The Art Of Banking

by Steve Brown

Dutch painter Vincent Van Gogh lived from 1853 to 1890. What is less known about him is that he painted only for the final 10Ys of his life until mental illness overcame him and he committed suicide. During that time he created a massive output, creating some 1100 drawings and 900 oil paintings, plus numerous sketches and other works. Today he is one of the most admired and well-known painters of any era, although he did not sell even one painting during his lifetime.

Achieving success in banking requires persistence and effort, much as it does in art. It requires comprehensive knowledge of accounting and regulations, plus intimate knowledge of business drivers, both local and in the broader economy. In addition to the hard sciences like math and legal knowledge, there is art in the planning which is necessary to make all of these elements work together; all this expertise must be expressed in how a bank interacts in its business footprint and with its customers. The business environment has been so challenging for bankers for so long, that some days making business development plans is truly an overwhelming effort.

Given it is strategic planning time, many bankers are focusing efforts on adding new business lines, new products or new efforts to gather customers in order to drive growth. Consideration of which investment dollars pay off the most and over what timeline is a good exercise. Research finds the average return on a dollar invested in finding a new customer is typically around 9%, a new product might return around 20% and improvement or greater efficiency in processes (either back office or customer-touching areas like branch services or loans) could return as much as 40%. The highest return comes from cross-selling and reducing customer churn.

For those considering new products, a new line of services typically takes 2 to 3Ys to break even financially - a long time given competitive pressures. This becomes the dilemma of many community bankers, because if you don't make a dollar today, you may not have the ability to do so later on if stakeholders become impatient enough. Truly, the low growth environment has made almost everyone in the industry impatient to see better returns. The problem here is that failing to take on longer term investments to make the bank relevant in the future is short-sighted.

Long-term investment in new technology or business lines also carries risks, especially with the rapid changes in customer interface preferences that technology has brought about. But not making those investments is even more risky, as banks risk obsolescence. Many bank products are already becoming obsolete, like checks for example. Many younger customers never write a check and many online competitors don't even offer checks. It doesn't make sense to invest effort in selling checks or other obsolete (or near obsolete) products. Given the changing habits of customers, bankers must look forward and place their efforts in areas like mobile payments and other digitized services in order to adapt.

No matter what, most banks in their strategic planning process have difficulty truly planning for even a 3 to 5Y time horizon. For longer term strategies, trying to dictate too many specifics probably does not make sense, but banks should be able to articulate longer term overall areas of focus in an effort to create a relevant future business plan.

In your bank's strategic planning efforts, try to focus on both near-term needs to steadily drive earnings as well as keeping an eye on the future to plan how to achieve success down the road. This part of banking is truly art over science but a successful effort should assist banks in finding both opportunities today and in the future.

BANK NEWS

Branch Purchase

First Bank ($525mm, VA) will buy 6 branches from Bank of America for an undisclosed sum. The branches reportedly have $308mm in deposits.

Credit Unions

SNL Financial reports credit union membership reached almost 100mm (99.96mm) as of the Q3 2014, up about 12% v. 7Ys earlier (2007, 88.50mm).

Less Building

The Architectural Billings Index declined to 53.7 in Oct vs. 55.2 in Sep or about 3%.

Ultra Wealthy

UBS reports ultra high net worth individuals with more than $30mm in assets reached a new record of 211,275 worldwide, up 6% YOY. UBS indicates this group said they currently hold 25% of their net worth in cash and over 67% of their wealth is in their core business.

Teller Info

A survey by Crowe Horwath LLP finds the average full time teller earned $25,738 in total compensation (down about 3% from the prior year). Meanwhile, data from the BLS finds that as of 2013 the number of bank tellers declined to 527,680 (an 11Y low). Banks are trimming teller staff in favor of advisory staffing and digital delivery channels.

Slow Growth

A Bank of America Merrill Lynch survey of global fund managers finds only 10% expect a recession in 2015, although 80% said they expect below trend growth.

CU Happy

A report by the American Customer Satisfaction Index finds satisfaction with banks scored 76 (on a scale of 100), while satisfaction with credit unions scored 85.

Older Mobility

The Financial Brand reports 45% of baby boomers and seniors say that they actively use either online or mobile banking.