Cuts

A survey by the Business Roundtable finds 60% of CEOs plan to cut workers in the next 6 months (almost double the level from the 3Q).

Black & Blue Friday

Despite Black Friday promotions that spurred late consumer activity, retail spending for Nov. came in at its worst level in 30Ys.