

Geek Fashion & Bank Branches

by [Steve Brown](#)

You may have known a geek or two back in high school or perhaps you even were one. To know, check your scrap book to see if a plastic pocket protector is carefully preserved along with a slide rule. It is just fine to be geeky (just ask Gates, Wozniak, Steven Hawking, Alexander Graham Bell and others). No matter where you fall on the "geek" spectrum (from jock to super-geek), you may find it interesting to know the modern pocket protector was developed after WWII. In fact, as a result of researching the history of the pocket protector in this modern interconnected world, each time we log into Amazon now, it offers a selection of pocket protectors available for purchase (most are less than \$5 if you want to know).

Geeks are reportedly the source of all things technology, so it makes sense that we start there. Technology causes migration of habits in society and has done so from the beginning of time. Many tools once considered cutting-edge, like a slide rule or a stone ax, now pretty much exist only in museums. One of the biggest technological changes in the history of banking is the rapid migration of customer preference to online and mobile. Branch traffic has tanked and one study even showed a 40% drop from the level of even 5Ys ago. In response to declining traffic, in Q4 2012 banks closed 503 branches and opened only 274. That net decline is 200% higher than the previous quarter.

As branch traffic has declined, banks are spending time analyzing whether to close branches and how to use staff. It is a big decision to close a branch, affecting employees, customers and the bank's business footprint. When a bank considers closing a branch, then, what factors should be taken into account? Studies find location is of primary importance to the success of a branch. The place most convenient for people to bank may not be close to their homes, but as long as it is close to where they work or near where they shop regularly the branch tips more toward success.

Tracking customer behavior is also important here. Banks need to know where customers live and work, which ATMs and branches they use, how many are going online, when and what they are doing. Some of the information around branches is basic, like which ones have the most traffic or which are the most profitable. The real work begins though when you go a little deeper. Finding out what customers do in branches, how that is different by location, the demographic for each one and whether it drives the services customers use.

To gain a good hand here, consider whether a branch serves specific demographics and how it is staffed. Professionals and business customers have different needs (business services, commercial lenders) than retirees (trust department, safe deposit box), so adaptation makes sense. Then, focus on which customers only do business online and at ATMs and never come into the branch. Find out whether these customers live in a particular area and if so, how the branch is staffed there. Ask whether a video ATM would boost activity, as you test and learn.

Analysis will help get you down the road and hopefully highlight the branches that may be incompatible with the demographic and service needs of an area. This knowledge should help your bank adjust staff placement and reduce costs over time.

It is tough, but if a branch location is not enhancing the bank's overall business, it is important to weigh the costs of closing it. Sure, there will always be Luddites who like to come into the branch (some wearing pocket protectors), but the better your bank can efficiently serve the needs of all customers, the brighter the future will be - just ask a geek.

BANK NEWS

Stress Testing

The Bank for International Settlements (BIS, organization of central banks worldwide) says banks should use stress testing to identify possible events or future changes in economic conditions that could have unfavorable effects on the bank's credit exposures and assessing the bank's ability to withstand those changes. The BIS suggests banks stress test economic or industry downturns; market-risk events and liquidity conditions. We would add the need to stress capital.

Municipal BK

In case you were wondering, the largest bankruptcies of municipalities in the US in order are Detroit, MI (\$18.5B), Jefferson County, AL (\$3.2B), Orange County, CA (\$1.7B), San Bernardino, CA (\$1.0B) and Stockton, CA (\$0.7B).

Opportunity Knocks

Deloitte research finds 60% of Americans say they have not had any interactions in the past 2Ys with any financial institution about their retirement savings or income needs. Get out there.

Portfolio Segmentation

While segmenting the loan portfolio by loan type (such as C&I, CRE, etc.) is useful, doing so is more valuable when segmentation is used to identify concentrations and risks. As such, try segmenting your portfolio by borrower industry, geographic area, collateral, tenor, facility structure, risk rating, etc. to gain more valuable insight. Try some of these out as you continue to control risk.

Talent Pool

Research by Deloitte finds the top 5 places companies have found highly skilled finance and other leaders over the past 3Ys have been from large companies (58%), internal (40%), professional service firms (38%), competitors (37%) and midsize companies (29%).

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