

Self Defense Learned From The Natural World

by [Steve Brown](#)

Many people think insects are creepy. Even if you are a member of that camp, we think you will find our bug story this morning interesting none-the-less. It begins with the Bombardier beetle, which inhabits every continent (except Antarctica) with one of its 500+ sub-species. This beetle is extraordinary in that it carries 2 chemicals in separate reservoirs within its abdomen. When it is disturbed, the chemicals combine and it sprays the attacker. The chemical reaction brings the spray to the boiling point of water and also produces noxious gas, so it is quite effective. It can get so hot it can kill other attacking insects, and it is painful to humans and other large mammals. While not as extreme, chemists at a university in Zurich have taken a page from this beetle, and created a use in banking. They have created a chemical dye that sits in reservoirs within an ATM. When the ATM is disturbed or attacked by would-be-thieves, chemicals in the reservoirs combine in a reaction that spews dye everywhere, rendering the currency unusable and making the thieves instantly recognizable. We wonder if they could have simply installed cages inside the machines stocked full of Bombardier beetles.

Given so much mobile these days, there is more discussion swirling around whether or not ATMs are needed and for how long. As mobile payments are likely to replace many cash transactions over time, it follows that there would likely be less need, and consequently, less use of ATMs in response.

We also hear more reports of the impending demise of internet bill pay. Wait a minute--isn't everyone moving to digital services and isn't online bill pay a key feature of that service? Consider research by Pew and the Fed that find usage of internet banking and bill pay is indeed high, with some 81% of bank customers banking online and 56% paying a bill online in the past month. Interestingly, in terms of actual volume, 2.7mm online bills were paid in 2013 which pales in comparison to about 18B checks, 20B ACH transfers and 40B debit transactions. If bill pay declines or goes away, should you even care?

Banks typically believe that the addition of bill pay to a checking account makes that relationship of longer duration and therefore more valuable. Going back in history, we see bill pay originally came about as a premium service with a fee attached. As competition took hold, overtime bill pay became a standard of any bank's internet service and fees dropped away. These days, bill pay has become commoditized and universal. It is expensive to provide, and often is the biggest monthly cost associated with a checking account--definitely something to think about.

ACH transfers, for their part, are far less expensive and a logical direction to steer customers. In the end, if bill pay does not really offer a competitive advantage, its stickiness is debatable and we would argue it offers neither revenue possibilities nor opportunities to provide defining customer service.

At this stage of the game, customers like online bill pay, but it shouldn't be that big of a stretch to shift to ACH. Those who currently don't use mobile banking mostly feel their needs are already being met (57%) according to Pew, while about 48% are concerned about the security of mobile banking. Until more customers consider mobile banking secure, significant migration to mobile payment probably won't occur, so bankers have time to experiment with the business model and offerings.

As for the lowly Bombardier beetle, we'd be impressed if chemists could take a page from it and come up with a toxic spray for digital fraudsters. We aren't sure how to get it into the computer, tablet or smartphone, but if someone can figure it out we bet more people would feel safe with mobile banking. In the meantime, it may make sense to promote the ease of ACH for billing and transfers.

BANK NEWS

Ugly Fixed Income

Wall Street banks at a recent conference said they expect fixed income trading revenue to decline 20% to 25% through next year, as the environment remains challenged. New regulations, low volatility and weak economic conditions are all negatively impacting these groups, leading many to foresee future staffing cuts.

Biz Optimism

The National Federation of Independent Business (NFIB) saw its index of business optimism reach the highest level since Q3 of 2007.

Low Trading

Fox reports Goldman Sachs has seen such a steep decline in trading activities that it may make more layoffs to reduce costs. The area reportedly most vulnerable to layoffs is in fixed income trading. If this occurs, banks can expect other larger and regional fixed income counterparties to follow suit.

Treasury Yields

You might find it interesting that despite being the strongest country in the world, the U.S. 10Y yield at 2.58% is still above Germany (1.40%), France (1.75%) and Spain (2.60%), and below Italy (2.70%). Given the issues those countries face economically, experts say investors should not expect the yield curve to jump higher over the medium term.

Regulatory Change

Federal banking regulators have issued final guidance targeting tax allocation agreements between banks and their holding companies around bankruptcy and ownership of tax refunds. Regulators have taken the position that any tax refunds that are paid to holding companies are done so "as agent" for the bank and must be passed along. Further, the guidance now requires banks to insert specific language into tax allocation agreements to clarify the bank owns any tax refunds.

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