

Barking at Alternative Providers

by [Steve Brown](#)

We recently came across a comic that ran several years ago in The New Yorker featuring a young business-dog chatting with an old business-dog. "We do all those old tricks electronically now," quips the young canine to the older one. The comic strikes a chord with us because of the media fanfare describing the idiosyncrasies of Generation Y. In our experience, many bankers are often left scratching their heads when it comes to how best to cater to this tech-tethered and convenience-seeking group of customers.

One reality that banks have to grapple with is what studies have repeatedly shown: more and more young people are bypassing banks in favor of alternative financial services providers. Indeed, a recent report from Synergistics Research found that 58% of Gen Y respondents reported using some type of alternative provider for their banking needs. In contrast, only 43% of Boomer respondents reported using some type of alternative provider.

This isn't to say that Gen Yers (also dubbed Millennials) are completely bypassing traditional branches in favor of other options like convenience stores, supermarket branches, check-cashing centers and non-bank financial centers in retail stores. But to underestimate the allure of alternative providers to younger customers can be a costly mistake because they will eventually get mom and dad's inheritance as their jobs and wealth also grows over the years. When customers take their business outside of banks, it's not only a missed opportunity for the present but it's a missed opportunity for the future as well, when their financial needs may be greater.

Banks can do a better job of giving younger customers the products and services they want and this is a population for whom convenience is a major factor. Mobile is at the heart of this discussion, as millennials in particular are really into their smartphones and are early adopters of mobile banking. Beyond mobile, online access is also highly important to younger customers, along with nearby branch locations and 24/7 access to their money. Further, don't even think about forgoing remote deposit capture if you want to win this generation of customers.

Banks also need to adapt their pricing to the Millennial market. They're a generation that demands more transparent fees and reasonable ones too. A recent survey by Harris Interactive, on behalf of Think Finance, found that 83% of Millennials surveyed said that the most important factors to consider when choosing a financial services provider are fee-related. As such, banks need to find a way to work with younger customers and charge for their services in a way that doesn't close doors.

Get it right and opportunities abound. Millennials tend to need a significant amount of financial advice and many aren't getting what they need from other financial services providers. Many Gen Yers are in a bad place with respect to student debt. They need help with day-to-day expense management and saving to afford rent or home ownership. They're also extremely concerned about having enough money for retirement and they are troubled about not having enough money to keep up with the rising cost of health care. Opportunities not taken to reach out to them now are opportunities lost in the future when they will likely have more money and an additional need for financial services products.

There are clearly plenty of alternative providers willing to relegate banks to the sidelines, so banks who are slow to shift tactics for this group of customers are barking up the wrong tree.

BANK NEWS

M&A

Bridgehampton National Bank (\$1.7B, NY) will buy First National Bank of New York (\$272mm, NY) for about \$5.3mm in stock.

Government Shutdown

As Congress works to find a solution, the Wall Street Journal notes the federal government was closed 2x under Clinton, 1x under HW Bush, 8x under Reagan, 5x under Carter and 1x under Ford.

Customers

A Zoomerang survey found of the business owners using social media, 86% use Facebook, followed by LinkedIn (41%) and Twitter (33%). Of these, 50% said they captured new customers using the tools. Another survey of small businesses by Constant Contact finds the social media sites cited as most effective ones to find customers are Facebook (86%), video sharing (71%), Twitter (60%) and LinkedIn (55%). For bankers we share this information so you can go where your own customers are fishing for customers to catch a few small business fish of your own.

Stress Testing

A Deloitte Global risk management survey finds banks say they use stress testing because it enables a forward looking assessment of risk (80%), helps them set risk tolerance (70%) and feeds into capital/liquidity planning (66%). These are best practices community banks should strongly consider adopting to improve risk management processes.

Customer Behavior

Research by MIT and Deloitte find 81% of Gen X and 70% of Baby Boomers see social media as a powerful tool to interact with friends. Further, 80% of Gen X and 60% of Boomers see social networking sites, texting and instant messaging as an effective way to stay in touch. Given these high percentages, community bankers should have a plan to market through these channels.

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