CUSTOMERS - COMING, GOING OR LEAVING

by Steve Brown

The dictionary indicates that when you leave something, you go away from it. Even the much cooler urban dictionary states that when you go away from someone, you leave his or her presence. The word leave can be used in many wonderful phrases that include: leave someone alone, leave it to beaver, leave of absence, leave a message, leave something out, leave behind a foul odor or leave someone laughing. Clearly, leave has left its mark on our language.

Before we leave this topic, let's switch to a discussion more focused on banking. More specifically, let's take a closer look at the findings of research by Capgemini around why customers leave their primary bank.

There are many different factors at play when someone decides to switch banks, but the research found some of the most prevalent were quality of service (55%), ease of use (51%), fees (50%), interest rates (49%), quality of advice (45%) and convenience (45%). These are all areas where community bankers usually do quite well, so you probably don't have to reinvent the bank. Instead, you might only need to do some tweaks to improve (after all, everyone can improve).

Take for instance quality of service. Here, you might focus on how your commitment to providing excellent service is delivered throughout the bank. It takes a focused effort to keep current customers happy and to make new customers feel like they are comfortably part of a new, fun family. Doing so starts at the top and the more you set the example and employees who deliver this top quality service, the better the bank can be.

Ease of use on the other hand sounds like something related to technology. However, when talking about a bank it means more than that. Customers want it to be easy to do business with your bank on their own terms and their own timing. That means you need to have strong online banking services, friendly and knowledgeable staff and systems that help both work together to serve the customer and their business. Find out what the customer wants, then deliver it in spades, wrapped in a blanket of simplicity. People's lives are pretty complex right now, so serving up simplicity in your products is a formula for success here.

On the fee front, it is important to understand that people just don't like to pay fees, so doing this requires nuance and flexibility. For instance, it is perfectly fine to have a standard fee for a given service, but know that doing so can raise customer ire. To eliminate it, have a way for customers to avoid the fee in whole or in part. You don't have to waive all fees every time someone gets mad, nor should you wait for that to happen. Some customers will just walk out the door never to return and will never tell you, so a systematic and clear approach is recommended. It is better to state up front that there is a fee for a given service and then show the customer how to waive or reduce it if they take some action. This puts the control back in the customer's hands and that small change is what makes it work for both parties. Customers now know what it takes to get the fee reduced or eliminated and you don't have to do anything except tell them the steps. Even a small fee reduction will keep customers happy and ensure noninterest income keeps flowing.

If you think you already have a good handle on the items identified by the research that is good, but there is always room for improvement so keep working at them. In addition, other factors that ranked high in the research included ATM locations (39%), product availability (36%) and branch locations (36%).

Now that we are done for today, we leave you with one final thought. As you leave your office to refill your coffee cup, ponder our discussion this morning. If you do, we know we will have left you with some information you can leverage, whether you are coming, going or leaving.

BANK NEWS

M&A

First PacTrust ($1.5B, CA) will purchase Private Bank of CA ($650mm, CA) for approximately $50mm, or about 1.0x tangible book. This PacTrust's 3rd deal in 14 months.

FOMC

The Fed released last month's (concluding Aug. 1) meeting minutes and they show more dovish support for QE3 than the market previously expected. The quote that stands out: "Many members judged that additional monetary accommodation would likely be warranted fairly soon unless incoming information pointed to a substantial and sustainable strengthening in the pace of the economic recovery."

Loan Impairment

The FASB gave the OK to an impairment accounting methodology that is surprisingly different than the one recommended by the International Accounting Standards Board (IASB). FASB's model (impacting both loans and securities) revolves around an expected loss model instead of the current incurred loss concept in use at banks. FASB's model does not require a three tiered classification and detailed testing as the IASB's does. More information is forthcoming.

Mortgage Market

According to Mortgage Finance, Wells Fargo controls 33% of all mortgage origination (and 19% of servicing). This compares to 11% for JP Morgan Chase, 5% for US Bank and 5% for BofA, the next 3 largest.

PCAOB Audit

The Public Company Accounting Oversight Board (PCAOB) released a report following its inspection of 10 audit firms covering portions of 23 audits of broker-dealers. Banks should take note, as auditing firms you use are likely to change the way they operate based on the findings. Particular areas the PCAOB found deficient included audit procedures related to customer reserve and net capital requirements, audits of financial statements and auditor independence.