

## Donning The Boxing Gloves

by [Steve Brown](#)

A few months ago Men's Fitness ran a piece entitled "The Greatest Boxing Matches of All-Time." No. 1 on the list was the March 8, 1971 match between Muhammad Ali and Joe Frazier at Madison Square Garden in New York. It was advertised only as "THE FIGHT" and was broadcast around the world in 12 different languages. Frazier won this brutal showdown, but later lost two other fights to Ali and continued until his death to harbor a deep grudge against him.

Looking around at our industry, we see it becoming more and more of a boxing match between banks and other entities that are encroaching on the business. Every which way you turn someone is trying to get into the business of banking. T-Mobile, for example, recently announced a new financial services program aimed at customers who don't have a regular bank account. Wal-Mart, meanwhile, has been going after a similar market for the past few years with its Bluebird checking and debit alternative. Just recently a government agency report suggested that the U.S. Postal Service could alleviate its budget woes by offering financial products such as debit cards and loans to consumers. What is next we wonder?

New entrants often go after the unbanked or under-banked market as a way to get into the business and fly under the radar. After all, who would stand in the way of helping those who are poor or need to open bank accounts? Indeed, a 2011 study from the FDIC found that 20% of U.S. households are under-banked--representing 24mm households with 51mm adults. Meanwhile, 25% of households were found to have used at least one alternative financial services product within the prior year and almost 10% of households had used two or more types of alternative products.

What gives and should banks feel threatened by alternative financial services providers? We think the answer is a resounding yes. After all, how long it will be before these nonbanks set their sights on loftier targets? First it's the unbanked, then it is the small business customer loan or deposit.

We're not saying you have to go out tomorrow and ramp up your offerings to the unbanked and under-banked, but keep an eye on new entrants here because with all the rules the only way to really make money for these players is to expand into other sectors. A strong business case can be made this is their ultimate game given the economics of it all. We also think it's important to be ever-mindful of what the competition is up to and to take whatever opportunities you can to remind customers about your value proposition. It reminds customers why they like to do business with you in the first place and further cements relationships over the longer term.

Banks currently have certain advantages with small businesses and wealthy customers, but there's nothing to stop non-banks from trying to woo this business away. Just because alternative financial service providers aren't yet targeting your bread-and-butter business, doesn't mean they won't go after it in the future.

Along those lines, banks would be remiss to assume that in a fight against non-bank financial services providers they'll come out on top. After all, many spectators of the 1971 fight between Ali and Frazier had placed their bets on Ali winning. They were wrong with respect to this fight, but Frazier later lost

two other bouts against his nemesis. The lesson for banks is clear: Never underestimate the competition and in banking as in boxing, it's often a fight to the final bell.

## **BANK NEWS**

### **GDP**

After updating for the latest economic releases, JPMorgan now projects 1Q GDP will be 2.0% with 2.5% for 2Q and 3.0% for 3Q and 4Q. Since loan growth typically tracks along similar lines we thought you would want to know.

### **Small Biz**

A small business study by ath Power Consulting finds: 66% of small business owners say they would likely switch banks based on the availability of mobile banking; 91% say they prefer to do business with banks that have built up a relationship with them.

### **Branches**

Analysis finds newer branches are about 25% to 50% smaller in size than typical existing branches (new ones are often only 1,000 to 3,000 square feet now).

### **ID Theft**

Banks should note that the DOJ has released data showing it filed charges against 880 people last year that were suspected of committing crimes related to stolen identities.

### **Tax Fraud**

The IRS reports it surfaced about 580,000 fake tax returns (claiming some \$3.6B in fraudulent refunds) during last year's filing season.

### **Competition**

SunTrust Bank launched a program called Double Your Deposit Sweepstakes whereby the bank will automatically enter customers who use mobile deposit or mobile bill pay with a cell phone or tablet for a chance to win double their deposit up to \$1,000. The bank is choosing two winners every day through April 30.

### **Capital**

A Grant Thornton survey of bank boards and executives finds 71% feel their banks' capital level is satisfactory and they have no plans to raise capital this year.

### **Loan Spreads**

The Fed reports that between 4Q 2009 and 3Q 2013, spreads on C&I loans compared to the fed funds rate declined from 3.33% to 2.58% (down 75bps or about 23%).

### **M&A Objective**

A study by Deloitte finds the primary M&A objective of directors is to pursue cost or scale efficiencies (56%) vs. only 32% for CFOs. Meanwhile, 64% of CFOs say the primary M&A objective should be product or service differentiation vs. only 45% of directors.

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