

## The Evolution Behind The Online Drive

by [Steve Brown](#)

Thomas Henry Huxley was an English biologist who passionately defended Charles Darwin's theory of evolution, earning himself the nickname "Darwin's Bulldog." While, we won't delve into the evolution argument, we recognize there is much to discuss about how things change over time and appropriate methods of adaptation.

On that note, we were intrigued by a recent retail industry study that we think has interesting parallels for banks. Even as online shopping continues to grow, a study by Accenture found that more U.S. shoppers are planning to make purchases from physical stores. According to the report, 21% percent of U.S. shoppers polled said they plan to increase their in-store purchasing, up from just 9% of shoppers a year earlier. Forty percent of respondents also ranked the need to improve the in-store experience No. 1 on their list.

In our opinion, banks should be thinking along the same lines. While customers like the convenience of on-the-go banking, the branch experience continues to be important for many customers and banks should maintain a high degree of focus here.

It's no shocker that technology is rapidly changing the banking business. Take mobile banking, for instance. While the number of online banking users has remained around 50% since 2010, mobile banking use has nearly doubled to 35% from 2011, according to a report last year by Pew Research Center.

At the same time, however, customers are still heavily dependent on branch banking and banks would be wise to remember this even as they continue to invest in online and mobile technology. A Novarica study from late 2012 is particularly telling. It found that 58% of respondents under age 30 wouldn't consider opening an account at a bank without a branch nearby. Meanwhile, 64% of respondents age 50 or older can imagine a time when they'll do all their banking virtually.

The surveys suggest to us what the retail industry already knows--that technology and bricks and mortar go together like peas and carrots. For some customers, virtual banking may indeed be the wave of the future. But for others, the branch network will continue to be important and banks need to pay close attention to varying customer needs. One option for some banks may be to focus more attention on combining personal banking and technology, such as ATMs that connect customers to tellers via video screens & remote video-conferencing with banking specialists.

Banks are increasingly testing the waters with smaller branches, fewer humans and more video screens. On the surface, this seems to make a lot of sense, but community banks shouldn't haphazardly venture down this road. Banks still need to be able to offer high levels of customer service in the branch for those who do want to conduct business that way. There's a lot to be said for technology, but the human connection also plays an important role.

Many banks are still struggling to find an appropriate balance between automation and human intervention - a suitable equilibrium between the past and the future. As we proceed along this journey, we need to be careful not to let the many changes happening in the industry make monkeys out of us.

# BANK NEWS

## **Banks Closed (5 YTD)**

Regulators closed Millennium Bank (\$130mm, VA) and sold it to WashingtonFirst Bank (\$1.1B, VA) under a purchase & assumption agreement. WashingtonFirst gets 2 branches, all deposits for a 1.00% premium and essentially all of the assets. Regulators also closed Vantage Point Bank (\$64mm, PA) and sold it to First Choice Bank (\$934mm, NJ) under a purchase & assumption agreement. First Choice gets 1 branch all deposits for a 1.50% premium and essentially all of the assets.

## **M&A**

Southern Bank (\$941mm, MO) will acquire Peoples Bank of the Ozarks (\$273mm, MO) for \$22.9mm in cash and stock or about 1.49x tangible book.

## **M&A**

Oconee State Bank (\$280mm, GA) will acquire Stephens Federal Bank (\$158mm, GA) for an undisclosed sum.

## **Banking Features**

A survey by GoBankingRates.com finds 45% of people said low/no fees were the main banking feature/service they considered the most important. This was followed by mobile banking (17%), convenient branch locations (14%), great interest rates (12%) and exceptional customer service (12%).

## **Layoffs**

JPMorgan said in an investor presentation that it saw its total headcount falling by 5,000 employees this year, following 11,000 job cuts from 2012 to 2013.

## **Layoffs**

Wells Fargo said it will lay off 700 employees as it reacts to weaker mortgage demand.

## **Small Biz Decline**

The Census Bureau and Kauffman report the number of new business startups per 100k individuals has declined 29% from 185.6 in 1991 to 131.3 in 2011 (the most recent year available). Experts say reasons for the decline include: population changes (older entrepreneurs aren't being replaced fast enough with younger ones); fewer visas for foreign workers and higher student debt levels.

## **Trading Partner**

EU economists projected weak 1.2% growth in the euro region this year and 1.8% in 2015. This is important because the EU is our country's largest trading partner.

## **Improving Efficiency**

ICBA reports community bankers say the areas they are focusing on the next 3Ys to boost efficiency are: training staff (63%), cutting/consolidating staff (39%), boosting in house technology (35%), outsourcing technology (33%) and acquiring or being acquired by another bank (32%).

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