Diamonds and Customers

by Steve Brown

In March 1999 Advertising Age named "a diamond is forever" the top advertising slogan of the 20th century. Coined in the mid-1940s by the ad agency N.W. Ayer & Son, the DeBeers' slogan is still used today by the diamond company.

A lot of things change over time, but some things, like good slogans and family wealth, are best preserved. That's why we were somewhat taken aback by a recent Pershing report that looked at the makeup of today's affluent investment advisor/client relationship. While this is about investment advisors, there is much a community bank can leverage and should know about well-heeled clients.

To begin, the report found advisors are missing out on an enormous opportunity to keep their clients' children as investors (sound familiar?). Even though more than 50% of clients deemed affluent have children 18Ys or older, advisors have only talked with about 35% of this group about their finances or future. Furthermore, only 52% offer expertise in intergenerational wealth transfer and only 46% offer expertise in trust services.

Community banks pride themselves on knowing the customer, but this report shows even more can probably be done. Can anyone really say they are doing everything possible to make sure those relationships last from generation to generation? Mobility is making these customers much harder to capture and keep, so staying focused on this is critical

Certainly, engaging the younger generation can be difficult, which a recent Accenture study attests too. Accenture noted that Millennials are more conservative investors and are less trusting of advisors than Baby-Boom or Gen X. They are also more apt to consult other sources before accepting financial advice, according to the study of high-income, digitally savvy investors.

While this presents a challenge across the spectrum of financial services firms, it also presents an opportunity. According to the study, Millennials are the most determined of the three generations to learn how to invest and pass along wealth to their families. Indeed, 40% of respondents said they are "determined" to pass along wealth to their families, compared with 25% of Boomers and Gen X.

This is good news for community bankers willing to sit down and engage multiple generations. That is because engaging Millennials and staying focused on their needs over time, gives you a better chance to keep them as customers for the long haul.

One good way to do this is to have your business development officers or management team meet with key customers and their children, in a setting of their choice. To serve the younger generation correctly, make sure to do it on their terms. This could mean sitting down for in-person meeting at the bank, video chatting or grabbing a hot beverage at a local coffee shop.

It's also important to interact on a level they are comfortable using. Without being condescending, it's okay to ask their level of comfort with financial matters and how you can help them learn more. While not everyone needs to start at square 1, the study finds 44% of Millennials described themselves as "extremely" interested to improve their understanding of investing vs. only 38% of older respondents who gave this response.

You might even consider developing online educational tools - ranging from online meetings and educational web-based video services, to virtual chats, webinars and social media. Millennials polled showed great interest in these types of online tools and providing them could help cement relationships for years.

When it comes to the attracting and retaining the next generation of customers, our diamond discussion reminds us we need to work to remain a cut above the rest.

BANK NEWS

Branch Purchase

The parent of Berkshire Bank ($5.2B, MA) will buy 20 branches in NY that have $640mm in deposits and $5mm in loans from Bank of America for an undisclosed sum.

Branch Purcahse

The parent of Community Bank NA ($7.2B, NY) will buy 8 branches in PA from Bank of America for a 2.39% premium. The branches have $369mm in deposits.

Muni Risk

Bankers holding bank qualified municipal bonds in their investment portfolios or who have made loans to municipal entities should note under the Detroit restructuring plan a request has been made to treat general obligation bonds as unsecured debt. If the bankruptcy judge approves the request, volatility is expected in these sectors as investors adjust to the new risk profile. We will keep watching the events and let you know how it all unfolds.

Cybercrime

A joint study by the Center for Strategic and International Studies and McAfee finds the cost of cyber espionage and cybercrime in the US is $100B per year or about 1% of GDP. The number is 10x less than McAfee's original estimate of $1T reported a few years ago.

Housing Regulation

To ensure issuers of mortgage backed securities have skin in the game, Dodd Frank requires them to hold 5% of all securities issued that do not have government backing. The WSJ reports regulators may soon apply the requirement only to mortgages that allow borrowers to make "interest-only" payments or that don't fully document a borrower's ability to repay.