Taming The Competition From Within

by Steve Brown

For nearly a century, Nathan's Famous Inc. has hosted a hot dog-eating contest to see who can scarf down the most franks in a set period of time. Last year's male winner downed 69 hot dogs and buns in 10 minutes, setting a new world record and beating his own top score from the previous year. While one can certainly question the wisdom of eating what the New York Daily News calculates amounts to 20,010 calories (the equivalent of about 36 Big Macs!), there are many who bill the contest as an example of good, healthy competition.

In many cases, competition is indeed a good thing because it helps drive performance and encourage innovation. Without competition, life would certainly be a lot more boring. There'd be no Olympics, no World Series, no Super Bowl, no Dancing with the Stars, American Idol or Survivor. However, there's a time and a place for everything and competition can actually be a bad thing if it's not healthy. Take for instance, banks that cannibalize their business.

A recent survey by Fidelity Investments took a look at banks and their wealth management groups. The study found that more than 50% of banks surveyed expected the revenue contribution from their wealth management practices to grow 25% or more in the next 5Ys. That's certainly good news, particularly as bankers feel the ongoing revenue pinch of a prolonged low interest rate environment, but is it realistic?

The bad news is that many banks continue to view their investment arms as completely separate from their commercial banking. As a result, many banks compete internally for customer assets rather than taking an integrated, holistic approach to capture even more of the customer wallet. Indeed, when the same survey asked whether competition came from other parts of the banks for client assets, slightly more than 25% of those polled answered yes.

When it comes to having a successful wealth management arm, research suggests that integration with other bank lines of business is a critical component. Customers shouldn't feel they have a relationship with a commercial bank on one hand and a separate relationship with wealth management on the other. Instead, one client and one wallet should be the objective.

Certainly getting this done is not an overnight process, but it's an important goal to focus on. Even something as seemingly small as providing customers integrated access to their accounts is a step in the right direction. It will help your team capture more from each customer and level the field against competitors.

There are, of course, many other challenges bankers face in building a successful wealth management practice. Negative investor perceptions about bank operated wealth management programs remain a sticking point, as does breaking the long-running cultural divide that exists between traditional banking and bank investment advisory teams. Banks also need to make a greater effort to do away with multiple, separately functioning platforms and to stay up-to-date with the latest technology.

Despite these challenges, banks have ample opportunity to succeed in the wealth management business and you shouldn't be afraid to do so. Those that can integrate investment advisory into the overall banking business will be a step above your strongest competition. As with a hot dog in the summer time, wealth management ideally should mesh together with traditional banking as neatly as a hot dog fits in a bun.

BANK NEWS

New Leverage Ratio

In an effort to limit the overall amount of debt a financial institution can have, the Fed will officially adopt current leverage ratio proposals of 5% for bank holding companies and 6% for banks. These percentages are more stringent than those required under Basel III of 3% that will be followed by other banks worldwide.

Crackdown

CFPB Director Cordray said the agency plans to focus regulatory efforts on payday lenders, prepaid cards and debt collectors in coming months.

Biz Loans

Yadkin Bank ($1.8B, NC) has launched a new program (Business Express) that provides same day loan approvals to small businesses for up to $250,000.

Retail Lending

Reis reports asking rents at strip centers have reached the highest level since 2008. Owners of shopping centers & malls have raised rents for 12 consecutive quarters. Low construction activity has helped support higher rents.

Social Connection

Research by Carlisle and Gallagher finds social media channels consumers use to contact banks are Facebook (54%), Twitter (18%), LinkedIn (12%), blogs (10%) or other (6%).

Not Following

MSR Group finds only 1 in 30 people have ever followed their financial institution in a social channel.

Settlement

The Wall Street Journal reports Bank of America is reportedly in talks with the CFPB to settle an investigation into its credit card add-on products for about $800mm.

Vacation Home Lending

The National Association of Retailers reports the number of second homes purchased jumped 30% in 2013, driven by a rebound in the stock market and a recovering economy. All told, vacation home sales were 13% of total home sales in 2013.

Debit Fraud Cap

Senate Banking Committee members Warner and Kirk have introduced legislation that would cap personal liability for fraudulent charges on debit cards at $50, the same as credit cards.