

## A Web of Irresistible Attraction

by [Steve Brown](#)

Spiders are frequent visitors around the yard and sometimes in the house. Unless it's a black widow or another really nasty variety, we mostly tolerate them as they do control the spread of other insect pests. One of the worst things about spiders is that now and then, usually early in the morning, we will walk face-first into a newly constructed spider web. It turns out that spider webs actually generate an electrical charge and create electricity that pulls passing insects into the sticky strands. You see, insect wings create an electrical charge as they beat a gazillion times a second. The spider's web generates a charge too and so, like a science fiction force field, a passing bug gets sucked into the web where it's only a matter of time before it becomes a tasty snack. We would deem it unlikely that humans generate much of an electrical charge or are attracted to thin hairs spread all over one's face, so attribute our issue more with fading eyesight.

Speaking of electrical charges, bank customers are using electronic devices more and more to carry out mundane banking chores. We've talked about this before in this publication, especially about customers using mobile phones to take care of an ever increasing share of their banking business, but we focus on a new twist here. One thing that has held back the usability of mobile banking in many instances at community banks is that most mobile banking sites are basically mini-versions of the bank's online banking web site. This makes functions difficult to use on a small screen, so adoption rates are typically below those of larger banks. Many banks are working on this and we recently found evidence that development of device technology is causing a complete rethinking and retrofitting of older systems.

As much as customers may use cards and phones for transactions and purchases, people still need cash and they want access to be simple. We are now seeing development of ATMs based on tablet and mobile technology. They have menus operated by finger drags on a touch screen and remember a customer's preference for a \$100 withdrawal or an account balance and offer both as default choices. The reasoning is that people are most comfortable with the functionality and operation of their personal devices, so making their banking experience similar in look and feel goes a long way towards keeping customers happy, engaged and loyal.

In the past, banks replaced ATMs or upgraded software systems every 3 to 5Ys. A recent FIS report finds most banks currently want software upgrades every year, plus many intend to replace their ATM machines by the end of 2014. This marks the first major shift in ATMs in a decade and it will be interesting to watch. One regional bank in the Midwest is rolling out a phone app that customers can use to request cash from a nearby ATM and then once there, simply scan a phone to pick up their cash. Many of us have our phones with us, so it is more convenient than digging for cards.

These kinds of features should help your bank lure customers away from less savvy competitors, but also cover competition from non-banks. ATM machines are expensive, but having your best face where customers use it the most is important. As the dominant path of this new technology becomes apparent, the costs will go down, so be sure your bank is up to speed, before your customers get sucked into the web of a competitor.

### BANK NEWS

## **M&A**

Wilshire Bancorp (\$2.8B, CA) will buy Saehan Bank (\$542mm, CA) for about \$105mm in cash (48%) & stock (52%).

## **M&A**

MB Financial (\$9.4B, IL) will buy Taylor Capital Group (\$5.8B, IL) for \$680mm or about 1.8x book.

## **M&A**

First Bank (\$373mm, NJ) will buy Heritage Community Bank (\$146mm, NJ) for \$4.8mm in stock.

## **Budget Update**

The OMB reports the projected deficit in 2013 has decreased by more than \$200B vs. Budget and is now projected to be 4.7% of GDP vs. 10.1% 4Ys ago. This is the fastest period of deficit reduction since the years immediately following World War II.

## **Housing**

RealtyTrac reports foreclosure activity fell 14% in June to its lowest level in almost 7Ys (since Dec. 2006).

## **Excess Cash Use**

A survey of CFOs (80% at companies with \$1B+ in annual revenue) by Deloitte finds the top 5 ways these financial executives expect their companies to use excess cash is organic growth (58%), acquiring businesses (49%), paying down debt (29%), improving effectiveness or efficiency (25%) and paying dividends to shareholders (23%).

## **Customers**

A survey by Bank of America Merrill Lynch finds 75% of people with \$250k to \$3mm in investible assets want help with health and long term care choices. Banks may want to schedule meetings with customers and bring in experts to address this concern and perhaps capture new customers.

## **Transaction Costs**

Forrester research reports it costs about \$7.50 to service a customer in a branch vs. about 85 cents at an ATM and 10 cents online.

## **Competition**

ICBA reports the top 12 US banks control nearly 70% of industry assets.

## **Large Banks**

Research by Citibank finds many countries are exposed to a handful of very large banks (assets as a percentage of country GDP). Topping the list is Switzerland where only 2 banks represent about 425% of GDP, followed by the UK (about 320% and 4 banks), France (245%, 3 banks) and Canada (165%, 5 banks). The US came in at about 55% with 6 of the largest banks.

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