
THE INTERNET HAS CHANGED EVERYTHING

by [Steve Brown](#)

It is almost impossible to imagine our lives without the internet. There are people who live without it, but especially for those of us who work in banking, we can't imagine being able to do our jobs without internet connectivity.

Measuring the internet's impact on the economy and GDP has proven to be quite challenging, but a number of experts are taking a shot at it. First they had to come up with a metric. Experts came up with a term called "consumer surplus," that is basically the difference between what a consumer will pay to purchase an item in a store and what it costs now to buy it on the internet. This is quantifiable, but also two sided. There is a benefit to the consumer, but also less profit to the seller of goods, as the price of almost everything has been driven lower by the availability of products on the internet. Lower prices are the norm now for the seller both in the store and on the internet.

There is no doubt that the internet and the availability of the information it provides have dramatically changed almost all aspects of the banking industry as well. Like internet use in general, there are some readily quantifiable aspects and some that are more difficult to measure. There are also two sides to almost every outcome. Fewer teller transactions and branch visits are the norm now, as more customers use online services. That has meant more branches get closed (especially for the large institutions) and fewer employees. This saves on expenses, but also impacts business development in its traditional form.

One of the more interesting outcomes of the internet in banking is that some programs that began as cost saving initiatives (like lowering costs by discontinuing mailings or not returning checks to customers), have become added value services over time. There was initially high resistance from customers who liked to see their cancelled checks, but the fewer checks written meant fewer people cared. The broad acceptance of internet banking has changed this forever. E-statements save banks a bundle in mailing costs, but also tend to make customers stay with the bank longer, more likely to use other services and in general add value to the bank. It is truly amazing that a cost saving idea could have such an impact. Today, internet banking has become the preferred method of transacting business by most bank customers and having a quality website is a must to develop business and keep existing clients happy.

The e-statement example shows how cost savings ideas can sometimes translate into other benefits and generating earnings is fundamental to prosperity. Charging fees has been met with customer resistance, but technology may offer an opportunity here as well. Charging for something new and not for services customers already have seems to be the key to avoid blowback. For example, some large banks have a small charge for mobile deposits, with the thought being that people would pay a small fee rather than stand in a teller line. Care must be taken when charging any fees, obviously, as competitors may not follow, but opportunities are around if you look closely enough, so our advice is to keep tinkering with fee options as you keep looking.

One way is to look at your services and your planned initiatives. Then see where a value-added customer service can generate income and drop in a fee right from the outset. Customers don't expect all services to be free, so it is possible and given such low margins it is now mandatory. Use

technology, the internet, form teams and try out a few fees on new services to find those that work best for your bank in this ever-changing environment.

BANK NEWS

Closures (8 YTD)

Regulators closed First Federal Bank (\$100mm, KY) and sold it to Your Community Bank (\$667mm, IN). Your Community gets 5 branches, assumed all deposits and entered into a P&A agreement with the FDIC. Heritage Bank of North Florida (\$111mm, FL) and sold it to FirstAtlantic Bank (\$339mm, FL). FirstAtlantic gets 2 branches, all deposits and entered into a P&A agreement with the FDIC. Chipola Community Bank (\$39mm, FL) and sold it to First Federal Bank of Florida (\$949mm, FL). First Federal gets 1 branch, all deposits and entered into a P&A agreement with the FDIC.

Kiosks

The head of consumer banking for Chase said recently its customers can now do 90% of traditional banking transactions at self service kiosks.

Social Focus

A study by the University of Massachusetts Dartmouth finds from 2011 to 2012, companies in the Inc. 500 reduced Facebook usage (from 74% to 67%), increased LinkedIn usage (73% to 81%), boosted YouTube usage (30% to 45%) and slightly reduced Twitter usage (67% to 64%).

CRE

Trepp reports the total dollars of commercial real estate loans maturing in the next 12 months nationwide are about \$53.1B. Of that amount, the top 5 states in order are CA (14%), NY (11%), FL (6%), TX (6%) and PA (3%).

Less TRUPs

New research by SNL finds 651 bank holding companies with assets below \$500mm still have trust preferred securities (TRUPS) issued and outstanding. Others include 531 more with assets \$500mm to \$15B and an additional 40 with assets above \$15B. In addition, capital rule changes have reduced the portion of TRUPS to Tier 1 capital at bank holding companies from \$113.1B in Q4 2011 to \$67.5B as of Q4 2012.

Marketing

A study by Duke University of 468 chief marketing officers in the US finds they expect to spend 8.4% of their budgets on social media this year, 11.5% next year and 21.6% in 5Ys.

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