MOVING FORWARD WHILE ADAPTING

by Steve Brown

We would like to point out that despite Wikipedia being under a self-imposed, protest black out, we are still bringing you this publication. Instead of getting our news from a crowdsourced site that multiple crazies, evil geniuses and egotistical writers edit and produce, we have shifted over to getting our facts from Fox News (which some would argue is the same thing). Regardless of the source, our point is that we have adapted and made the best of an ugly situation. Banks have a similar opportunity coming up, as a fight over the deficit is likely going to result in a reduction of service from the US Postal Service. Regardless of the outcome, banks have an excellent opportunity to promote online bill pay to customers. Expense cut backs at the Postal Service will likely result in slower delivery, greater inconvenience (as many offices get shuttered) and more problems with lost items. Longer float times of checks will, in turn, make online bill pay more competitive. The net result is that this disruption gives banks an excellent opportunity to market their convenient cash management services. According to recent surveys and usage figures, while approximately 75% of bill payers use some form of online payment mechanism, only 25% use a centralized bill pay application from a bank. This number is rapidly changing, as the number of households paying bills online at banks is growing at an 11.2% clip, according to recent Fiserv data. Banks need to get more aggressive at marketing this service, before the likes of PayPal and other competitors occupy the space. For banks, the payoff is substantial, as online bill pay is one of the best tools a bank has to retain customers, build balances, generate fees and shift core deposits to being less interest rate sensitive. The net result is usually a 35% improvement in retention and an 18% improvement in profitability (net of application cost), when you compare a checking account with and without bill pay. Bill pay does something that few other bank products can do - tie balances to operating account fluctuations instead of interest rates. The more customers use bill pay the more non-correlative balances a bank has and the greater the duration on those accounts. Given the current environment, an account with online bill pay exhibits a duration of around 7, instead of 3 to 4 for many checking accounts. This gives banks not only a cheaper deposit base, but also helps build a balance sheet that can handle more fixed rate loans. The beauty of bill pay doesn't stop there. More powerful applications are yet to come and all have their base in online bill pay. Over the next 5Ys, the battle for both consumer and business deposits will be over cash management. Online bill pay provides a base deposit product delivering personal financial management; budgeting applications; expense tracking; invoice generating and clearing; mobile-to-mobile payments; person-to- person payments; credit analysis, advertising/promotional offers and social media integration. If you need one more reason to talk to your customers about online bill pay, consider that this Sunday the cost of a first class stamp goes up from 44 to 45 cents. Regardless of how you market, the important point is not to let this fantastic opportunity pass you buy. In order to move performance forward, put a working group together and roll out a campaign that will get your customers thinking about how they can save time and reduce costs, whole boosting efficiency by consolidating to online bill pay at your bank. If you do, you might be able to write your own entry on Wikipedia related to bank profitability.

BANK NEWS

4Q Earnings

US Bancorp reported a profit of 69 cents per share vs. 49 cents a year earlier. Earnings for the quarter leapt 39%, as credit conditions continued to improve, average loans rose 5.9% vs. the same period last year and the bank reduced provisions about 46% to $497mm. PNC reported a profit of 85 cents per share vs. $1.50. PNC increased loans, decreased reserves and was hit with residential mortgage foreclosure expenses and the cost of redeeming trust preferred securities. M&T reported a profit of $1.04 per share vs. $1.59. The bank saw earnings fall as it absorbed higher expenses related to its acquisition of Wilmington Trust, although revenue increased 18%, credit quality improved and reserves fell 13% to $74mm. Northern Trust reported profit of 53 cents per share vs. 64 cents in the prior year. The bank was negatively impacted by restructuring, acquisition and integration charges and said it will cut 700 jobs as it seeks to boost profitability.

Loan Growth

A closer look at earnings reports finds corporate loans at Citi increased 24% vs. last year and trade finance climbed 50% (Citi took market share from European banks); Wells saw 11% growth in C&I, while CRE climbed 6.6% (much of it came from buying loans from stressed European banks trying to shrink); and JPMorgan saw overall loan growth of 4% (corporate banking climbed 12% and loans held by the investment arm of the bank grew 28%).

Stress Testing

The FDIC issued a notice of proposed rulemaking that would require banks with more than $10B in assets to conduct and publish annual capital adequacy stress tests under baseline, adverse and severely adverse scenarios.

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