

ACCOUNT DESIGN - ELITE BUSINESS SAVINGS

by [Steve Brown](#)

Sometimes untested creativity can backfire. Take the Novgorod- built by Imperialist Russia back in 1874. The problems with many war ships at the time was that they needed to get into firing position, as their guns were mounted in a fixed position. Turning a warship is a slow process and smaller boats can often slip by. To solve the problem, Russia came up with a circular design that could quickly be turned. The problem, as you might have guessed, was that the circular design was slow in the water when it had to move forward. Worse yet, when the guns fired, the ship spun like a top, making it nearly inoperable. Hauled out for the Russo-Turkish War of 1877, it was quickly retired, as the only damage the ship did was to cause some minor discomfort (as the Turks expelled their Raki through their nostrils from laughing so hard). Luckily, these days it is easy to test account design either by in-market experimentation or by hiring a firm to test it virtually (about \$20k cost). Bank of America, for instance, recently rolled out an account that they tested last year to strong fanfare and profitability. The problem they were focused on was how to capture business customers that already had a checking account at another bank, but were not receiving interest. To solve the problem, BofA introduced the Business Platinum Business Interest Maximizer. This account is geared towards the small or mid-sized business that maintains a combined balance of \$50k or more. This is a business savings account that comes with priority phone support and 100 reward points for each dollar spent on debit or credit. The account has no monthly fees, allows 50 free deposit items per cycle carries a \$15 charge for exceeding the Reg D 6 transaction limit. It earns interest in 4 tiers, starting at 10bp and going up to 25bp for \$40k and over. While seemingly complex on the surface, the account tests well on a number of fronts. First, the account is a business relationship savings account, which is unique among banks. Largely, banks choose to compete on their checking, MMDA or CD accounts. By positioning an elite level savings account, BofA has a weapon to lure businesses over, but don't want to go through the hassle of migrating their operating account. A rewards-based savings account that pays decent interest, however, is an easy one to sell as a companion to another bank's checking account. From a profitability standpoint, in our modeling, average account balances appear to be \$75k, depending on the geographic location of the account. Given the high balance, tiering, usage, performance and cost of this savings account structure; the combined package returns about a 12% to 18% fully loaded ROE. While not the most attractive account, it is not bad, given the current deposit environment and the shape of the forward interest rate curve. However, the seaworthiness of this account is apparent when you break it down. The priority service wins over the customer that desires a personal touch, the rate provides the business with a competitive return and the rewards points provide the catalyst to take (and use) both a debit and credit card product. If you can get a business account using all 3 products, then all that is really missing is checking to boost profitability. In testing, BofA found that once it gets an account over to its Business Interest Maximizer product, it has about a 20% chance of moving it into relationship checking - a very effective transitional product. Intelligent design and testing of deposit accounts, similar to what BofA has done, is an important component of producing superior performance. Testing to ensure all components are working in your favor and the account delivers valuable attributes to the customer; helps ensure that when your bank fires its relationship guns, it is not spinning in circles.

BANK NEWS

M&A

Legacy Bank (\$257mm, KS) will acquire Alliant Bank (\$15.3mm, KS) for an undisclosed sum.

M&A

MidSouth Bancorp (\$1.4B, LA) will buy two branches from Hancock Holding (\$19.4B, MS) for an undisclosed sum.

Searchable

The CFPB will launch an online database of searchable credit card customer complaints that includes the name of the bank responsible for the credit card, the type of complaint customer ZIP Code.

Like Cash

In an effort to hold onto its best customers and attract new ones, Citibank announced a new program for ThankYou Rewards members that will allow them to use rewards points just like cash when paying for transactions at approved merchants.

Major Capital Change

Regulators have issued a notice of proposed rulemaking that changes capital rules for all banks. The changes are intended "to harmonize and address shortcomings in the measurement of risk-weighted assets that became apparent during the recent financial crisis." Changes that will certainly get community bank attention include: risk weights change for residential mortgages based on loan-to-value ratios and other product and underwriting features; capital requirements increase for past-due loans, high volatility commercial real estate exposures and certain short-term loan commitments; recognition of collateral and guarantors is expanded in determining risk-weighted assets; references to credit ratings are removed consistent with Dodd-Frank.

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