



~~TO GAIN CORE DEPOSITS, YOU NEED TO OFFER A HIGHER RATE~~

~~FOR MILLENNIALS AND GEN Z, DIGITAL IS THE ONLY THING THAT~~

~~WE CAN FOCUS ON THE BUSINESS SEGMENT ONLY~~

~~THE BRANCH IS DEAD~~

~~INCREASING FEES DOES INCREASE FEE INCOME~~





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# Myths OF BANKING

**B**ANKING HAS MORE CUSTOMER DATA than just about any other industry. We know financial and personal information and how customers spend money. With data, we can understand behavior patterns for millions of people. As bankers, we go to conferences and look for the next silver bullet, but ignore what happens with our own customer base. We love buzz words and talk about “Big Data,” machine learning and artificial intelligence, but we base our conclusions on personal opinions or small surveys. Why draw erroneous conclusions that rely on sparse information when we have access to data, actual transactions and behavior patterns for millions? To disregard this *verifiable* data in favor of notions we *think* we understand eventually allows myths—like the five in this article—a place in decision-making. That can be detrimental to a community bank. How do you spot these myths and what should you do to dispel them? Read on.

BY ACHIM GRIESEL

## BANKING MYTH № 1:

### FOR MILLENNIALS AND GENERATION Z, DIGITAL IS THE ONLY THING THAT MATTERS

A recent Celent study posted on the *The Financial Brand* website reveals that millennials and Generation Z adopted online and mobile banking at a higher rate than older customers, but had a clear preference for visiting branches for some transactions—just as much as the older segment. That seems to explain in part a recent analysis showing that in the past five years, Google searches for physical bank locations doubled. To all generations, it seems, the branch is still essential.

To attract younger customers, you need a balanced acquisition strategy and good solutions in-branch and online. It's true for delivery as well as marketing channels. Data from more than 2,500 branches of community-based financial institutions shows a multi-channel approach could attract about 10 percent more of the younger market segment than represented in a footprint.

Our belief is that you can attract younger segments—and win their loyalty—with an omni-channel approach, a core relationship low-cost deposit acquisition strategy and a simple desire to grow.

#### How Consumers Prefer to Interact and Communicate with a Banker

Ages 60 and over



Ages 45 to 59



Ages 30 to 44



Ages 18 to 29



- Prefer digital interactions—branches should be unnecessary
- Bank digitally, but prefer some matters be handled in-person
- Prefer in-person interactions with my bank

SOURCE: CELENT © JUNE 2018 THE FINANCIAL BRAND

## BANKING MYTH № 2:

### THE BANK BRANCH IS DEAD

The bank branch is not dead. Nor have digital channels failed to meet customer's expectations. Customers simply want choices. According to the Celent study posted on the *The Financial Brand* website, customers prefer a bank branch for more complex relationship-based activities, but prefer to handle simple, more transaction-based activities online. Overall, fewer than 10 percent of customers prefer only digital.

This is right in line with what we've discovered at Haberfeld. For 73 percent of customers, the first product is the checking account. Over the past few years, we have tracked online and in-branch opening stats at more than 300 community financial institution branches. In this sample of more than 500,000 core relationships at institutions allowing account openings online, 95 percent of new relationships were started in the branch. Channels, as well as choices, are important!

#### Retail Checking Openings to County Averages

Age Range	Percentage of Openings	Percentage of Population
20 to 24	19.02%	15.43%
25 to 34	26.68%	20.06%
35 to 44	20.99%	16.51%
45 to 54	16.50%	16.17%
55 to 59	5.81%	8.31%
60 to 64	4.73%	7.47%
65 to 74	4.69%	8.88%
75 to 84	1.16%	4.79%
85 and over	0.43%	2.39%

## BANKING MYTH № 3:

### TO GAIN CORE DEPOSITS, YOU NEED TO OFFER A HIGHER RATE

Higher rates get more deposits, but is that the best way to grow? Attracting rate-sensitive customers is a risky approach in today's rising-rate environment. Data from community-based financial institutions representing more than 2,500 branches in the U.S. shows that you can grow core deposits even without a rate. Few of these 2,500 branches offered an above-market rate, yet grew core deposits at twice the industry pace. The key to sustainable core-deposit growth, for core relationships as well as time-deposit money, is a balanced strategy that includes a good sales process.

## BANKING MYTH № 4:

### INCREASING FEES DOES INCREASE FEE INCOME

There are several ways to increase your non-interest income, but raising or implementing fees is the least sustainable. It leads to higher attrition, fewer customers and less fee income. Value-added accounts that offer services for a fee may be a good solution for the 10 percent to 20 percent of customers willing to pay. If you push customers into this type of product,

# One-third of all business accounts come from a consumer relationship. So, if a community bank only chases business customers, it's limiting profitability.

attrition increases and long-term fee revenue suffers. Attrition with these products can be as much as three times the average. You can offer services with associated fees, but it provides limited growth. For sustained growth, a better option is to expand your customer base.

## BANKING MYTH № 5:

### WE CAN FOCUS ON THE BUSINESS SEGMENT ONLY

There are quite a few mid- to large-size banks focusing only on business customers. The reason: a business relationship is four times more profitable than a consumer. But when we analyzed approximately 500,000 business relationships, we found some interesting correlations:

- ▶ For 55 percent of businesses, the checking account is the product initiating the relationship;
- ▶ For 31 percent of business customers, the consumer account was the first relationship with the financial institution.

That means one-third of all business accounts come from a consumer relationship. So, if a community bank only chases business customers, it's limiting profitability. This may work for large financial institutions with thousands of customers per branch, but not community banks with branch capacity to spare.

**T**oday, customer experience and convenience is defined differently. As an industry, we need to earn trust and build relationships. The branch is one channel, but we need to serve customers well in all channels. An omni-channel approach in delivery, as well as marketing, is key to community banking's long-term growth and success. ★

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