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Cover Story

2007 Financial Industry Forecast

A look at emerging products and trends

By Ginny Phillips

From technology to branching trends, cutting edge developments from the past year will spill over into 2007. So what paths will the smart banks follow? Industry experts pinpoint the big issues of the very near future.

REMOTE CAPTURE

The financial industry is only beginning to see the implications of remote capture technology - which allows businesses to make deposits directly into their accounts without leaving the office. The way it works is the financial institution (FI) installs a piece of equipment onsite at businesses with high cash volume activity. And voila, the issue of branch convenience becomes a non-issue. In fact, one remote capture machine from a small bank is more convenient than a larger bank with 100 nearby branches.

“As a small bank, you can offer more individualized service and say to small businesses that with this remote capture machine, it doesn’t matter if we’re 20 miles away,” said Tim Pannell, president of Financial Marketing Solutions.

A typical machine costs about \$2,500, which can be recovered through a monthly lease charge; though some FIs choose to absorb the cost if the business maintains a specified balance in the account. But no matter how you shake it, both parties win. The business saves the time of an employee driving to a branch to make deposits, and the FI winds up with a committed customer and a boost in core deposits.

“Anybody with remote capture is adding to core deposits, and technology has a tremendous impact on retention,” Pannell reveals.

“I’d say this will change the face of banking as we know it,” asserts Donald Musso, president of FinPro, a consulting firm that works with more than 300 FIs nationwide.

“It’s the biggest thing to hit banking in 30 years, and if it becomes as big as we think it will, it will lessen the need for brick and mortar.”

EMPHASIS ON RETENTION

A need for deposits in part drives what experts predict will be an emphasis on retaining customers rather than acquiring them: Steve Simpson, director of product development for Sheshunoff Management Services, points to an OCC statistic stating that in 1995, 91 percent of U.S. banks could finance two-thirds of their assets from core deposits. Ten years later, that number decreased to 58 percent.

That drop leads to huge pressure for more deposits, and they’re not necessarily coming from new customers. “We’ve had aggressive acquisition programs; we’ve saturated all major metro areas with offers of getting a free iPod Nano when you open an account,” Simpson said. “Then when we stepped back and realized that of the new accounts a bank opens, 45 percent are not with them a year from now.”

To look at improving the “on-boarding process,” Simpson notes another statistic: 80 percent of all services a customer chooses within a bank are selected within six months of joining the bank. Banks need to focus on expanding the customer relationship early on.

“If you’re going to spend 20 dollars marketing to customer, you need to spend \$15 in the first six months, \$5 in the last six months, and at a year you need to see you’re going upstream,” Simpson advises. He believes the drop-off in retained customers could be curbed, if banks refocused from the number of accounts or relationships a customer has to the number of services that customer uses. Customers with a high number of service links are more likely to stay with a bank than those with a number of accounts; that, in time, may languish. “It’s about services used,” Simpson said. “Who cares if you open an account and it just sits there?”

CASH

The use of debit cards has exploded, with more debit card transactions than credit card transactions in 2005 and 15 billion more electronic transactions in 2005 than 2004. Despite the climbing population numbers, 5 billion fewer checks were written in 2005 than 2004, and the use of cash fell off even more than use of checks.

“The use of cash is naturally going away, but most banks are not proactively formulating an action plan to take advantage of this momentum,” Simpson said. “When spending money that first year, I want to build that relationship most profitably: Debit cards are very retentive.”

The answer to increasing both profit and the number of customers, he says, is to spend money earlier and incent debit card usage. Make a marketing push in a customer’s first weeks and months, encouraging more ACH and debit card links. He suggests rewarding

customers for using a signature debit card, giving a dime back on each transaction, for instance, to be awarded in one check at the end of the year.

ETHNIC MARKETS

“Back in the ’20s and ’30s there was a wave of immigration and we saw a large number of ethnic banks emerge in response Irish, Polish, German,” according to Scott Martorana, managing director of FinPro. “For the last five years there’s been another emerging market, Asian and Hispanic, for instance; and the market has really exploded in terms of the number of banks needed.”

Consider this, the 34 million immigrants (legal and illegal) living in the United States is the highest number in history. And those numbers affect a wide range of communities, creating a swathe of new markets in state after state. FIs not accustomed to an immigrant population are quickly learning the importance of the niche. “They look at their community, and they’re getting the same demographic they’ve gotten in the past. But they realize if they’re not getting any of the Asian or Hispanic market share, they’re missing real opportunities,” Musso said. “That’s usually the wake-up call.”

To tap into that potential bankers need to do a market assessment, determine if there is a need in an ethnic niche, and set up an advisory board -- “not one that just has coffee, but one that knows what the needs of that particular community are and what products will meet those needs,” Martorana concluded. Those products likely include international money transfer options and ITIN loans, which are loans for those not eligible for a social security number.

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