
Making Good Decisions

by [Steve Brown](#)

We recently read about a bank robber who made the really bad choice of bumming a cigarette off a construction worker during his escape. The encounter helped police identify the perp, landing him a decade-long prison sentence. Other examples of bad decision-making are everywhere. Look to the Darwin Awards for any given year for examples of questionable judgment, like the two tourists in Kenya posing for selfies with a wild elephant who were subsequently trampled by the pachyderm who was apparently less than amused by the photo opportunity.

Clearly, bad decisions can have significant repercussions, which is why it's so important for banks to carefully think through every move they make. This is especially true in payments, where everything is changing so fast it's important to make business decisions that keep you relevant with customers.

One focus should be on the types of cards you offer and making sure rewards cards are part of your lineup. Consider that spending on rewards cards has nearly doubled from the first quarter of 2007 to the same period in 2014, rising from \$580B to \$1.15T, according to a recent ABA study. By contrast, spending on non-rewards cards has dropped 32% over the same time period, from \$672B to \$460B. Attrition rates on rewards cards are also lower than for non-rewards cards, the ABA found.

As you're looking at your card offerings, don't forget to consider the burgeoning prepaid market. Banks have traditionally viewed prepaid cards as a product for those who lack financial options, but recent research from the Philadelphia Fed pokes holes in this thinking. It found 90% of general-purpose reloadable (GPR) prepaid card owners have a checking account, 85% have a debit card and 75% have a general-purpose credit or charge card. The report also points out the cards aren't just popular with lower-income users. Upper-income households have higher activity rates and are spending more on these cards than people with lower incomes.

The report also shows that GPR prepaid cards can be a particularly good strategy when trying to attract younger customers. Millennials represent 71% of GPR card owners, while Baby Boomers represent 27%, according to the study. Consider now that there are about 77mm Millennials - which is around the size of the Baby Boom generation. If GPR prepaid achieves critical mass among younger people and they continue to use these cards as they age, the opportunities for banks can be immense.

In addition to decisions about your array of physical cards, you should also keep a close eye on the mobile payments space and how Apple Pay is received over the next few months and quarters. While several hundred banks have committed to supporting Apple Pay, some banks remain concerned they'll be getting a rotten deal by signing on.

Certainly it appears that the Oct 20 launch of Apple Pay was not entirely glitch-free, so some banks may understandably prefer to take a wait-and-see approach to see whether the mobile wallet really takes off (as some pundits have predicted it will). However, it is also important to understand the disadvantages of being too slow out of the gate so be ready to move swiftly just in case a sizeable number of consumers start moving in that direction.

In payments, as in every part of banking, the choices we make define us. Making good, strategically sound decisions will help you stay on solid footing with customers and avoid getting trampled by competitors.

BANK NEWS

Branch Closures

MUFG Union Bank (\$108B, CA) will close 20 branches in WA, as it adjusts to changing customer preferences focused more on digital delivery.

Regulation

The CFPB has proposed changes to its servicing rule that enhances foreclosure protections for consumers (must satisfy loss mitigation requirements throughout the life of the loan for delinquent borrowers and take affirmative steps to delay foreclosure), provides a clearer definition of delinquency (the date a payment sufficient to cover principal, interest and if applicable, escrow becomes due and unpaid) and updates other items.

Rate Hike

JPMorgan predicts the most likely date for the first rate hike by the Fed (after reviewing the most recent FOMC minutes) will be either Jun 17 or Sep 17 of 2015.

Regulatory

The OCC has issued a statement designed to provide clarification to banks about its expectations related to offering banking services to money services businesses (MSBs). The OCC indicates it does not encourage banks to terminate entire categories of customers without regard to the risks presented by an individual customer (or the bank's ability to manage the risk), that MSBs present varying degrees of risk and that banks should assess the risks of an individual MSB customer on a case by case basis.

Risk Governance

The Comptroller of the OCC in a speech indicated strong risk governance frameworks should be based on three lines of defense that include front line units of a bank, independent risk management and internal audit. The goal of this framework is to ensure the bank has an effective system to identify, measure, monitor, and control risk-taking and standards of behavior.

Competition

A federal judge has ruled U.S. Bank will have to face claims of \$36mm in restitution related to victims of fraud of failed brokerage firm Peregrine Financial Group. The CFTC accused U.S Bank of aiding a \$215mm fraud by letting the former CEO of Peregrine use customer funds as security for large loans.

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