

## Looking Through The Lens Of Customer Service

by [Steve Brown](#)

More than 400Ys ago, Galileo gave birth to modern astronomy with his invention of the telescope. His telescope was revolutionary in that it revealed a cornucopia of stars that had previously been hidden to the naked eye. Galileo's starting discovery was a gateway to the future and the launching pad for what would be and still is an ongoing journey to explore the world beyond ours.

In banking, like in science, one never knows where various industry developments will lead. We recently read, for instance, how Square is inching its way into merchant cash advances. Square Capital is reportedly starting to offer lump sum payments to cash-strapped small businesses. The idea is to charge a merchant a pre-determined fixed fee on top of the cash advance, and take repayment as a cut of the business owner's credit-and-debit-card sales every day until the debt is paid.

Is this something banks have to worry about and will it reduce small business lending opportunities? The answer is maybe yes and maybe no. However, it is certainly worth thinking about given all the other competitive pressures you are experiencing. Not only are small businesses finally turning to banks for loans, but they're also embracing a burgeoning pool of alternative lenders, peer-to-peer lenders and large bank competitors.

These developments add competitive pressure to community banks, especially considering the sentiments of younger consumers. Here, studies find younger generations are into immediate access and aren't nearly as enamored with banks as predecessor generations.

Consider a recent 3Y study from Scratch, an in-house unit of Viacom that consults with brands. The study found that 33% of millennials believe they won't need a bank at all in the future. Meanwhile, 73% said they would be more excited about a new offering in financial services from Google, Amazon, Apple, Paypal or Square than they would their own bank.

The way we see it, banks have two choices. You can take the glass-is-half-empty approach and say there's nothing you can do to compete with the likes of these non-bank interlopers. Or you can take the glass-is-half-full approach and work all the harder to attract and retain customers through stellar customer service.

One telling thing from the Scratch study is that Millennials can't tell the difference between their bank and another financial institution. A whopping 53% don't think their bank offers anything different than any other bank. More troubling perhaps is the 71% that said they would rather go to the dentist than listen to what banks are saying.

While this particular study only looked at Millennials, we're willing to bet the problem is becoming more of a multi-generational one. If banks try to just compete on price and product, sooner or later it becomes a zero-sum game. Community banks can (and many are doing so) more effectively compete by continuing to ramp up superior customer service. When you give customers good service, they will remember and it will help set you apart from other financial players.

The telescope certainly helped Galileo and hundreds of years' worth of scientists see the stars more clearly. Perhaps it is time for banks to peer to the future through a clear lens, understanding that

customer service is and likely always will be a defining factor in capturing and retaining customer business.

## **BANK NEWS**

### **M&A**

Bankwell Bank (\$781mm, CT) will acquire Quinnipiac Bank & Trust Co. (\$99mm, CT) for about \$15mm in cash (25%) and stock (75%).

### **M&A**

PlainsCapital Bank (\$8.4B, TX) will acquire brokerage and financial firm SWS Group (\$3.9B, TX) for about \$260mm. SWS owns Southwest Securities, Inc and other entities and has 900 employees.

### **Overdrafts**

Research by Moebs finds there were 7.1 overdraft incidents per checking account on average in 2013 vs. 7.4 in 2012 and 9.8 in 2009.

### **Less Activity**

A Bankrate study finds 33% of people say they have not visited a bank branch in the past 6 months. Interestingly, some 42% of those under age 30 said they had visited a branch in the prior 30 days vs. 52% for those over age 50. When asked the last time they had visited a branch, respondents indicated (percentages are approximate): within the past week (28%), within past 30 days (22%), within the past 6 months (14%), over 6 months ago (30%), don't use a bank (4%) and didn't answer (3%).

### **Multifamily Lending**

Multifamily rental rates increased 0.6% in Q1 according to real estate research firm Reis, Inc. and are up 3.2% year over year. Vacancies meanwhile fell to 4.0% in Q1.

### **Student Debt**

A report by the New America Foundation finds the typical debt load of people who earned a master's degree climbed to about \$58,000 vs. about \$27,000 for those who earned a bachelor's degree. Of note, 25% of borrowers who earned a graduate degree in 2012 owed at least \$99,614 in student loans and 10% owed at least \$153,000.

### **Pensions**

The American Institute for Economic Research reports 60mm+ workers and retirees are covered by defined-benefit plans (although the percentage of private-sector workers has declined from 38% in 1979 to 14% at the end of 2011).

### **Jobs Exit**

Bloomberg reports data from the Labor Department shows the decrease in labor force participation was driven by people who exited the workforce due to retirement (61%), disability (28%) or went back to school (7%).

### **Housing**

CNNMoney reports home prices nationwide increased 12% in 2013.

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