

SCALABLE BANKING INNOVATION

by [Steve Brown](#)

A while ago we highlighted the marketing brilliance and deposit traction of PNC's Virtual Wallet. This week, we highlight the continuation of this trend with West Bank's (\$1.5B, IA) "Smarty Pig" application. Smarty Pig is a Des Moines, Iowa based company that has partnered with West Bank to provide goal-based "social savings." Similar to the Virtual Wallet, but with a Facebook flare, Smarty Pig allows users to establish a set of savings goals and then publish those goals to friends and family in case anyone wants to help the user save (such as for gifts).

In approximately 6 months of time, it is estimated that West Bank has opened about 5,800 accounts with an average balance of \$935, or \$5.7mm. While West Bank is offering a much too high introductory rate of 3.25%, we expect this level to drop as the application garners further traction.

The beauty of this service is severalfold: 1) It provides greater customer intimacy in a scalable and cost efficient fashion. Being able to set goals, track progress and share status is a way to gain a closer relationship with your customers, aid in retention and reduce price sensitivity. 2) While the average account balance is low to start, considering the average savings goal is \$8,600 and extends over 4Ys; these balances should dramatically grow. Better still is the fact that goal-based savings accounts have a larger and much more positively convexed profile compared to both checking and money market liabilities. 3) The information obtained by banking goal-based accounts creates other marketing opportunities. From the West Bank experience, we know that the largest reason to save is for travel (21% of the population) and then gifts (12%). Moreover, savings for a down payment has the largest savings goal of \$22,500. From this information, banks can be effective at cross-marketing other products such as lines of credit, mortgages, auto loans or other "lifecycle" products.

We bring Smarty Pig up, as it is part of a new wave of web-based applications that creates a service reason, not a rate reason, to acquire and retain customers. Further, given the economic climate, traffic statistics are up, as users clamor for greater financial control. While most of these sites are retail oriented, these ideas work for both small and medium sized businesses, as Wells Fargo has proven with its "CEO" web-based set of tools.

Since cash management is the key to grabbing cheaper deposits in the future, we submit the following sites that we pay close attention to: The Mint, Wesabe, Quicken Online, Credit Karma, Cake Financial, Inner8, Covestor and PearBudget. Each of these sites has proven to be innovative with applications that can be utilized in a banking environment in order to generate more deposits, fees or loans.

Over the next 2Ys, banks and branches will be dramatically reduced and margins will remain squeezed. The answer to survival is finding way to leverage technology without substituting service. As these internet models have proven, there are ways to get closer to the customer and help the bottom line.

TARP CPP S-CORP CAPITAL MODEL

The release last week of the S-Corp TARP Term Sheet has prompted us to update our TARP capital model. The cost and structure of the S-Corp capital is similar to Private Bank terms with the exception

of the fact that it does not create a second class of stock. For S-Corp banks that are interested in calculating the all-in cost of the capital, please click to complete the registration and receive this complimentary model: <http://www.zoomerang.com/Survey/?p=WEB228QBLNKURF>

BANK NEWS

State Street

4Q earnings fell by 71% to \$65mm as the company took on \$10mm in unrealized losses on investments and commercial paper.

Accountability

The Treasury Dept. has demanded the 20 banks receiving the most TARP funding to provide monthly reports detailing lending activity and purchases of mortgage and asset backed securities.

Construction

Housing construction activity has fallen to its lowest level in 24Ys. Meanwhile, the American Institute of Architects projects nonresidential construction will fall 11% in 2009 and 5% in 2010 as the recession forces businesses to delay projects.

Record Theft

Heartland Payment Systems, said hackers breached computers it uses to process 100mm credit and debit card transactions per month for 175,000 merchants. This breach could set a new record, well beyond TJX, which lost 94mm records to hackers.

Under-banked

2mm people in the US do not have a savings or checking account but spend an average \$800 per year on check-cashing services.

Bankruptcy Surge

Bankruptcy filings climbed 30% in 2008 compared to the prior year, as business filings surged 49% during the period. Meanwhile, filings among publicly traded companies jumped 74%.

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