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Monitoring a brand's strength in a market is important, but measuring it within the institution's own customer base is imperative. Institutions cannot assume that households with two products equates to being that customer's Primary Financial Institution.

Capitalizing on the Economic Recovery

Recent news reports have shown repeated indications of revival in the U.S. economy. As the pace of the recovery accelerates, financial institutions will need to reorient their marketing and pricing strategies to the dynamics of a changed economic environment. Just as the economic crisis of 2008-2009 brought dramatic shifts in consumer and business financial attitudes and behavior, the recovery will also bring about substantive behavioral changes. Institutions that anticipate those changes will be well positioned to gain a competitive advantage.

Before devising a strategy for the recovery, first consider the evidence as to whether the economy is actually in recovery. A number of critical measures argue in favor of ongoing recovery:

- **The nationwide unemployment level declined to 8.2% in March**, its lowest level since January 2009. Over the past year, unemployment declined in every state except New York, where declines in the financial industry have impeded recovery. As noted in Bancography's 2012 Outlook *(www.bancography.com/BancographyOutlook2012.pdf),* there is a strong correlation between employment levels and deposit growth, so the improving jobs outlook bodes well.
- **Bank problem asset ratios have also declined.** After peaking in early 2010, the level of charge offs and the inventory of troubled assets (defined as

(continued on page two)

Brand's Impact on Customers

Evaluating its brand's strength in a market is the foundation for an institution's subsequent marketing research and most of its institution-wide strategies. A Brand Evaluator study provides the strengths, weaknesses, opportunities and threats of the market, the competition and the institution itself. The institution must learn how it is perceived in the market by consumers and its own clientele in order to build strategies that will control attrition, improve cross-sell and grow Primary Market Share.

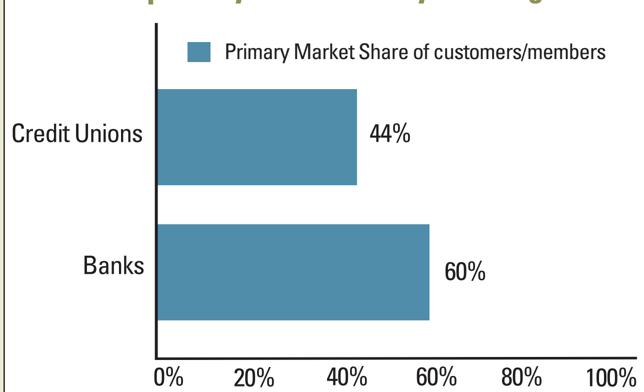
Over the past two years, Bancography conducted more than 20 Brand Evaluator studies for banks and credit unions. Bancography surveyed the institution's customers and did not disclose the name of the institution sponsoring the study. The calling sample consisted of account holders with a deposit account plus one other product.

Surveying customers with more than one account allows the institution to understand its penetration into its true client base.

Customers and members were asked to identify their Primary Financial Institution for their daily banking needs. Sixty percent of banking customers cited the sponsoring institution, compared to only 44% of credit union members.

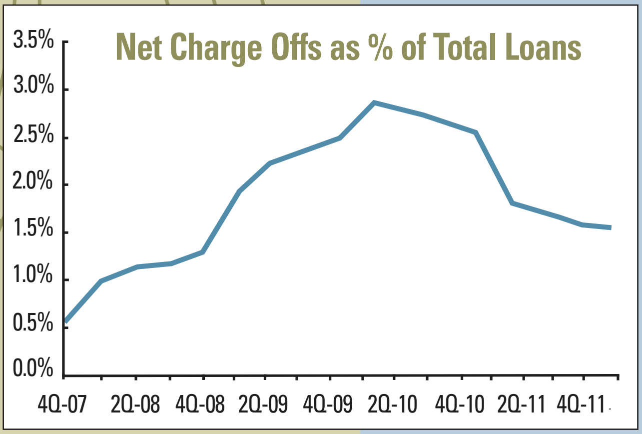
For an institution, internal growth or cross-sell is the easiest, most cost effective and most profitable way to curtail attrition and grow the balance sheet. Despite the growing aggressiveness of credit unions, their sales culture still lags that of their bank counterparts. Plus, it is difficult *(continued on page three)*

Customers who cited the sponsoring institution as their primary for their daily banking needs



Capitalizing on the Economic Recovery *continued from page one*

non-current loans plus real estate owned) have declined in each successive quarter. Note though that despite the improvement, both measures remain well above pre-recession levels.



- **Consumer debt levels have stabilized,** and buoyed by a rising stock market, debt to asset levels have returned to pre-recession levels. Non-mortage consumer credit has rebounded from 2010 lows and is now only 3% below 2008 peak levels, signifying some return in consumer confidence.

There is ample evidence that the economy is reviving, but even positive changes create uncertainty for consumers and small business owners. The institutions that help customers navigate the changing economy will capture a disproportionate share of the deposit and borrowing increases that a reviving economy will create.

Despite the barrage of positive evidence, there are significant barriers to recovery. **Businesses are holding record cash levels.** Uncertain as to the timing and strength of the economic recovery, firms have been keeping rebounding profits liquid rather than investing that cash in equipment or additional employees. The record corporate cash hoarding will allow companies to fund future investment internally rather than with borrowing.

Just as businesses are withholding borrowing, so **consumers have been reticent to add debt.** Following the economic decline in late 2008, consumer spending plummeted and the savings rate increased dramatically, as consumers braced for possible layoffs or slower income growth. Cautious about job prospects, consumers devoted any excess cash to debt reduction, rather than investing it into the economy. As the economy recovers, bankers must consider the degree to which customers will be willing to encumber assets (e.g., in an equity line), and how this should impact product design, sales and advertising. We do not yet know whether these attitudes will be enduring; in March, the savings rate regressed to its lowest level since 2009, perhaps signaling greater confidence and a concomitant increase in spending appetites.

Consumer confidence is linked to perceptions of real estate value, but **home prices remain stagnant.** True, real estate inventories are declining. At the current sales pace, the number of homes on the market equates to about six months of inventory, down from almost 11 months in 2009 – though the pace of inventory reduction has varied sharply by geography. However, many financial institutions are not yet listing foreclosed homes, opting to wait for prices to rebound. This shadow inventory of homes is estimated at anywhere from nine to 24 months of demand, and as these homes are released on to the market the additional supply will keep prices flat.

Despite the above-noted barriers and numerous other potential global and local economic threats, positive indicators outweigh the negative, and recoveries tend to gain a self-sustaining momentum. Thus, it is timely for institutions to consider strategies for capitalizing on the economic upswing.

Build branches. Commercial real estate remains one of the more injured sectors of the economy; dangerous for bank portfolios but favorable for acquiring branch sites. Lease terms also remain very favorable. Even if your institution is not yet ready to build, consider acquiring land on less expensive terms. Construction costs will rebound to pre-recession levels as a reviving home building sector tasks capacity, and there is benefit to building before the rebound raises costs. And, as the pace of bank failures slows, there will be fewer branches available from consolidation, so eye the remaining failures opportunistically. Finally, don't discount the powerful signal branching in a down economy – while competitors don't – sends to customers and other stakeholders.

While businesses may remain reluctant to borrow, at some point cash stocks will be depleted, but productivity constraints will demand investment. At that point, it will be advantageous to have relationships in place and credit quality already documented. Thus, bankers should **promote business lines of credit,** even if not drawn upon immediately. Just the presence of the relationship will keep the provider at the forefront of the business' thought process, yielding balances when the business cycle returns to peak levels.

Rising incomes will promote consumer deposit growth, but with yields depressed, bankers must convince consumers that insured deposits are an essential part of a portfolio, especially in the face of a rising stock market. Bankers must **emphasize the safety of the insured vehicles while proposing instruments that let consumers quickly increase yields as rates rise.** Products such as no-penalty or step-up CDs or treasury indexed money market accounts can address consumer concerns.

A rising rate environment will be beneficial for deposit growth, but could dilute any momentum of a recovery in the housing market. Consider how automakers have so conditioned consumers to rebates that such offers have become near prerequisites for sales. Similarly, the recent era of low rates may have *(continued on page four)*

How to Identify New ATM Opportunities

In our June 2011 issue, Bancography addressed "How to Build an ATM Deployment Strategy" *(www.bancography.com/Bancology0611.pdf).* The article noted that ATM strategies typically pursue one of four objectives: branch forerunner; offload capacity and extend network reach; fee income; or branding. Different institutions will choose different objectives, but regardless of the objective, identifying specific locations to fulfill those objectives also presents a challenge.

Despite futurist predictions of a cashless society and near ubiquitous access to cash at retail points of sale, ATMs remain widespread, and the lack of convenient ATMs (and the corresponding incursion of surcharges) ranks as a significant cause of attrition. Further, as legislative changes constrain some sources of fee income and economic changes pressure margin income, expanding allowable non-interest revenue sources also appears imperative. And of course, ATMs can provide presence and awareness at a fraction of the cost of staffed branches. Thus, whether for service, branding or fee motivations, it is important to be able to determine viable ATM deployment opportunities.

To identify locations where ATMs can expand service and forestall attrition, examine where current customers are using foreign machines. Every 'switch' provider – the networks that route transactions from the ATM owner's institution to the cardholder's institution (such as Pulse or Star) can provide a report of transactions that your institution's customers processed at foreign ATMs. The report is necessary because the networks assess the interchange fees – the fee your institution pays to the owner of the machine that disbursed funds to your customer and the network that facilitated the transaction. And since any prudent ATM channel manager would want to verify that fees are being assessed correctly, the reports are available at the transaction level.

Thus, you can examine a sample month's report and tally how many transactions your customers performed at each foreign ATM. Next, because the report includes the ATM's address, you can group the transaction totals for ATMs in the same trade area. Armed with those statistics, it is beneficial to ask two questions:

- In what areas did our institution's customers perform a high number of transactions at foreign ATMs?
- In those areas, how far away were our institution's nearest ATMs, and what transaction volumes did those machines process?

The answers to those questions will reveal gaps in the network; areas where current customers are repeatedly incurring foreign fees to access their funds. And rest assured, current customers who incur frequent fees will soon become former customers if not given an option for convenient, fee-free access to cash.

Once you have identified general areas requiring ATM coverage, the final task is to find specific deployment locations. And while the imperative for deploying the machine may be to improve service and forestall attrition, the reality is that on-us transactions carry no direct revenue implication. They provide only the small opportunity savings of removing a transaction from the branch and routing it to a lower cost channel, and the long term benefit of improving retention. Yet the expenses of deploying and operating an ATM are decidedly real, so CFOs would welcome any foreign-fee revenue that could offset the expenses of delivering that improved service convenience.

Most locations with high foreign-fee implications share one or more of the following traits: accessible to pedestrians in a high traffic retail/dining entertainment area; located in a top tier retail partner store, such as a full-service grocery or pharmacy; in a drive-up configuration in front of a busy strip center, with good visibility from the roadway; in a major downtown or midtown employment center. Captive environments (enclosed malls, hospitals, campuses, airports) can draw high foreign fees, but their customer service benefit is limited for an institution unless it already holds commanding share in the area.

Because consumers will choose the first available foreign ATM (if they don't see their own institution's brand), signage and visibility are paramount. Once someone has concluded there is no ATM of their institution present, they do not comparison shop for surcharge levels nor do they favor one alternate institution; they look, knowing they will incur some fee, for any safe and accessible outlet for cash. Finding those high traffic, convenient, visible locations in areas where foreign machines are presently fulfilling numerous current-customer transactions will address both the service and fee income components of an ATM deployment strategy.

Brand's Impact on Customers *continued from page one*

for many credit unions to shed their affinity-based heritage and propensity to lead with rate-based selling. Playing the rate game does not build a relationship.

Building customers' market share and converting them into loyal advocates of the brand can happen only through needs-based relationship building at the branch. Many times the onboarding (or new account opening process) has failed due to poor cross-sell typically associated with a lack of service quality and/or sales training.

An institution's goal is to increase the likelihood its customers will consider the institution for their next product need. Exceptional service quality is correlated to loyalty, which is necessary for the cross-sell opportunity to occur. On average, credit unions possess this loyalty, but they have difficulty selling. Banks typically experience the opposite issue.

Monitoring a brand's strength in a market is important, but measuring it within the institution's own customer base is imperative. Institutions cannot assume that households with two products equates to being that customer's Primary Financial Institution. Building Primary Market Share matters little if retention and loyalty are lacking.

For more information on Bancography's Brand Evaluator study, contact us at (205) 251-6227 or *research@bancography.com* or visit *www.bancography.com/research.*

also conditioned financial consumers, such that a mortgage at 6% appears untenable. If so, then a rise in rates may truncate demand, forcing institutions to either accept reduced margins or return to promoting five year adjustable rate mortgage products.

Of course, the best way to insure against the adverse impact of rate changes is to sell products that are not impacted by rate. Thus, the quest for non-interest revenue will remain paramount. With retirement horizons altered by broad swings in 401(k) balances, consumer memories still attuned to a stock market that inflicted a 50% loss in 18 months, and the largest cohort of the baby boom generation entering the crucial pre-retirement 55 – 65 age range, Americans need sound financial advice. Banks and credit unions that deliver effective financial advisory services will realize the combined benefits of fee opportunities from sales of securities, investment and insurance products and the loyalty in core deposit products that customers confer to trusted providers. There is ample evidence that the economy is reviving, but even positive changes create uncertainty for consumers and small business owners. The institutions that help customers navigate the changing economy will capture a disproportionate share of the deposit and borrowing increases that a reviving economy will create.

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