Boost Earnings with New Lines of Business

lending branch strategies strategic planning

Summary: In the current low-rate environment, almost one in five community financial institutions plan to add new lines of business to boost earnings, alongside leveraging their existing business. Here we look at six potential revenue streams that CFIs may want to explore.

In many African countries, poaching elephants and rhinos has been decimating these populations for decades to feed the illegal ivory trade, worth an estimated $23B per year. This seems to have triggered an evolutionary response in female elephants, many of whom are being born without tusks, thereby dramatically increasing their survival chances.

Community financial institutions (CFIs) are also trying to adapt to challenging market conditions. Although lending is starting to normalize from the lows of 2020 and 2021, institutions must still contend with many other hurdles, including inflationary pressures, rising interest rates, high deposit levels and continued geopolitical uncertainty. Noninterest income is also under threat from regulatory and competitive forces. In the last six months, many large banks have removed overdraft and non-sufficient fund fees, increasing pressure on CFIs to do the same. As such, CFIs—whose overdraft fees account for a greater proportion of operating revenue than their larger competitors (0.84% and 0.67% respectively)—may have to find new ways to increase income to remain competitive.

While 68% of executives plan to leverage existing business to increase income, almost 20% intend to add new lines of business to boost earnings. We explore **six potential revenue streams** that could be of interest to CFIs.

1. **Fraud and ID protection.** Fraudsters are becoming ever more sophisticated, costing businesses millions of dollars. Many CFIs are already offering specialized fraud protection tools, such as positive pay, ACH debit block and MFA, to help their business customers mitigate risk. Institutions are also increasingly offering individual customers identity protection plans as an add-on service to their checking accounts.

2. **Treasury management.** Treasury management services can help business customers achieve higher profits, greater efficiencies and better control of their cash flow. These services typically include liquidity control, receivables, payments and risk management. We've previously discussed how CFIs can support customers with their treasury management needs.

3. **Wealth management.** Offering investment advice and/or brokerage services can give CFIs the opportunity to deepen their existing customer relationships and improve retention, attract new customers and bolster fee income. Institutions could either bring a registered investment advisor onboard or partner with a third-party provider to offer a broad range of wealth management services.

4. **Insurance services.** Although selling insurance can be complex, these services could be a natural fit for CFIs and offer a cross-sell opportunity. Many institutions have bought or partnered with insurance agencies or insurtechs in recent years to provide their customers with one or more insurance solution.

A CFI in Wisconsin recently partnered with an insurance platform to provide a wide range of insurance offerings to both businesses and individuals. "*As part of our strategic planning process, we determined that [...] we could provide our customers with new options that further position them to work toward their financial goals and manage their financial risks,*" said the CEO.

5. **Specialized loan products.** By expanding their offering of specialized loans, such as mortgage lending, SBA lending, construction financing or mobile home lending, CFIs may be able to tap into niche segments that would otherwise go elsewhere for financial support.

For example, a CFI in Ohio recently acquired a specialized provider of equipment financing. Analysts praised the institution for "*diversifying sources of revenue and building a higher-yielding loan book*".

6. **Banking as a Service (BaaS).** The revenue opportunity for banks providing BaaS is estimated to be at $25B over the next five years. By extending their financial infrastructure to non-banking institutions and offering BaaS, CFIs can generate alternative revenue and predictable fee income, as well as access new customer segments.

A Massachusetts CFI struck a partnership with a fintech to grow deposits in the small business sector and connect with a demographic it had difficulty reaching. The institution onboarded more than 2.5K new customers over a four-month period, a significant increase in its business account opening rate. "*We recognized that banking tomorrow won't be the same as banking today. We want to stay relevant and compete,*" says the CEO.

CFIs could build their own services from scratch, partner with a third-party service provider or put surplus cash to use by acquiring a specialty business. Whichever approach you choose, adopting one or more of these business lines could help insulate your institution from rate-changes and decreasing fee vulnerabilities, while broadening your service offerings to increase your customer share of wallet and build loyalty.

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ECONOMY & RATES

Rates As Of: 07/01/2022 09:37AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	1.72	0.56	1.66
6M	2.51	0.87	2.32
1Y	2.71	-0.08	2.32
2Y	2.83	-0.13	2.09
5Y	2.91	-0.14	1.64
10Y	2.92	-0.09	1.41
30Y	3.14	-0.05	1.23

FF Market	FF Disc	IORB
1.58	1.75	1.65
SOFR	**Prime**	**OBFR**

1.50	4.75	1.57