THREADS AROUND CUSTOMERS AND COMPETITION

by Steve Brown

Cell phone usage goes hand in hand with mobile banking and people love their phones if recent surveys are any indication. Consider that J.D., Power finds the average mobile phone bill has risen 31% since 2009 and is now $71 per month. That is due to more people getting smartphones and also to changes in the way people use their cell phone (many have now disconnected home phones in favor of using cell phones). Another example is a recent Nielsen survey that found the average teenager in this country sends or receives some 3,339 text messages per month. As this group of customers age, get jobs and put money into their bank accounts; it will be interesting to see how and where they eventually change the financial landscape over time. The first thread we want to focus on today is that the world around banks is changing rapidly and competition is now not only coming from other banks and credit unions, but also financial services companies, internet companies and pretty much anyone that moves money in either the physical or digital realms. Companies from Google to PayPal to Target or Wal-Mart; the cast of characters is nearly endless and the rules they must follow can be starkly different from the ones community bankers must adhere to in the highly regulated banking world. One can only hope the CFPB, Fed and others regulatory agencies recognize how much money has left and is leaving the banking system given the flexibility of digitization and are setting grand plans to find ways to regulate it more closely. In the meantime, bankers need to make a buck and keep fighting, so that is another thread to our discussion today. On this front, we focus in on areas that drive customers to change banks. To prevent such an event in the first place, many bankers we know worry about how they treat customers, what rates they are posting, give surveys, constantly improve training and do many other things and many of those make good sense in this area. In fact, a study by JD Power finds the primary area that leads customers to switch banks is life circumstances, which forces a switch. This can be due to a marriage, divorce, moving to a new city or other factors. Hovering at 28%, life circumstances take the top slot, but what can banks do to prevent this? Remote capture, online banking and other tools make it easier than ever for customers to stay with your bank, but knowing when they are leaving and why might give you an upper hand to make sure they know what you can do remotely. This is tough to find out admittedly, but surveying habits, likes, dislikes and other subjects might give some insight and at least give you a shot at retaining these customers by showing them the friendly bank they know and love is still just around the corner through the phone, online or other communication methods. Next, focus efforts on fees and rates, which came in #2 at 17%. Here, banks need to do a better job explaining how fees work, why they are needed and what sorts of rates customers can get for various products or services. Once customers begin to shop around, they will on average look at about 2 other financial service providers. Comparisons of any sort can be difficult, so to capture and retain customers, try brushing up marketing materials to not only differentiate your products and services, but improve clarity, as you explain the why's and wherefore's. Finally, the last three areas the survey found that will drive customers to switch banks are unmet expectations (13%); better customer service (8%) and advertising (7%), so take a close look at those as well. You never quite know what will get someone to think about your bank, but providing good customer service day in and day out and making sure customer expectations are met are great places where community banks normally excel. No matter what changes the industry eventually sees or how many threads of discussion are necessary to understand the competitive fabric when all is said and done, community banks provide great, local service that is hard to beat.

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BANK NEWS

1Q Earnings

Citigroup reported 1Q net income of $2.93B, or 95 cents a share, compared with $3B, or $1 a share, in the same period last year. The bank reported multiple 1X charges related to its debt, various divestitures and lower loan loss reserves, despite 12% growth in its loan book YOY.

ACH Volume

NACHA reported 2011 ACH payment volume reached 20.2B transactions, a 4% increase over 2010. NACHA indicated more consumers and businesses are using electronic or online payments, fueling the increase.

Financial Apps

iTunes reports the top 5 highest grossing financial apps in order are: Turbo Tax SnapTax (take a photo of W2, answer questions and file taxes); Quick Scan Pro (QR/Barcode scanner); Pageonce (bill pay, alerts, reminders); StockTouch (track stock market); and iXpenseit (budgeting).

Prepayment Spike

The FHFA said it will make a decision later this month about a Treasury proposal to allow principal reductions on loans that Fannie Mae and Freddie Mac own.

Small Biz Risk

The PCI Security Standards Council reports 80% of all credit card security breaches since 2005 are attributed to small businesses.

Swipe Risk

The riskiest places to swipe a debit card according to Aite are outside building ATM machines; gas stations; online using the internet and in restaurants.

Not Much AAA Left

A Bank of America Merrill Lynch index shows the number of bonds still rated "AAA" has fallen 32% to 3,611 from 5,331 in 2007.