

CROSSROADS OF INNOVATION AND PSYCHOLOGY

by [Steve Brown](#)

Psychologists say people tend to overestimate and generally overvalue the benefits of a new product or service by 300%. It is just part of the human psyche, as we tend to get excited. As such, we end up overestimating everything from adoption rates of remote capture, loan growth and deposit gathering in new branches to name but a few examples. In short, when we try to anticipate another person's choice or judgment, we have a hard time ignoring what we already know ourselves, so we overestimate their interest.

If your bank is among those preparing to launch a new product in the next 12 months, just understanding how this inherent bias can impact product launches and leave you overestimating success can go a long way. Some of the most critical things bankers should consider:

- Understand what else is out there that could be existing competition. People need to see at least a 300% improvement in an existing product or service before they will even consider switching to something new.
- Be realistic and reduce projected adoption rates by 67%. As seen above, we are in love with our new products, are inherently biased toward them and studies show we tend to overestimate by this amount.
- Know that the fewer changes the new product requires of the recipient, the higher its adoption rate will generally be and the more likely it is to succeed.
- The reverse is also true. A product or service that requires significant behavioral change, but delivers low perceived benefit is a recipe for disaster.
- Be patient and commit enough resources to give the new product or service a chance to succeed. Pulling the plug after a short period of time does not give a new product time to mature and blossom. Executives should expect adoption to be a slow and very drawn out process that will require much of their attention and sales effort to ensure success.
- Don't have too many balls in the air at one time. Don't have too many balls in the air at one time. Companies and people can only handle so much change at once and launching new products is time consuming and expensive. To ensure the success of new projects, don't do too many at once and focus maximum resource to achieve success. A good rule of thumb to use is that once breakeven is achieved, focus can then be shifted onto the next product or service innovation.
- Do a comprehensive product write-up before launch, to ensure business requirements will be met. Some of the most critical elements this document should address include: benefits, costs, adoption rates, time to breakeven, sales channel and how they will be compensated, product pricing, regulatory/compliance review, technology support and integration requirements, exit strategy, customer need being met, milestones for success, marketing campaign costs and timelines and other departments that will play a critical role or otherwise be impacted.

Studies indicate 90% new products will not meet stated expectations. To ensure success, get realistic with assumptions, provide support and be sure to utilize the tips provided above.

BANK NEWS

Payment Behavior

A study by the FRB finds noncash type payments have grown by 4.6% from 2006-09 and over 75% are electronic. Debit cards account for the largest form of payment (growing from 14.8% to 37.9% of all payment types by 2009), surpassing checks as the most popular (down 7.2% to 24.4%). Prepaid cards grew most rapidly during this period, 21.5% from 3.3% to 6.0%.

Consumer Pulse

A survey by Bloomberg finds 60% of people think a housing recovery is more than 2Ys away.

Social Connection

A Fiserv study finds 84% of consumers on the internet are involved in social media, however only 10% are connected to their bank through social media. More than 70% of those who wish to be connected to their bank in this way do not know how to do so. But even then, most cannot make clear why they would want. Of those that do communicate with their bank through these channels, 66% do so to receive information about services.

FHLB Pressure

A report by Moody's indicates FHLB advances have fallen 21% in the 3Q compared to the same period last year. The data shows banks are taking out fewer advances because they are carrying large amounts of excess liquidity and are seeing lower loan demand. The number of banks holding advances has reached its lowest level in 10Ys.

Credit Cards

A TransUnion study finds 62mm people have an active credit card, down 11.4% from last year (70mm). People are using credit less and paying more in cash.

Fraud

The Govt's attack on investment fraud has led to criminal charges against 343 for \$8.3B in losses and civil charges against an additional 189 for \$2.1B.

Savings Rate

Research finds the savings rate in the US is currently 3.9%.

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