BANK GIFT GIVING

by Steve Brown

Let's face it, for such a joyful time, the Holiday Season is stressful. The cooking, the parties, the parking and the weight gain are all tough. Even Rudolph the Red-Nosed Reindeer song is cruel. Not only does the poor reindeer get mocked by his friends, but Santa assures therapy for years to come. Does Santa look past the glowing nose to see RudolphÃ¢Â€Â™s inner strength? No. Santa pimps him out, as if Rudolph were nothing more than a flashlight with legs.

A major point of stress is gift giving. As trained economists and bankers, we have a hard time with the inefficiency of the gift. Each year, we buy our significant other something nice only to have it sit in the closet for most of the year until they feel guilty and haul it out to wear it just to make us feel good. Granted some gifts are hugely appreciated, but it take tremendous effort and luck to find that perfect gift. Cash, despite its crassness and lack of thought, always delivers the highest economic benefit to the recipient. For the most part, gift giving is an exercise in an inefficient allocation of resources.

Or, is it? It turns out that most economists or theoretical-types fail to take into account sentimental gain. In a new Wharton paper titled, "Surprise and the Value of Gifts: Why Christmas Is Not a Deadweight Loss," a survey of both gift givers and recipients find that if you add the dollar price of the gift plus a measure of sentimental value, the combination is usually the same for both the giver and the recipient. The study also finds that women find greater total value than men and the closer you are to the person the higher value that is placed on both the act of giving and receiving. Finally, the study finds that surprise gifts offer more collective value than gifts on designated holidays such as Christmas and Birthdays.

For banks, it is always the question of do you purchase gifts for your customers? We think the answer is yes (if net income permits), but not around Christmas. After years of researching this topic, we find that giving random gifts throughout the year tends to be more effective and results in both higher deposit balances and more fee/loan activity than those gifts at the Holidays. If that approach is too Machiavellian, consider that when it comes to satisfaction, a New Year's gift in January happens to increase gift recall and perceived value more than a gift from a bank in December. By the same token, the third best time to give a gift for a bank is around Thanksgiving as a "thank you" for your customer's business. Giving at off times tends to provide a greater impact on your customers.

After when to give, what to give is the question for banks trying to maximize their gift giving dollars. Perishable gifts may be initially appreciated, but are quickly forgotten. For that matter, commoditized products such as pens or random products such as bouncing balls also tend to be seen as having little value. That said gifts such as dial up modem cords, can actually hurt the bankÃ¢Â€Â™s brand as it underscores how out of touch the gift giver really is. The best gift remains something that customers wouldnÃ¢Â€Â™t get for themselves, but has lasting value. Car first aid kits, flashlights, flash drives, reference books and toasters (really) have been big hits for banks in the past for retail customers.

For the corporate customer, anything that promotes their business or helps them get ahead usually registers the greatest satisfaction. Here, business books, customized thank you notes, marketing/social media consulting or travel/restaurant guides have all been big hits. One bank would collect articles and photos of their clients all year and then present a personalized album (now an online customized book) at the end of the year.

The tradition of Christmas gift giving started in the Victorian era and was originally meant to be simple and modest expressions of kindness or charity. Whatever you do, know that timing and creativity counts more than the dollar price of the gift. Unfortunately, we also seem to remember this fact after the stress of the holidays.

BANK NEWS

Bank of America

The Bank agreed to pay $335mm to settle claims that its Countrywide Financial unit discriminated against black and Hispanic borrowers.

Flood Insurance

The $1T law that funds the US government thru Sep. 2012 includes a provision that extends the National Flood Insurance Program through May 31, 2012. The extension gives Congress time to devise legislation to extend it for 5Ys and make reforms.

Housing

Zillow predicts home prices will continue to fall through 2012 or early 2013, as negative equity and weak job growth hamper improvement. They also predict that after 2013 prices will rise about 3% per year through 2016.

Bank Insurance

Despite the fact that US banks took in some $7B in insurance brokerage fees last year, the term "insurance" isn't mentioned on the websites of 7 of the largest 15 banks.

Treasury

For the full calendar year, the Treasury sold $7.3T of bills, notes and bonds for a net $1.1T increase in supply. This is the 3rd largest gross and net issuance on record, following 2009's $8.2T trillion and 2010's $8.1T in sales.

Our Favorite

In case you think bankers lack creativity, our favorite holiday greeting comes to us from the Oregon Bankers' Association - simple, fun and captures the Christmas spirit: http://www.youtube.com/watch?v=qg9R_q1NPwE&feature=youtu.be