A Quarterly Journal

BANCOLOGY

JANUARY 2014 VOLUME 49

THE ART OF POSITIONING
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For the first time since the onset of the financial crisis, all of the top 30 metros posted positive deposit growth.

Findings from the 2013 FDIC Deposit Statistics

Among Top 30 US Metros		
MSA		Top Deposit Growth MSAs 2012 - 2013
1	Houston	7.3%
2	San Antonio	6.8%
3	San Francisco	5.8%
4	Boston	5.7%
5	Miami	5.4%
6	Washington, DC	5.3%
7	Seattle	5.1%
8	New York	5.1%
9	Dallas	5.0%
10	Phoenix	4.6%
11	Los Angeles	4.6%
12	Sacramento	4.5%
13	Riverside	4.4%
14	San Diego	4.4%
15	Las Vegas	4.2%

Among All Metros		
MSA		Top Deposit Growth MSAs 2012 - 2013
1	Provo, UT	13.0%
2	Austin, TX	9.3%
3	Jackson, MS	9.1%
4	Modesto, CA	8.1%
5	New Orleans, LA	7.7%
6	Houston, TX	7.3%
7	Omaha, NE-IA	7.3%
8	Stockton, CA	7.0%
9	San Antonio, TX	6.8%
10	Des Moines, IA	6.8%
11	Raleigh, NC	6.7%
12	San Jose, CA	6.3%
13	Worcester, MA	6.3%
14	San Francisco, CA	5.8%
15	Boston, MA-NH	5.7%

Texas markets claimed the top two spots in terms of deposit growth in the last year among the top 30 metros, a group that includes all U.S. markets with two million or more residents. For the first time since the onset of the financial crisis, all of the top 30 metros posted positive deposit growth. Further, all five of the major California metros ranked above the median for the large MSAs (and San Jose, the 31st largest metro, would have ranked third if included in the top-30 group), signifying a rebound in that state's economy. In contrast, the slowest-growing major metros included Orlando and Tampa in Florida, plus three Rust Belt MSAs (Cleveland, Chicago and Pittsburgh), reflecting continued economic sluggishness in those regions. Among the broader group of all MSAs, Texas and California markets claimed seven of the top 15 spots, but the top 15 list also included representation from the Farm Belt, southeastern states and Massachusetts.

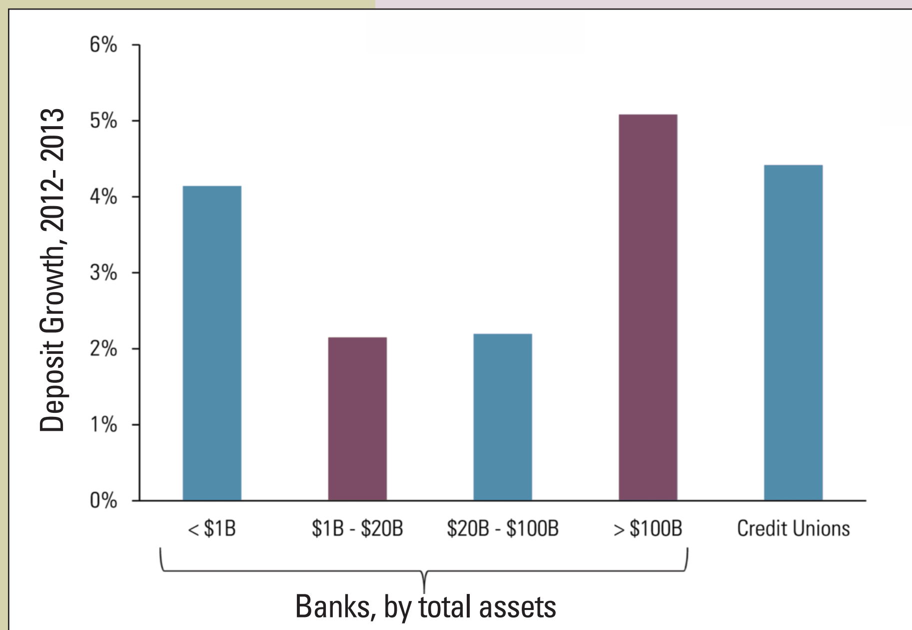
Retention: Why It's Important; How to Measure It

Bankers devote tremendous resources to attracting new customers and opening new accounts. Television advertisements, direct mail campaigns and in-branch merchandising campaigns are almost always crafted with an objective of increasing account sales. But while new account sales rightfully remain critical to branch growth, a branch's ability to extend the tenure of current accounts, i.e., its skill in customer retention, also represents an essential component of portfolio growth.

Consider the following mathematics:
A branch that starts the year with 2,000 checking accounts on its books can sell 250 checking accounts in the year ahead, a pace of one per business day. If that branch retains 90% of its starting base of accounts during the year, its portfolio will grow by 50 accounts, or 2.5%: 2,000 x 90% + 250 = 2,050. Said another way, 90% retention implies 10% attrition or that the branch will lose 200 accounts from its starting base. This means that 80% of the branch's production efforts (200 out of 250 new accounts) serves just to replenish the lost accounts and keep the branch's account base even. If the branch could improve its retention rate to 92%, its portfolio would grow by 90 accounts: 2,000 x 92% + 250 = 2,090. *(continued on page 2)*

DEPOSIT GROWTH

Smaller community banks and credit unions posted significantly higher deposit growth rates than the super-community and regional institutions in the larger asset tiers. However, the largest national banks – the 15 institutions with > $100B in assets – outgrew all other types of institutions. Look for more trends and commentary on the 2013 FDIC/NCUA deposit statistics as well as insights for the year ahead in Bancography's 2014 Outlook, available at www.bancography.com in February.



Retention: *Why It's Important; How to Measure It* continued from page 1

In that scenario, the 20% reduction in attrition (from 10% to 8%) nearly doubles the rate of account growth (from 2.5% to 4.5%) and reduces the replenishment burden to only 64% of total productivity (since only 160 of the 250 new accounts are required to replenish losses). In short, small improvements in the retention rate effect disproportionately large improvements in branch performance.

The above calculations show why premium service remains imperative. If a branch can mitigate customer dissatisfaction, the corresponding improved retention rate will magnify the impact of its sales efforts. There are numerous training and communication tactics to improve retention; those remain beyond the scope of this article, but bankers should consult with their internal marketing and sales management departments and external training vendors to implement such programs. However, to maximize the benefit of those efforts, an institution must be able to measure improvements in its retention performance, and the following paragraphs outline how to execute those measurements.

Retention can be measured at either the account or the household level; that is, to address either the question of "what proportion of our [checking, savings, etc.] accounts stayed with the institution during the prior year?" or "what proportion of households maintained some level of relationship with the institution throughout the prior year?"

The processes for measuring account and household retention are similar. In each case, start with a file from one year prior. For example, to measure retention performance in 2013, start with an extract from December 31, 2012. Then, match that against a file from December 31, 2013, and tally the proportion of accounts from the starting file that are still present on the ending file. The parallel calculation at the household level involves first aggregating the account records in the start file to the household level, and then tallying the proportion of households that maintain any relationship at the end of the year. For example, a household that starts the year with a checking and a savings account but ends the year with only the savings account still open counts as a retained household, even though its checking account would not count as retained.

When measuring retention, be careful of a few pitfalls. Some extracts will include closed accounts, so be sure to omit those from the tally of start-period accounts and from the count of end-period open accounts. Also, note that the above methods will slightly overstate retention, as the process omits same-year open-closes; that is, the measurement provides no penalty for an account that opens on March 1 and closes on August 15. Also, depending on the source of the file extracts (MCIF, core systems, data warehouse), a household that starts with checking and savings accounts, opens a CD in March, but then closes the checking and savings accounts in June may also show as not retained since all of its starting accounts were closed (even though the customer has maintained a continuous relationship with the bank). But these are uncommon events and should not significantly skew the resulting statistics.

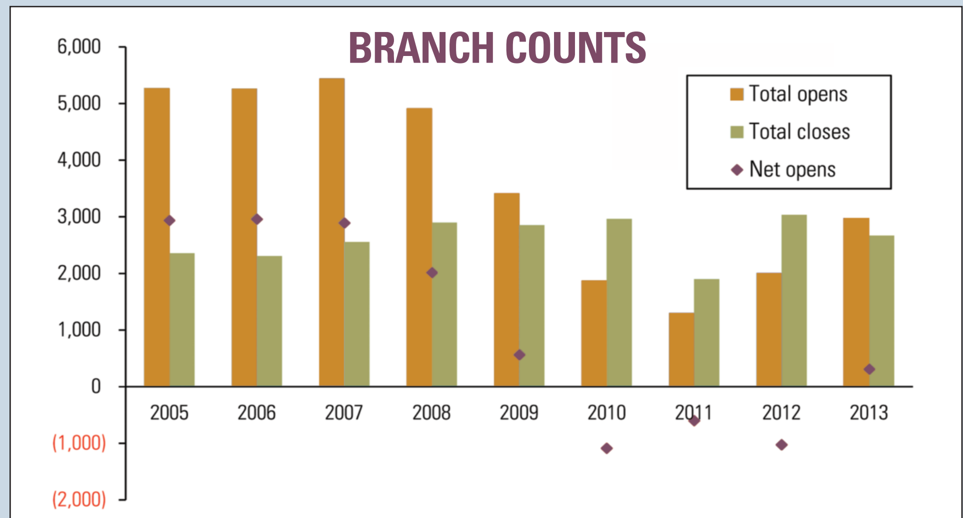
At the account level, institutions most commonly measure retention for transaction products, since the rate environment drives CD retention more than any service issues, and normal loan payoffs impact loan retention. For checking products, industry norm retention rates are in the 84% - 86% range; for savings and money market accounts, 80% - 82%. However, best practice levels can exceed 92% for checking products and 88% for savings and money market. At the household level, industry norms are in the 88% to 90% range, with the top tier exceeding 93%. Retention levels tend higher at community banks and credit unions than at larger institutions.

Finally, note that retention measurement should be an ongoing process, tracked annually to measure improvement or decline; and that the most insightful measurements help determine the causes of account loss. Thus, bankers should measure retention not just in absolute, but cross-tabbed by demographic variables such as age, income and lifestage to reveal deficiencies in the product offerings to specific market segments.

Bancography helps institutions measure household and account retention in our retention profile study. Contact us at info@bancography.com or (205) 252-6671 for more information.

The Myth of Branch Decline

As electronic channels have gained popularity for banking transactions, many branches have seen an accompanying reduction in teller transaction demand. This has led many industry commentators to predict widespread branch closures in the near future, a prediction further fueled by declines in branch openings and in absolute branch counts in 2010 - 2012. However, a reversal in those trends in the most recent year suggests that the declines of 2010 - 2012 were more in response to the financial crisis and the accompanying large-scale mergers than of any pervasive industry conclusion that branches no longer carry value. Several statistics rom the most-recent FDIC and NCUA deposit reports confirm ongoing support for branch networks.



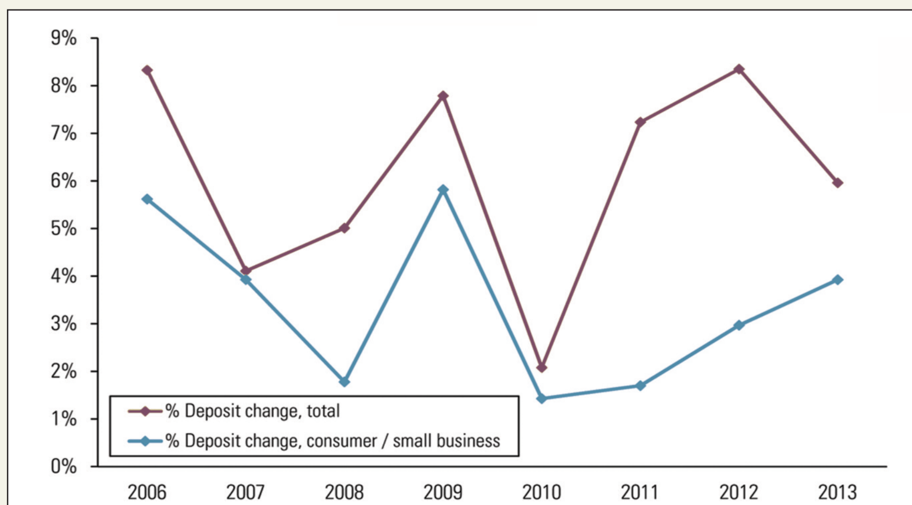
Reversing three years of declines, the number of bank branches in the United States increased by more than 250 units in the 2013 FDIC reporting year. Banks opened almost 3,000 branches during the past year, the highest level since 2009. Those opens were offset by more than 2,700 branch closures, a substantial level but still lower than the 3,100 closures of the preceding year.

The net number of credit union branches declined last year, but the decline was almost entirely attributable to the absorption of small, mostly single-branch credit unions by larger institutions. At the top of the industry, among credit unions with at least $500M in assets, total branch counts also increased, though only modestly.

The rebound in branching spanned a broad portion of the industry. More than 1,000 institutions increased their branch counts in the 2013 FDIC reporting year, while only 400 contracted their branch networks. For comparison, note that in the 2012 reporting year, 440 institutions added branches while 460 reduced their networks. So more institutions added branches, and fewer institutions reduced branches than in the previous year.

As in prior years, most closures were concentrated among a few institutions that implemented sizable branch-closure efforts. Bank of America was most prominent in that effort, reporting 200 fewer branches in June 2013 than in June 2012. SunTrust reduced its network by almost 100 branches, while PNC, HSBC and Capital One each reduced their networks by 40 – 70 branches. The 400 banks that decreased their branch networks trimmed an aggregate 1,500 branches, but just 15 institutions accounted for half of that reduction. Further, in an opposing strategy, JP Morgan Chase added more than 100 branches over the past year, and US Bank, Wells Fargo, and Woodforest Bank also increased their networks by 20 or more branches.

While the decline in branches has apparently stabilized and even moderately reversed, mergers and institution failures have yielded continued erosion in institution counts. The FDIC reported 6,900 banks and savings institutions as of June 2013, a decline of 400 institutions from two years prior and of more than 1,000 institutions from four years prior. The NCUA reported 6,700 credit unions as of June 2013, down 550 institutions from two years prior and more than 1,000 institutions from four years prior. In that institution counts have declined at a much greater pace than branch counts, the average scope of branch networks, in terms of number of branches per institution, is increasing. This suggests that individual financial institutions are not reducing the scope of their networks in terms of the number of submarkets in which they offer branches to consumers; rather it appears that branch reductions are primarily targeting the *(continued on page 4)*



DEPOSIT CHANGE

Buoyed by a recovering economy, consumer and small business deposit growth approached 4% in the past year, the fastest pace since the 'flight to quality' boom that accompanied the onset of the financial crisis. Overall deposit growth reached 6%, a decline from 2012's pace, but also representing underlying economic strength, as corporations returned to reinvesting rather than simply saving profits. Look for more trends and commentary on the 2013 FDIC/NCUA deposit statistics as well as insights for the year ahead in Bancography's 2014 Outlook, available at www.bancography.com in February.

overlaps that arise from mergers and acquisitions. (See also *"Are Branch Networks Really Shrinking?"* in Bancology, April 2013 for additional evidence of this phenomenon.)

The branch network represents a substantial component of a financial institution's operating burden, both in terms of the capital investment impounded in the facilities and equipment and the salary and maintenance expenses required to operate the branches. Further, there is ample evidence that alternate channels are reducing consumers' dependence on branches for routine paying and receiving transactions. However, the branch remains the predominant channel for account opening, which of course is the primary objective of the facility, as well as an essential means of reinforcing the institution's convenience and availability. Further, while many younger consumers have embraced a primarily electronic means of banking, the most profitable segments, including small businesses, affluent consumers and seniors, continue to award value to nearby branch convenience.

Although the financial downturn of recent years may have rendered branch closures imperative for expense control at some institutions, the stabilization of branch counts confirms that bankers understand the value of a continued physical presence and suggests that judicious branch expansion will continue as economic circumstances allow.

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