
Technology, Fraud And Customer Capture

by [Steve Brown](#)

Remember bitcoins? They were going to be the next big deal, a way to execute global transactions without fees and taxes, a new sure-to-win investment for gold bugs and anarchists. Unfortunately, they also became the favored currency of drug dealers and others that can't function in the normal banking system of course. The bitcoin has evolved from next greatest thing to perhaps the most recent version of the wooden nickel.

For those with more traditional financial needs, bank accounts and credit/debit cards pretty much take care of the vast majority of society. Most people have a sense of comfort with the overall safety of these products and the processes that surround them. At issue though is that this perception of card security has been thrown into turmoil with recent data lapses (Target, etc.). Having some fun, we found some creative customer-centric ideas undertaken by banks lately in protecting their customers along these lines that we thought we would pass along.

A bank in the Chicago metropolitan area notified its customers that they should no longer use card swiping terminals in Chicago taxicabs. It appears that one particular day in Feb. the bank received 11 fraud reports on checking accounts and all those accounts had associated debit cards that had been used in Chicago cabs. After the bank replaced 227 cards in a month, they sounded the alarm publicly. The bank not only protected itself and customers from ongoing issues, but also reduced the need to replace more cards. We like this idea and hope the likely downturn in business for Chicago cab companies woke them up and tightened up how they operate.

Meanwhile, a bank in Texas attacked the Target data breach immediately and actively. Recall that the problem occurred during the busiest time for holiday shopping. Beyond that, consider for a moment the normal time it takes to get a replacement debit card - usually 7 to 10 business days. Once it saw the issue, the bank ordered new debit cards in bulk and held them in branches. The bank then publicized through social media and customer emails, that customers could come into a bank branch and get their debit card replaced in a matter of minutes. We like this idea because it not only solves a problem, but generates more branch traffic that can be cross sold other products and services.

The final story is a technology solution that allows a user to turn their debit card on and off. A financial technology company in Texas reportedly sells a product that creates an on/off switch for cards customers can manage from their mobile banking app. Initially the company thought customers would use the feature only occasionally, but they found that many customers were turning it off and on for every purchase. Some banks are looking at this, while other big banks like Chase, Citi and B of A say they have no plans to implement this kind of technology. Here we will have to research the idea further to see if the adoption rates are there and what users really think before we opine, but it is nonetheless interesting.

As can be seen from these simple examples, community banks are all about providing good service, so leveraging ideas around how customers can protect themselves against fraud can help differentiate your bank. Cybercrime is everywhere, so tap into this trend when it is on everyone's mind and you might leverage that concern into benefit for your community bank.

BANK NEWS

Bonds

Since the end of Q1, the 10Y Treasury yield has fallen 25bps to about 2.50%. Analysts worldwide are puzzled by the decline (because the Fed is preparing to raise rates so it should be rising) and say it may be occurring because investors are hiding in the U.S. amid weakness in Europe (preparing for stimulus, so Treasury yields look high compared to European yields), worries over Ukraine (flight to quality) and below forecast economic readings in China (flight to quality). For community banks it means customers will continue to seek out longer term fixed rate loans.

Enforcement

The Fed Chicago has announced Cole Taylor Bank (IL) engaged in a deceptive practice related to a checking account opening process and prior relationship with third-party payment processor Higher One (tied to the higher education industry). Management of the bank said it believes it is probably it could face civil money penalties of up to \$3.6mm.

Regulation

The Comptroller of the OCC said in a recent speech that the regulator has focused its efforts on making sure banks have: better capital, strong reserves, higher quality liquidity, improved corporate governance and better risk management. The OCC also said reviews of community banks that failed during the crisis showed a common thread of flawed business plans, excessive real estate concentrations and inadequate capital levels for the risk taken.

Competition

PNC Bank (PA) said it will roll out credit cards with embedded computer chips in them (EMV) to commercial customers, as it seeks to boost security.

Branch Purchase

On the heels of buying 11 branches, Huntington Bank (\$62B, OH) said it will buy 13 more branches (in MI) from Bank of America for a 3.50% deposit premium. The branches hold about \$500mm in deposits.

Mobile Banking

A survey of checking account shoppers on FindABetterBank finds in Q1 28% said they must have mobile banking. This is a 47% increase YOY.

More Cashless

Princeton Survey Research Associates International finds 9% of Americans no longer carry cash on a daily basis, 78% carry less than \$50 and 49% carry \$20 or less.

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