NAVIGATING UNCERTAINTY:

CREATING A PATH FORWARD

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haberfeld
accelerating growth

In times of uncertainty, organizations have a tendency to put the brakes on, losing sight of long-term strategic initiatives and established growth goals. However, history has taught us the decisions your bank makes today will have lasting implications for tomorrow. Business as usual will return and our strategic initiatives and growth goals will still be there. The key is to stay focused on growing core customers, regardless of the economic environment. Here's why.

More customers cushions profitability

Having more customers is one of the best ways to guarantee strong performance in all economies. Banks executing a growth strategy consistently have up to 2x the number of customers per branch when compared to industry averages.

To get a picture of how customers impact bank performance, we need to turn to data compiled during the great recession of 2008. For context, the average bank has approximately 1,100 retail and business checking customers per branch. Banks consistently executing a growth strategy have approximately 2,200 retail and business checking customers per branch.

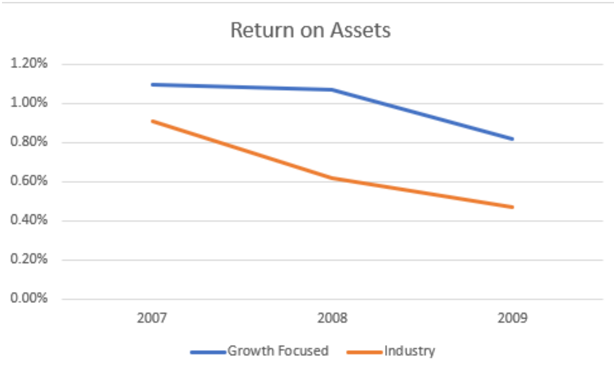
An analysis of the data illustrates the impact core customers have on Return on Assets (ROA) and Return on Equity (ROE). What we learned from the Great Recession was banks that stayed focused on growth remained stronger. While everyone was challenged, growth-oriented banks fared much better. ROA declined less than the industry average (26% for growth focused vs. 56% for the industry), and ROE followed the same trend. Just as important, those banks that stayed the course through the crisis also came back stronger on the recovery side.

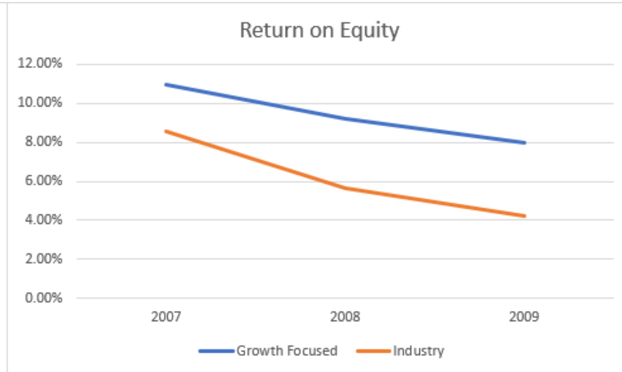
While nothing can completely insulate your bank from worsening financial performance during an economic downturn, the data illustrates that having more customers certainly helps.

How do customers cushion profitability?

Non-Interest Income: Banks executing a growth strategy simply have more non-interest income. As the customer-base increases, non-interest income also increases – not because of regular service charges, but instead through more customers utilizing income producing services, such as interchange income (average of $60 p/a/p/y) and valuing overdraft services (average of $90 p/a/p/y).

In 2008, after the housing crash and at the full onset of the Great Recession, we advised our clients to stay the course. Why? If they focused on growth, they could combat the headwinds. The following charts illustrate the impact that attacting significantly more customers had, at the time, on overall profitability.





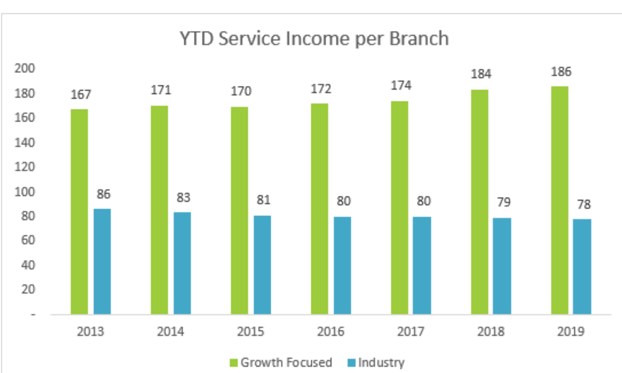
More low-cost funding: 70% of the time, the first product purchased at a bank by a consumer household is a checking account. It's 55% of the time for businesses. Checking deposits are the lowest cost funding available, with business checking deposits having a cost of funds less than .01%; this translates into improved NIM.

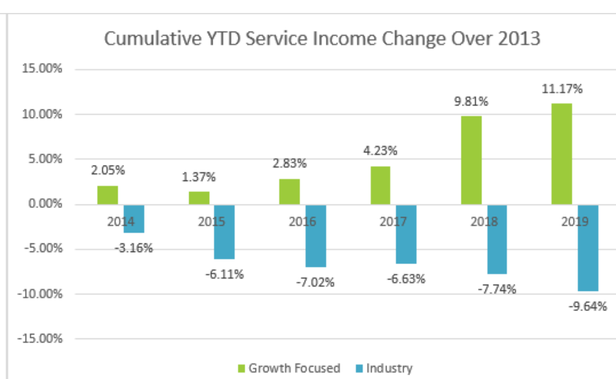
Relational intensity: Checking customers buy additional products and services. Growing retail and business checking customers affords your bank first right of refusal on other products and services 73% of the time, averaging 5.64 retail and 5.86 business product and service relationships.

Loans from local markets: Having more customers also allows your bank to lend more money to more people in your local communities. These loans tend to have less risk.

Keys to accelerating customer growth

Get the product right: People hate fees. Compressed margins and decreased profitability can lead to the discussion of increasing monthly service fees or adding minimum balance requirements. Below is recent research on the criteria consumers use when selecting a banking provider. Interestingly, comparing consumers of all ages with consumers under 40 years of age produces very little difference as it relates to what people desire.

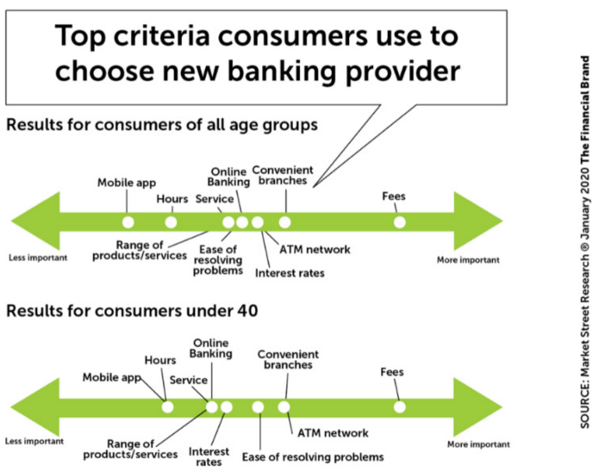




Compression in bank earnings will have little impact on what consumers want from their banking partner. Your retail and business products must be compelling if you want to have the greatest opportunity to grow core customers.

Invest in training your team: Too often our industry treats training as an event rather than a way of life. Employees who do not understand your products and services will never be able to recognize opportunities with customers, let alone speak in terms of benefits. It is crucial your institution commit to on-going training initiatives regarding all of your products and services.

Marketing to grow: Increase your spending on strategic marketing.



1) Proactive: According to Novantas, 65% of consumers only consider two options when they go to move their checking account, meaning 65% of your current customers already know where they would bank if they didn't bank with you. You must be top-of-mind before consumers and businesses know they want to switch. Your marketing must create the opportunity for them to pick you.
2) Targeted: You need to use data and analytics to help you understand where to market before you market. Your marketing resources must be allocated to target consumers and businesses who haven't chosen your bank yet, but could and should.
3) ROI Focused: You must define what and how you will measure success before you market, not after. Make sure your marketing investment is working to create tangible, measurable results.

The past informs the present – banks that stay focused on growth reap the greatest rewards. While it may not be intuitive, now is the perfect time to make sure you have all of the right strategies in place to capitalize on the growth opportunities that present themselves in any economic environment.

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