GIVING DIRECTIONS

by Steve Brown

The picture reminds us how difficult it can be for some people to give or receive directions. Whether it is due to a synapse misfiring in the brain, or something else, the data on this issue is nonetheless interesting. Consider a recent survey by Telenav. It found 22% of people cannot give directions to the nearest emergency room and 51% have no idea how to direct you to the nearest tourist attraction. Perhaps that is why people love the power of the smartphone to show the way.

We have been pouring over studies, surveys and other industry analysis recently and have uncovered some things we think you will want to know about as you consider the direction of your products, services and business over the next few years. In no particular order, they are:

Customers often stick around. While less than 25% of people trust the financial system (Chicago Booth.Kellogg School survey), trust in community banks sits at a robust 55% level. Another survey of customers who shopped around for a new banking relationship (JD Power) in the past year found only 8.7% actually switched. The data shows you can probably charge more fees for services rendered because few people will switch and if they do, most will only contact 1.9 banks on average to see what they offer. Depending on your market, that means you have a good chance of keeping customers even if they become frustrated.

Competition is high. Analysis finds the average metropolitan area has 28 banks operating in it and as many as 250 can show up in some areas. Note that this does not count credit unions or other financial providers, so it isnÃ¢Â€Â™t your imagination that competition is fierce.

Sales training must improve. To gain additional business, it is critical to improve the sales training for your customer facing staff. A survey by JD Power finds 57% of customers purchase banking products from providers other than their primary institution. To capture more of this business, ramp up training.

Customer behaviors are changing. Data from the FDIC and the Census Bureau find 8.2% of households in this country manage their finances without a bank now vs. 7.7% in 2009. Meanwhile, people who say they use bank services infrequently has risen to 28.3% of households. Expanded use of prepaid debit cards, shadow banks and a variety of other factors all play a role.

Checking accounts cost money. Celent reports it costs about $300 per year to maintain a checking account. That is one reason why so many banks have moved away from this as a product offering and why prepaid card usage is also surging.

Mobile behavior is changing. The Labor Department reports people spent $116 more per year on telephone services in 2011 than they did 4Ys earlier. To support smartphone usage, people cut back on entertainment, eating out and buying clothes. It is clear people have made a choice, so bankers should work to support mobile banking to meet that demand head-on.

Regulatory rules have increased job cuts. Banks are cutting jobs to reduce efficiency ratios, but new rules are also taking a toll. Banks now face substantial fines if they employ people convicted of a crime involving money laundering, identity fraud, mortgage fraud, dishonesty or breach of trust. That sounds like a good idea in general and banks are firing employees and executives when they uncover such issues.

Finally, our original survey on directional deficiencies found 65% of people prefer to search for new restaurants, retailers or something to do on their personal computer, while 18% do it on their smartphones and 11% use in-vehicle systems. We arenÃ¢Â€Â™t too sure what you can do with that data point in particular, but perhaps it is worth discussing when you next consider how you might spend your marketing dollars.

We hope the data provided today gives you some direction on ways to enhance your bank, as you improve performance.

BANK NEWS

Credit Unions

The industry reported outstanding loan balances reached $599B as of 2Q, up 3.1% YOY. New auto loan balances climbed 1% in 2Q, credit cards increased 4.7% and business lending soared 8.3%.

Waiting Game

A new survey by Adecco finds 77% of small business owners surveyed say they are waiting to hire until after the results of the presidential election are known. Additionally, 55% have frozen technology upgrades; 52% are waiting on infrastructure investments; and 50% said they hoped the newly elected president would give incentives to businesses to hire more employees.

Technology Crackdown

The SEC's examination staff has sent brokerage firms questionnaires seeking information about technology systems related to order taking and order processing. An extensive review is beginning as a result of errors and control issues at major firms (including a software glitch at Knight Capital which led to a $440mm trading loss and nearly bankrupted the firm).

Industry Analysis

FDIC data shows community banks account for about 92% of all banks operating in the country by number. Meanwhile, despite controlling about 30% of branch locations the group only holds about 12% of industry assets.