TALKING ABOUT BRANCHES, MOBILE & EMAIL

by Steve Brown

We really enjoy finding out and sharing interesting facts about the banking industry. That is why we were intrigued by a recent survey by Osterman Research that found 78% of bank customers would like to communicate with their bank by secure email, but only 56% can actually do so. Maybe this is something to consider adding as a customer enhancement for 2012, as you get going on the New Year and ponder what else you can do to attract and retain customers.

Speaking of attracting and retaining customers, we took a quick look at the branch network of the standard bank and came away with some interesting information. Studies find the median deposits of a new free standing branch after 5Ys is about $17mm. Now that information was collected and analyzed just prior to the crisis and deposit flows have been significant, but it reminds us where we came from just the same. Once things begin to normalize, funding levels more in line with that are expected, so take a hard look at all of your branches to determine where opportunities may exist or problems may be present and in need of a fix. On average, branches cost from $500k to $1mm for the land and slightly more to build, so it takes from $1mm to $2.5mm to own and operate any branch. In short, it requires a lot of loan and deposit activity to pay for all of that.

Beyond the baseline cost of opening a branch, it is interesting to note that performance can also be quite different between top performing branches and those struggling to get by. For instance, research finds that while the top 20% of branches capture $30mm in deposits per branch after 3Ys, the bottom 20% only capture $4mm in deposits. That is a huge discrepancy and it highlights both the opportunity and risk of branching at even just this high level.

One interesting bit of research on branching that we came across was recently conducted by the Fed. The Fed study found that distance to a branch impacts lending activity. Specifically, local experience matters and not having a local bank branch can lead some creditworthy people to be unable to get credit. The research also found that proximity to a branch is somewhat correlated to a lower rate of default, as local information on the market is important. In addition to deposit value, one reason large banks chase checking accounts is to capture a more complete customer picture. That helps them better determine risk and evaluate relationship pricing opportunities. The checking account is often analyzed to determine how well the loan applicant manages their money and the cyclicality of potential cash flow coverage. Other studies have found that banks with access to this sort of deposit balance information from their loan customers' other deposit accounts (not at the lender's bank) are better able to identify the more creditworthy borrowers. Finally, banks that operate in a local market are more likely to have information on the local economy. That gives such banks a better context to evaluate future prospects of a borrower that may not be readily available to an out-of-market lender. As this research shows, while branches cost money to open and operate, they also provide benefits, so the discussion isn't easy when you are considering where to open new branches or which ones to close.

Finally, if you are going to talk about branches, you have to look at the online channels, since they are inexorably linked. Mobile and online channels are growing like crazy and the impact on branches is inevitable. In fact, a recent study by comScore of mobile financial services usage in the US found 32.5mm people accessed mobile banking information on their devices at the end of Q2 and 12.7mm mobile users reported using banking apps. That is huge growth, up 45% from Q4 2010 alone, so while branching still remains important, online, social and mobile channels are moving quickly to the forefront. Community bankers need to stay on top of all of these trends, so we hope this information helps, as you prepare for 2012.

BANK NEWS

M&A

California United Bank ($792mm, CA) will buy Premier Commercial ($444mm, CA) for $38.1mm in stock.

Interchange Benefit

The Electronic Payment's Coalition points out net incomes of some retailers have benefited from lower interchange fees. The reports highlights that at least 76% of retailers included in the research have either raised prices or kept them the same despite $825mm in profits since Durbin's effective Oct. 1 date. Prices for goods have reportedly risen 1.7% despite interchange costs being down 50%.

Mobile

A new study of 18 to 34 year olds by Market Strategies Int'l shows 46% would prefer their bank to offer a mobile payment system instead of other entities; 27% had no preference; 17% preferred a technology company and 10% wanted to use their cell carrier. In addition to banks, other trusted entities were (in order): Visa, MC, Amex, Discover, Facebook, Yahoo, Google, Apple and Microsoft.

They Will Be Busy

The CFPB will appoint an ombudsman tasked to resolve individual and systemic problems that banks, nonbanks and consumers have with the agency.

Cost of Checking

While somewhat higher than the $280-ish range we have used in the past, research by Novantas & Moebs shows the average checking account for 2011 costs a bank about $349 per year. The cost breaks down 50% to premises, 20% for security/compliance, 20% for support and 10% for product design/sales. This data is important when evaluating free checking because even if you assume a 2% attribution to your cost of funds, that is value of only $26 for an average balance of $1,300 against the $349 cost.