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# The Informed Banker

## A Harland Clarke Speaker Series

### The Retail Banking Challenge: Opportunity or Armageddon?



**Doug Freeman**

Former Chairman and CEO of Netbank and Other Senior Positions in US Retail Banks

Your host:



**Christine Ahlgren**

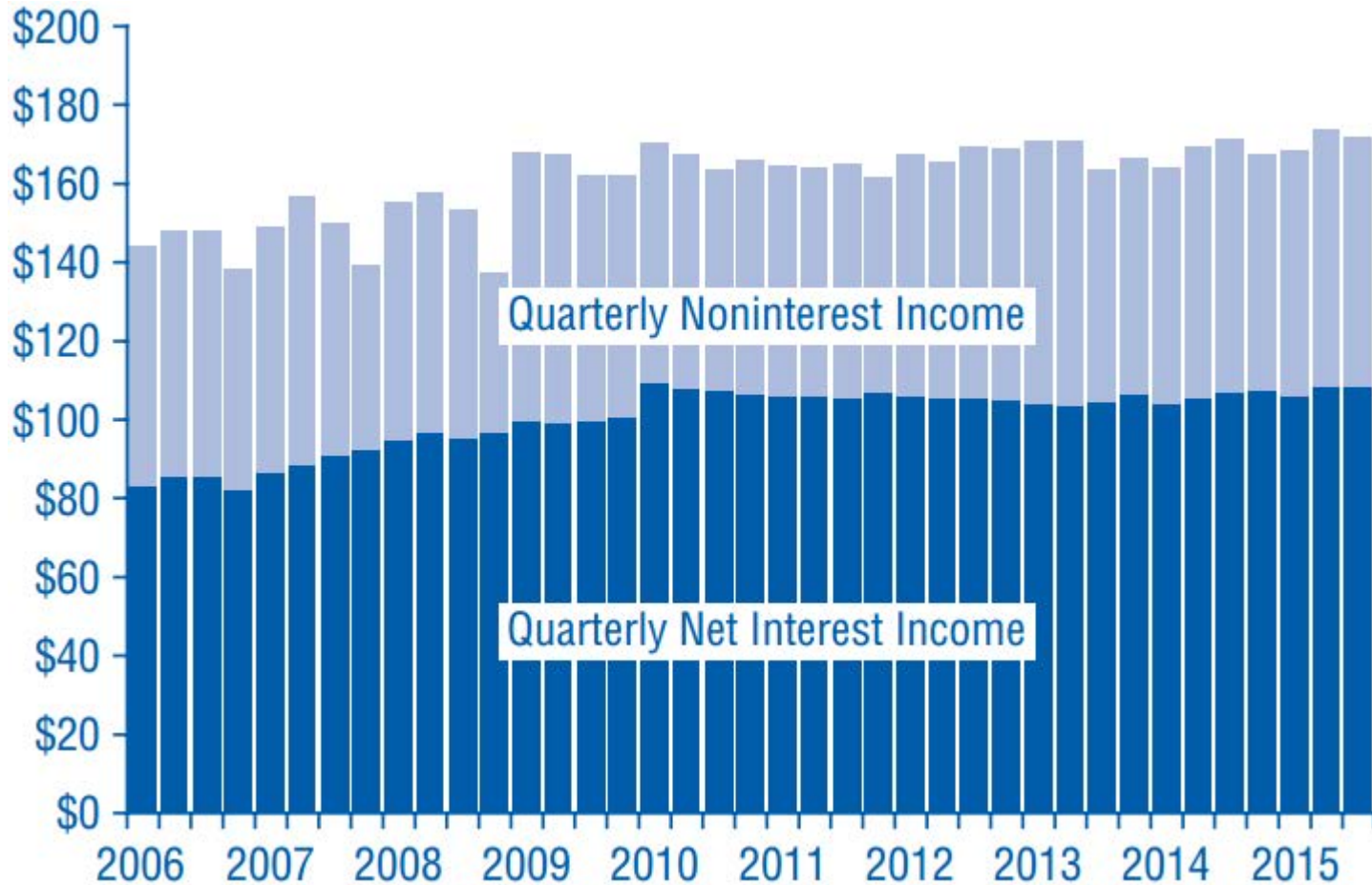
Payments Marketing  
Harland Clarke

# Profitability Trends in Retail Banking ?????



# Bank Industry - Quarterly Net Operating Revenue (\$B)

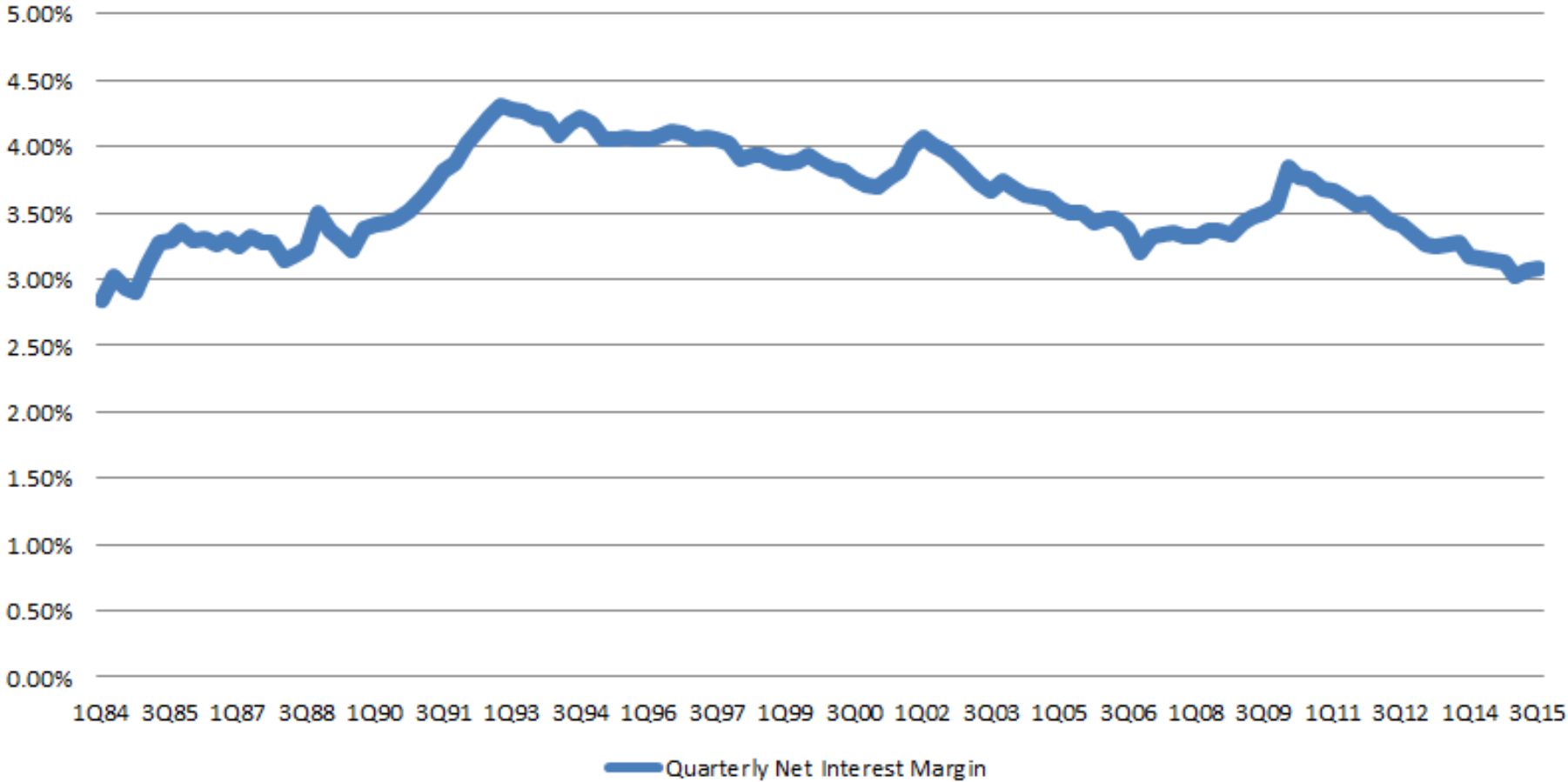
All FDIC Insured Institutions



Source: FDIC Quarterly; "FDIC Quarterly," Third Quarter 2015, Volume 9, Number 4; FDIC

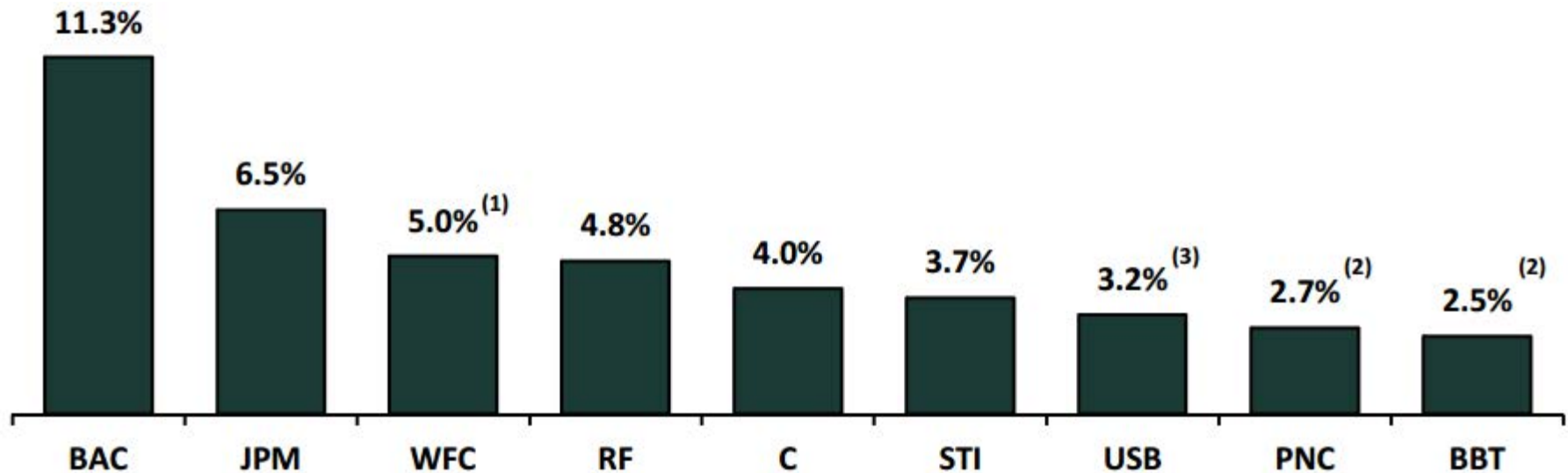
# Quarterly Net Interest Margin

All FDIC Insured Institutions, 1984-3Q15



Source: FDIC; 'Quarterly Banking Profile,' Third Quarter 2015

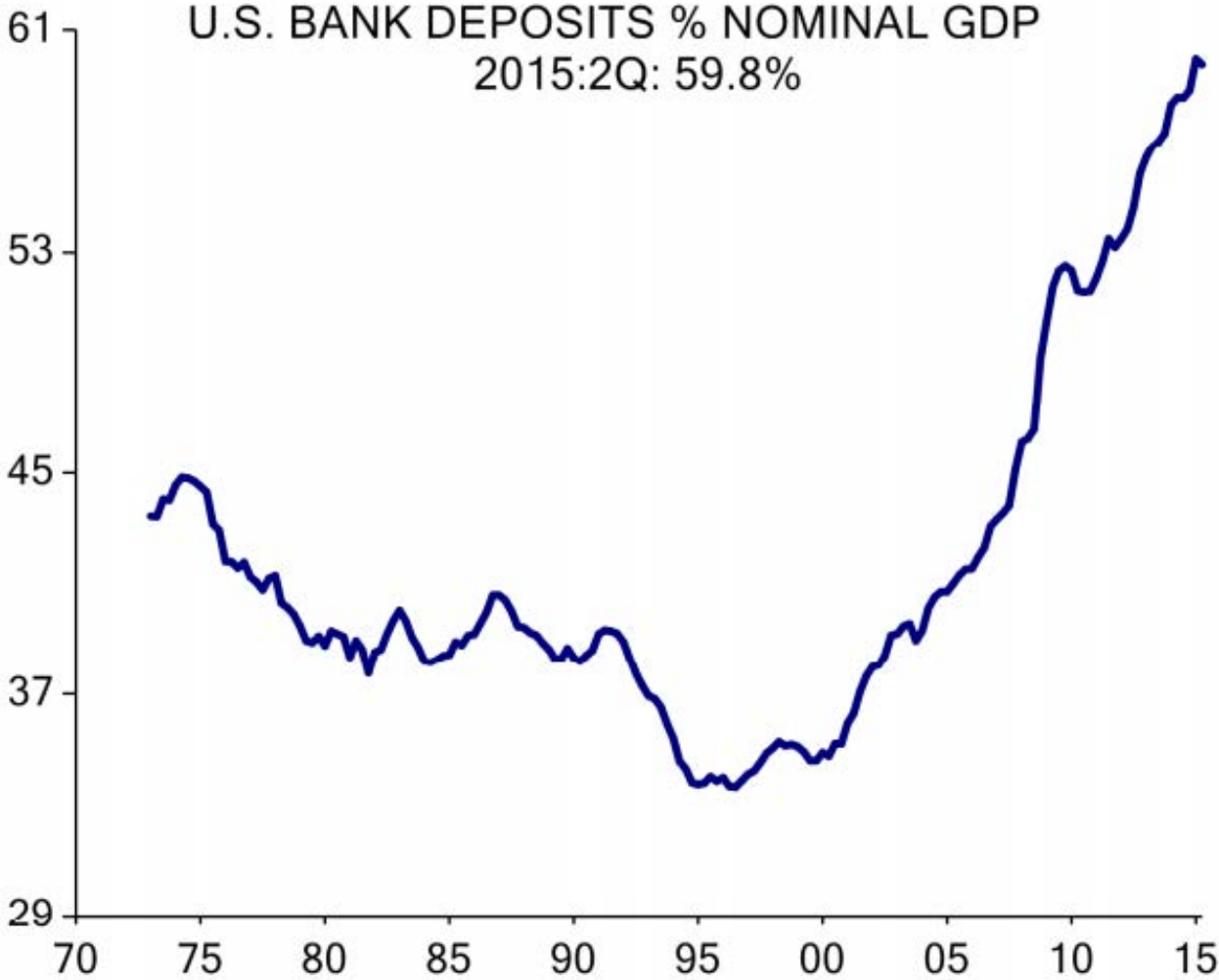
# Disclosed NII Impact of +100bps Instantaneous Parallel Shift



(1) WFC does not disclose sensitivity to a parallel shift; Bernstein estimate. (2) BBT and PNC disclose sensitivity to a gradual shift. We increase disclosed sensitivity by 30% to translate gradual to instantaneous, using RF's disclosure (which includes both gradual and instantaneous scenarios) as a guide. (3) USB discloses sensitivity to a +50bps shift. To translate to a +100bps shift, we assume the second 50bps has 90% of the impact of the first 50bps.

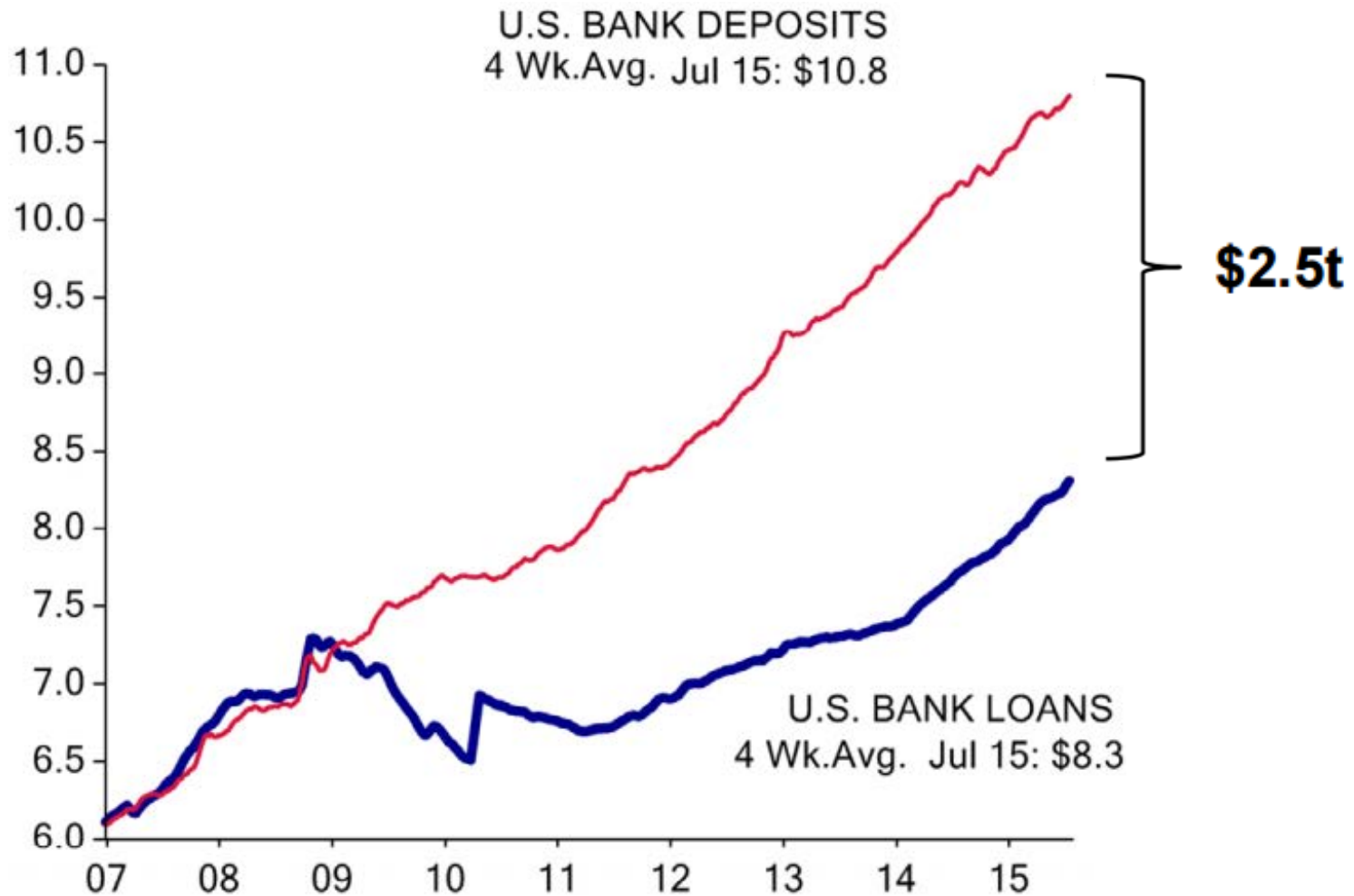
Source: John McDonald, Bernstein Research; "Large Cap Banks: Who are the Banks Who Say NII?", June 8, 2015; Company Reports, Bernstein analysis

# ISI – U.S. Bank Deposits % Nominal GDP



Source: Evercore ISI Daily Economic Report, 8/28/15

# ISI – U.S. Bank Deposits to Loans



Source: Evercore ISI Daily Economic Report, 7/27/15

## CFPB attack... NSF et al!





# Retail Banking Challenge

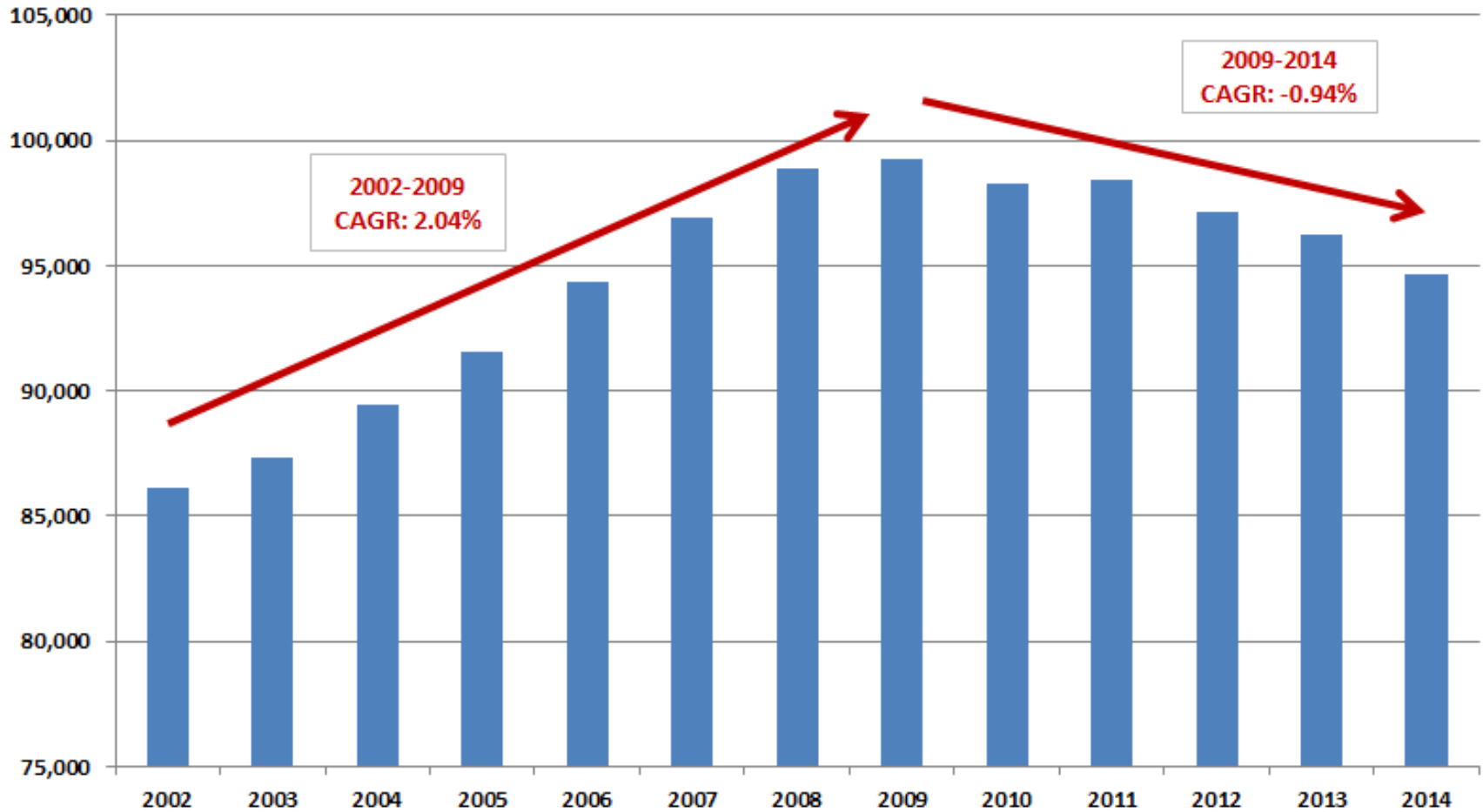
- Low to NO revenue growth !!!!!

# Retail Banking Challenge

- Low to NO revenue growth !!!!!
- Retail delivery expenses are way too high!!!!

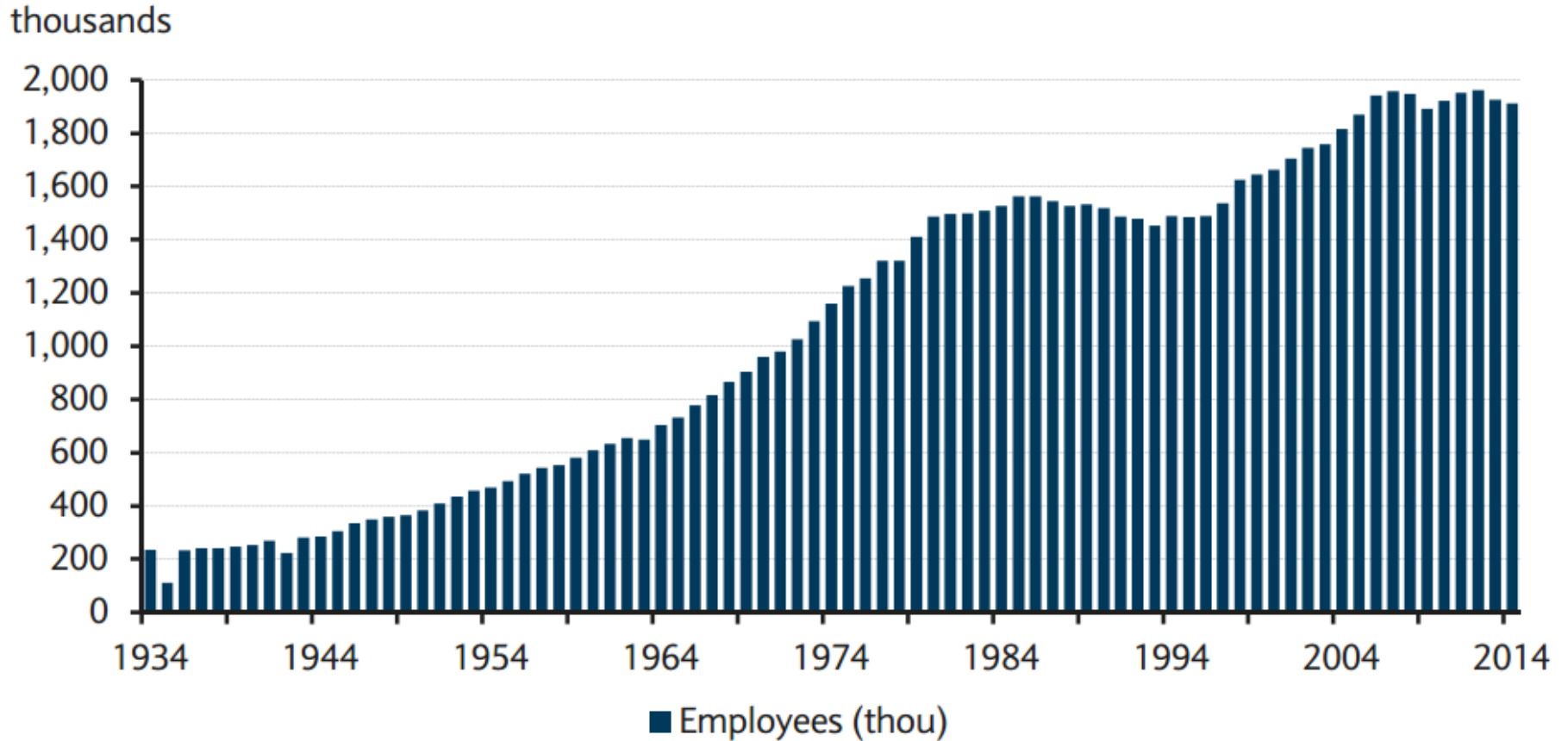
# US Bank and Thrift Branch Count

(2002 - 2014)



Source: SNL Financial, 2/5/2015; SCC Research, FDIC

# Full Time Equivalent Employees at Banks, 1934-2014



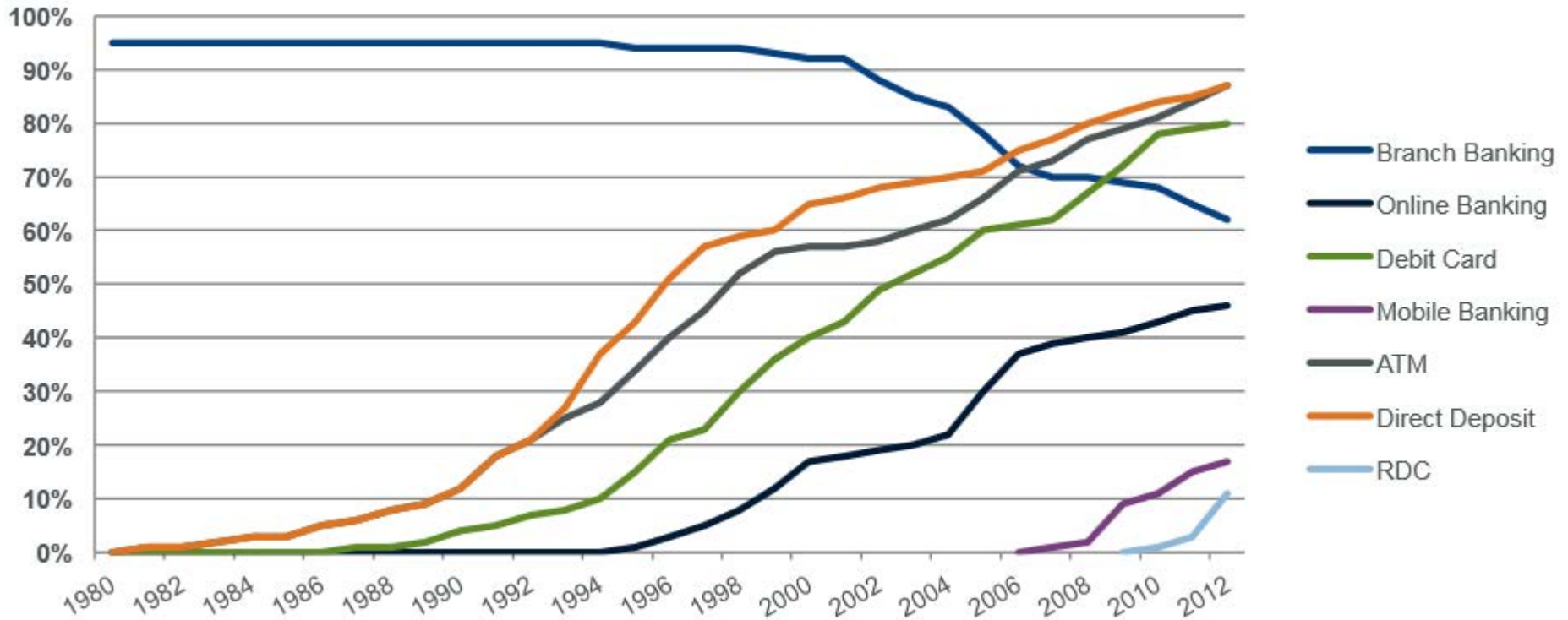
Source: Jason Goldberg; 'US Large & Mid-Cap Banks: Bank Chartbook: 1934-2014', March 2, 2015; Barclays Research, FDIC

# Retail Banking Challenge

- Low to NO revenue growth !!!!!
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- Branches are still important but activity is in permanent decline

# Consumer Distribution Channel Penetration

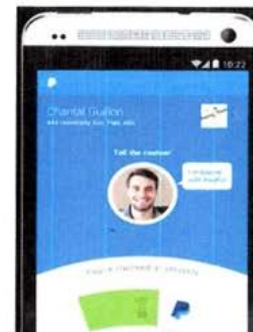
Percent of Households, 1980-2012



Source: The Bancorp; 'Investor Presentation', 1Q14; Federal Reserve, FRB Boston, FRB Philadelphia, SRI Consulting, U. of Michigan, Mintel, Celent, Bank of America, comScore, Nielsen Mobile, Walls Street Journal, AlixPartners

# How our Behavior is Changing

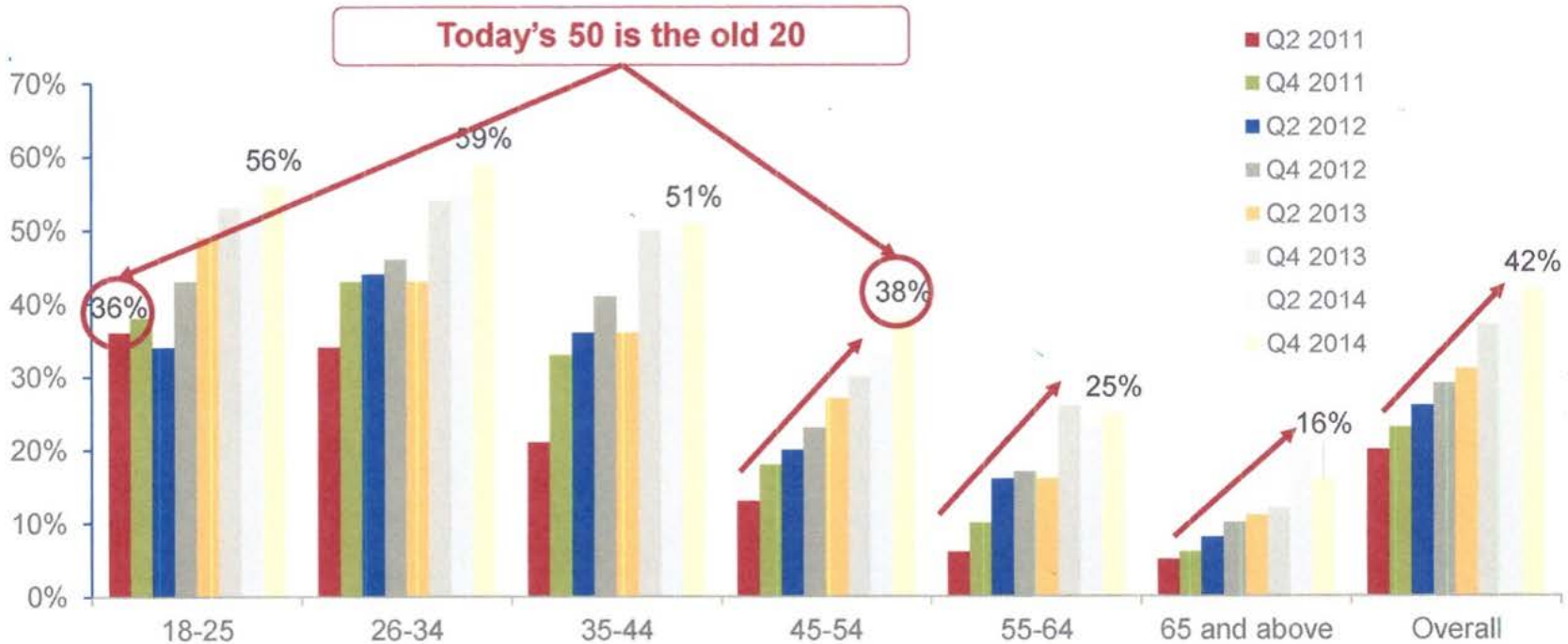
Reflecting our increasing digitalness, consumers increasingly pursue using mobile and digital payment options





# We Will Become Increasingly Digital

## Usage of primary mobile device features to access the internet



**50-somethings are increasingly adopting the digital behaviors of Millennials, just lagged 2-to-3 years**

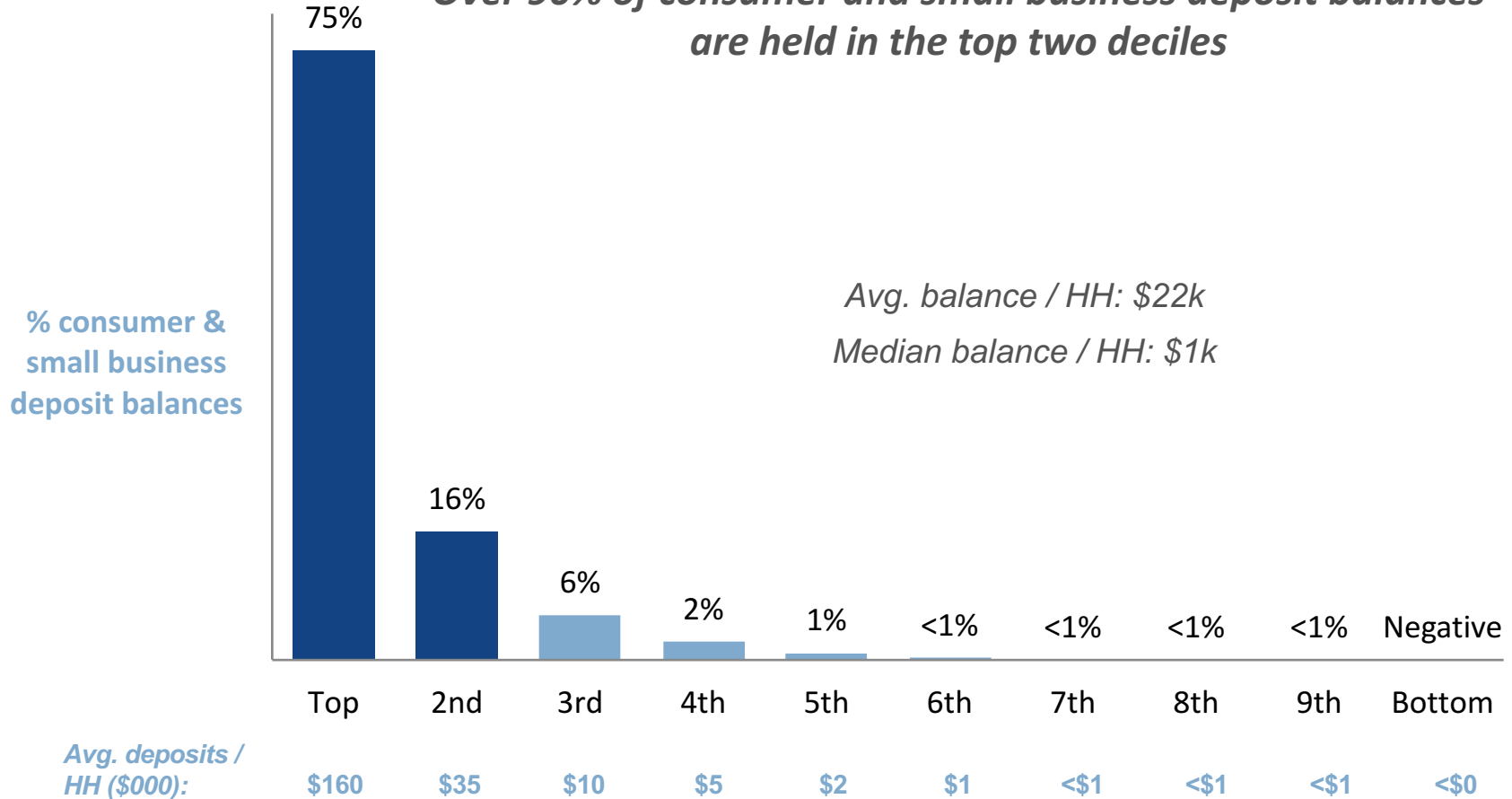
Source: "How Banks Can Play Offense", BAI Payments Connect, March 2, 2015

# Retail Banking Challenge

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- Deposit Balances are concentrated which makes changes very difficult

# Deposit Balance Deciles

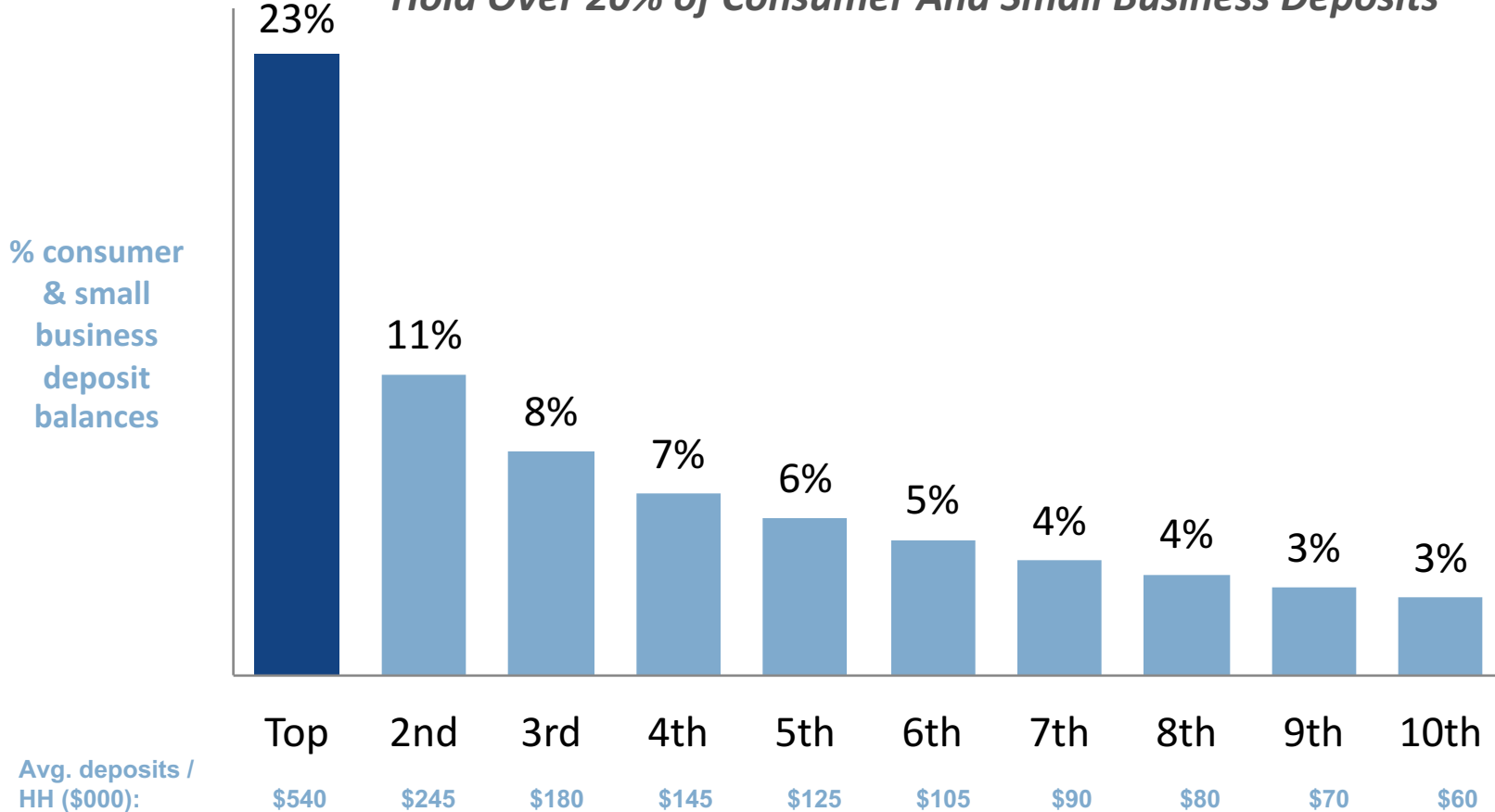
*Over 90% of consumer and small business deposit balances are held in the top two deciles*



Source: FMCG case study analysis over the last three years of multiple BHC's household-level customer databases

# Consumer and Small Business Deposits

*The Top Percentile of Customers (typically 200 Customers/Branch) Hold Over 20% of Consumer And Small Business Deposits*

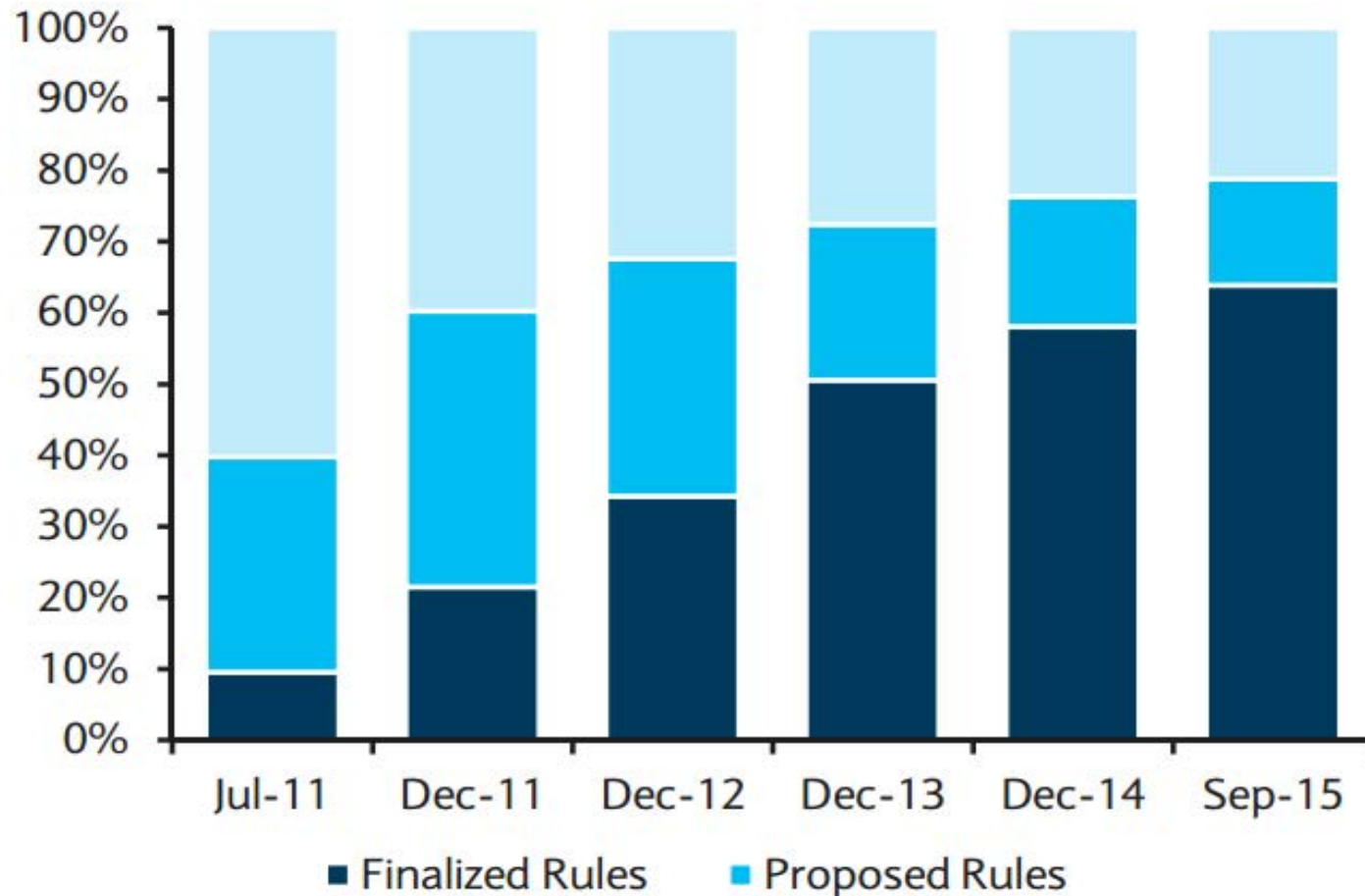


Source: FMCG case study analysis over the last three years of multiple BHC's household-level customer databases

# Retail Banking Challenge

- Low revenue growth !!!!!
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- Deposit Balances are concentrated which makes changes very difficult
- Customers and employees self select out of large bank networks
- Oppressive and inconsistent Regulation

# Dodd-Frank Progress Report

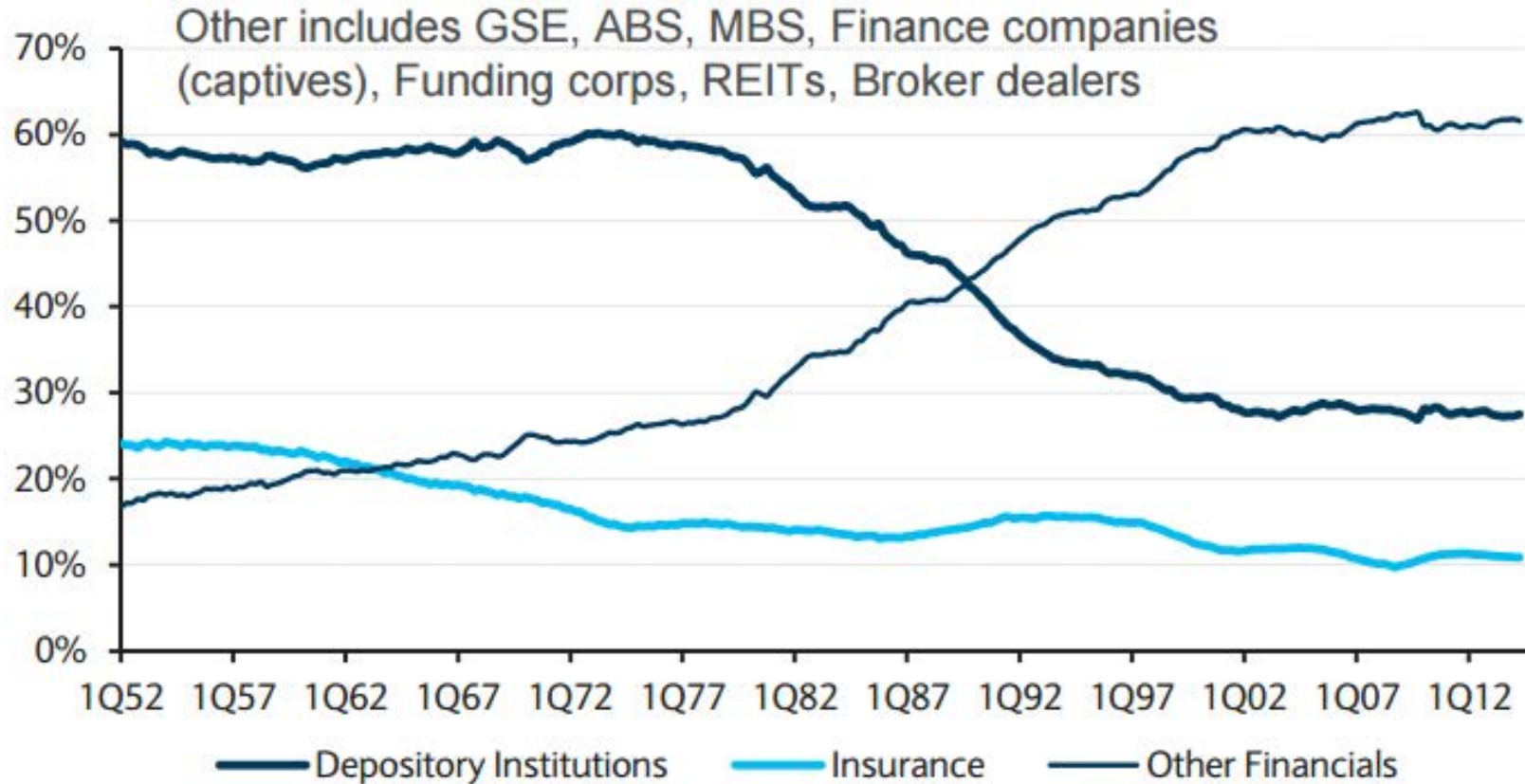


Source: Jason M. Goldberg, Barclays; "U.S. Large Cap Banks 2016 Outlook," January 4, 2016; Barclays Research, FDIC, Federal Reserve

# Retail Banking Challenge

- Low to NO revenue growth !!!!!
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- Branches are still important but activity is in permanent decline
- Deposit Balances are concentrated which makes changes very difficult
- Customers and employees self select out of large bank networks
- Oppressive and inconsistent Regulation
- Customer facing technology is more important every day and banks are not winning!

# Banks' Share of U.S. Financial Intermediation



Source: Jason Goldberg, Barclays Research; "U.S. Large-Cap Banks: September 2015 Conf Preview" September 10, 2015; Barclays, OCC, FDIC, FED, Haver Analytics, SNL



# Questions and Answers



Type your question in the chat panel



# Traits of the Intermediate Term Winners

- Some may maximize the old way of banking through superior execution
- Some will try to win with a niche focus
- Some will capitalize on the tremendous change and economies of scale

# Traits of the Intermediate Term Losers

- Less than \$100 billion banks with no focus
- Most of the consolidators

# Q&A

Type your question in the chat panel 

## The Retail Banking Challenge

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Thank You

