Boomer Biz Opportunities

by Steve Brown

We've all heard the reports of the impending burst of retirements among the Baby Boomer generation (born between 1946 and 1964). Despite their questionable taste in hair styles and those funky bell bottom pants during the 1970s, the boomers have ended up being a very productive generation. They make up the leadership in many industries including the banking world, law and accounting firms and other professions. They are characterized as being hardworking, goal oriented, career-focused and motivated by position and prestige. They are now retiring at the rate of 8,000 per day and this is expected to increase as more enter their retirement years.

We bring this up because there are business opportunities for community banks in this demographic shift. Banks that have trust departments are already aware of many of these trends and assisting the transfer of wealth from the parents of the boomers to the boomers. Right now, the boomers' parents are the typical customers of trust departments.

As for the boomers themselves, most are already bank customers, doing business and transactional services. They have tended to be self sufficient, more likely keeping their assets at self-service firms like Fidelity or Schwab, but things are shifting. There is the movement from 401(k) accounts to IRA rollovers, investment needs are changing from accumulation to distribution and risk tolerances are lessening as time horizons shrink.

Community banks with trust departments should be certain their asset management services are up to speed on what the boomer generation wants. Some will no longer want to continue to use self-service options as they look to free up time for other pursuits. They will consider asset management programs in banks if they are sophisticated enough, but boomers are also likely to be more involved than their parents as every generation tends to use services similar to what they used during their professional lives.

Boomers will pay a fair price for asset management services, but they will expect them to be industry leading, economical, transparent and have technologically advanced access. It's the same expectation that boomers have from their banking relationships already, so community bankers are well positioned. What banks can offer that traditional brokerage firms cannot offer for asset management, is a fee-based service model based on a fiduciary culture rather than a brokerage sales culture. Even if brokerage firms offer asset management, it is likely more expensive than fees in a bank trust department.

That is good for banks with trust departments but what about those that don't have one? Should a bank undertake starting one with the impending glut of retirees waiting in the wings? This is a tricky question, as more than 50% of bank trust departments are probably unprofitable. Analysis finds they are heavily reliant on experienced personnel and therefore are not cheap to run. The general benchmark asset size for a successful trust department is about $500mm, so unless there is a possible acquisition in the wings, the answer is probably no.

There are opportunities among bank products for boomers however. To capture more, follow the same set of guidelines - offer services aimed at helping self-sufficient people, but who would like to have more time for other pursuits. Understand that risk tolerances will be less and that they may be more interest in CDs and savings accounts than previously. Good service, good products and looking at things from the customer's point of view will help your bank help this customer set as they move into retirement in the coming years.

BANK NEWS

M&A

Community Bank ($7.3B, NY) will acquire the professional-services practice from Lifetime Healthcare for an undisclosed sum. The practice provides medical-benefit valuation and consultation services to 150 companies.

M&A

Spanish Bank Banco de Sabadell SA will acquire JGB Bank ($530mm, FL) from Columbian billionaire Jaime Gilinski Bacal for about $56mm or roughly 1.12x book.

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Volunteer Corporate Credit Union ($1.0B, TN) will acquire Kentucky Corporate Federal CU ($153mm, KY).

Consolidation

First State Bank ($348mm, NE) will acquire Community Bank ($51mm, NE) in an all-equity deal that would combine both banks. The banks are owned almost entirely by the Randecker family.

Fined

Fifth Third Bancorp (OH) has agreed to pay a $6.5mm SEC fine related to improper accounting for some of its commercial real estate loans. The bank reportedly did not mark nonperforming loans to market once it decided to sell them as held for sale and instead classified the loans as held for investment. Its former CFO also agreed to pay a $100,000 fine and was banned from serving as an accountant for any publicly traded company.

Bank Equity

RBC Capital Markets banking analyst Gerard Cassidy is projecting bank stocks could rise 30% next year as litigation costs decline, loan growth increases and the yield curve steepens.

Q3 GDP

Everyone cheered the stronger than expected 3.6% report, but looking deeper at the numbers it appears most of the lift was driven by business stockpiling of inventory. If that had not occurred, GDP would have only been 1.9%, so a setback in Q4 is likely. Stay tuned but keep your fingers crossed that doesn't happen as we want to close the year strong.