Waterloo Or Somewhere Close

by Steve Brown

History buffs recently celebrated the 200th anniversary of the defeat of Napoleon in Belgium, most commonly attributed to have occurred at Waterloo. It turns out though, that the battle didn't really take place at Waterloo, but instead was nearby at Braine-l'Alleaud and Plancenoit. This was a French-speaking region as opposed to the Flemish-speaking Waterloo. It seems the Duke of Wellington, as the victorious general, decreed in a dispatch to London that the defeat had happened in Waterloo. Maybe he couldn't pronounce the name of the town where it really happened or he just liked the name Waterloo. We will never know, but we do know that in the end, the name stuck.

In banking, details can be equally important. Many banks are finding that customers want to shop online before making decisions about where they bank. Every bank has a website designed for this of course and information exists on lots of products, but probably not details like lending rates.

This makes sense when you consider that loan pricing levels are closely protected. After all, the bank that gives away its loan pricing levels invites in competitors to easily undercut them. Further still, pricing is different for every customer.

When done correctly, loan pricing depends upon other aspects of a customer's relationship with the bank that includes deposits, other loans, associated family banking relationships etc. Besides that, if a customer has to speak to someone in the bank to get specific information, it gives customer service reps the opportunity to try to sell them other products.

All of this is true to a point, but in many ways each argument here also defends the old model of banking that requires people to go into a branch in order to do serious business with the bank. If customer behavior and the adoption of electronic access has so radically altered how payments and deposits are made, does it make sense to still think the same forces don't apply to the loan business? This could explain why so many customers, especially younger ones, are looking outside the banking system to shop for a mortgage or even a business loan.

Let's consider how posting pricing for business loans could help a bank. It is given that any publicized pricing offers only a general guideline and should include disclaimers that pricing differs by individual and banking relationship (plus is based on other metrics like collateral value and DSCR). It is also a given that banks already actively post mortgage rates that are dependent on credit score, amount of equity and other factors to determine the ultimate rate.

When considering posting rates online, realize that customers and competition likely already know your bank's position in the market, so there should really not be any big surprises. Consider as well that if all the options and variables make your bank's pricing too complex to make any sense on a website, it may be time to reassess whether your pricing process is needlessly complex. Clearly presenting charts and data that give customers a general idea of what rates to expect might shorten the sales cycle and drive in more business.

Fees are important too. Remember that it's easy to waive a fee or lower a rate for a valuable customer, but difficult to charge more, so have room to maneuver.

This kind of transparency can be risky, but it also may lead to greater confidence from your customers and prospects in that they can perform due diligence ahead of time. It could lead to a shorter sales cycle and less wasted time as the mystery is gone. It also may help your bank as tire kickers who are not even in the ballpark won't sit down at your loan officers' desks to begin with.

Pricing is central to any customer relationship and loan pricing is most frequently a deciding factor. To meet the needs of your tech savvy customers and prospects, give them a way to do research first. Done right, it will save staff time and shorten the sales cycle.

BANK NEWS

Customer View

Research by GfK and Personetics finds only 31% of people say their banks know them and their financial needs well. Despite that, only 5% said they are likely to switch banks in the next 6 months. Interestingly, about 40% of customers see their bank simply as a necessary utility needed to manage daily finances.

Commodity Biz

Research by Accenture finds 79% of people define their banking relationship as commoditized around simple transactions such as paying bills and receiving account statements.

Yield Levels

Experts project the Fed will probably start to shrink their massive balance sheet once Fed Funds reach about 1.00% or so. Bankers should keep this in mind when stress testing, pricing loans and monitoring risk as yields could become more volatile once that begins to happen.

M&A Financing

Research by Deloitte finds 53% of corporate respondents say they will use available cash as the primary funding source for any M&A deal they might do (vs. 58% last year).

Metric Popularity

Meridian Compensation Partners research of executive compensation finds the following prevalence of performance metrics used by companies in 2015 for determining incentive payouts: operating income (EBIT/EBITDA) at 42%. This was followed by: EPS (25%); sales or revenues (25%); free cash flow (19%); safety (17%); corporate division qualitative goals (17%); net income (14%); individual qualitative goals (13%); discretion (10%) and operating income margin (6%).

Insider Risk

The FBI estimates insiders of financial institutions steal 800% more money than the amount stolen as a result of bank robberies and burglaries and that 46% of all operational risk loss events are related to fraud.