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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

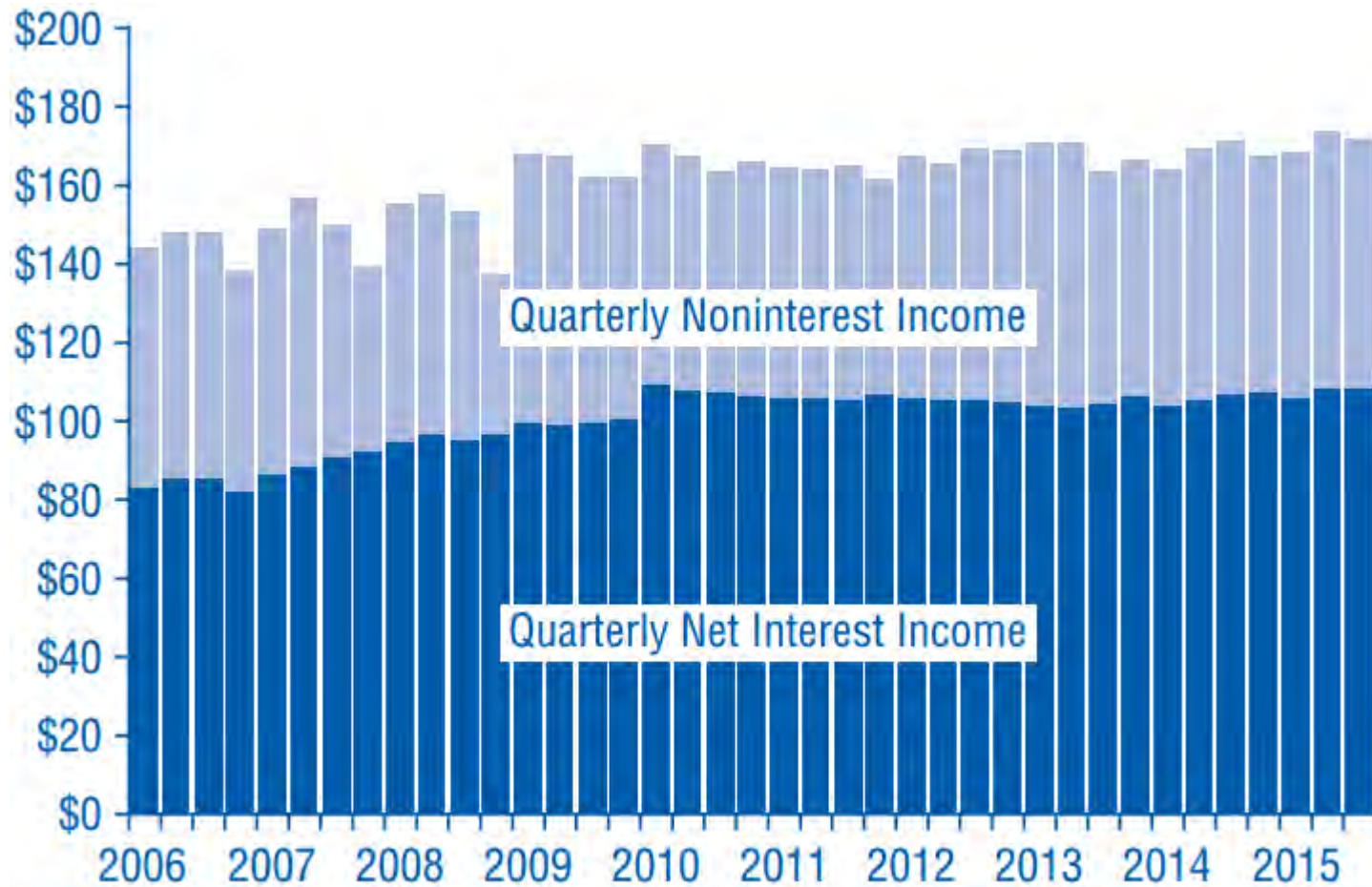
Payments Marketing
Harland Clarke

Profitability Trends in Retail Banking ?????



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

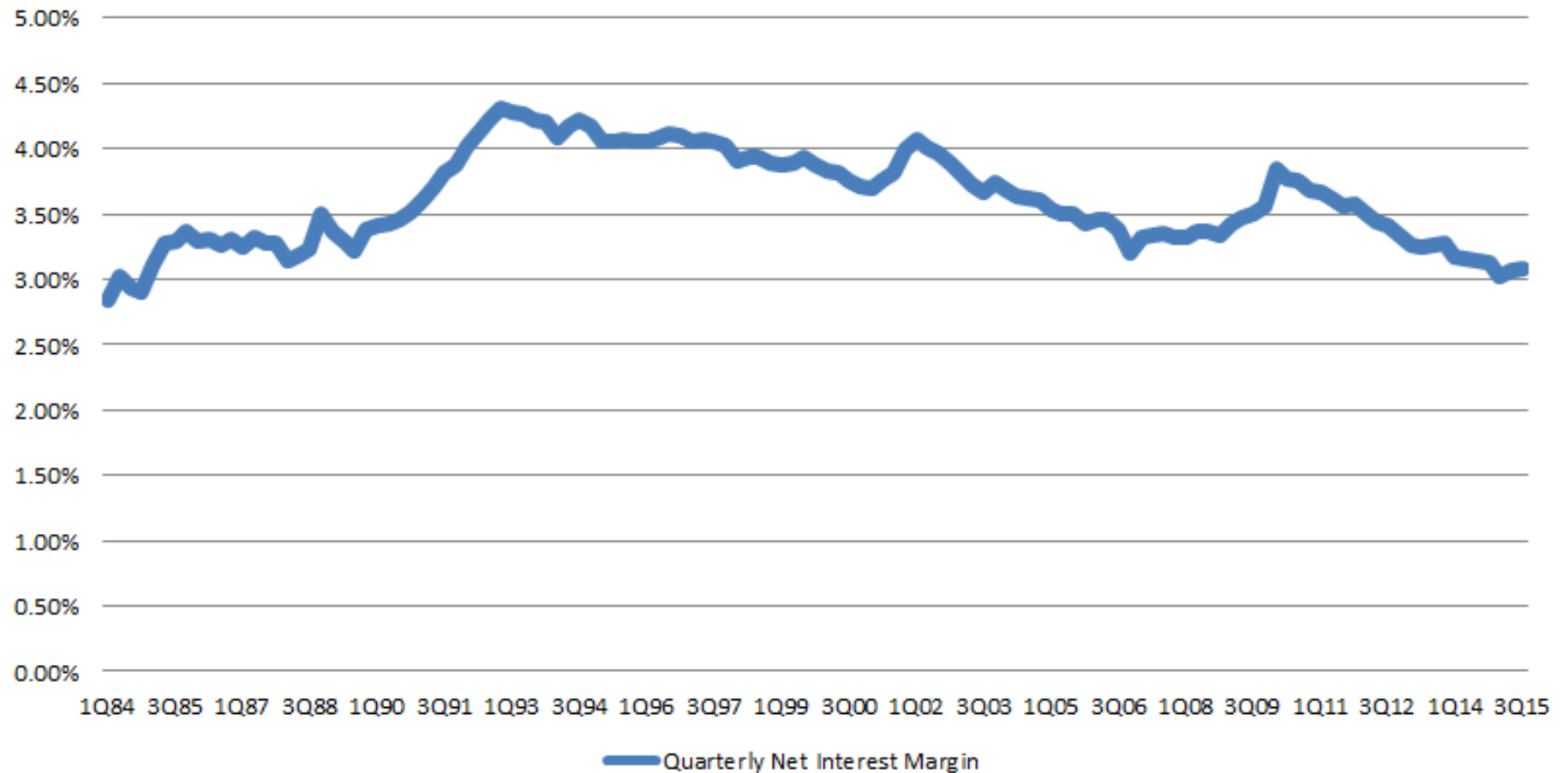
All FDIC Insured Institutions



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

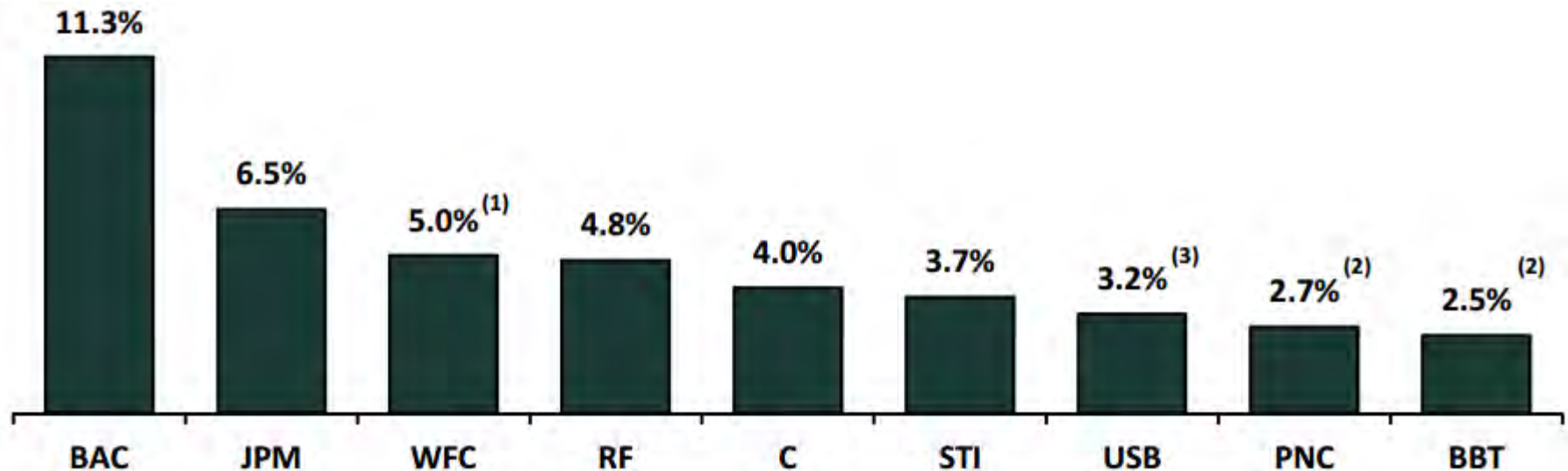
Quarterly Net Interest Margin

All FDIC Insured Institutions, 1984-3Q15



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

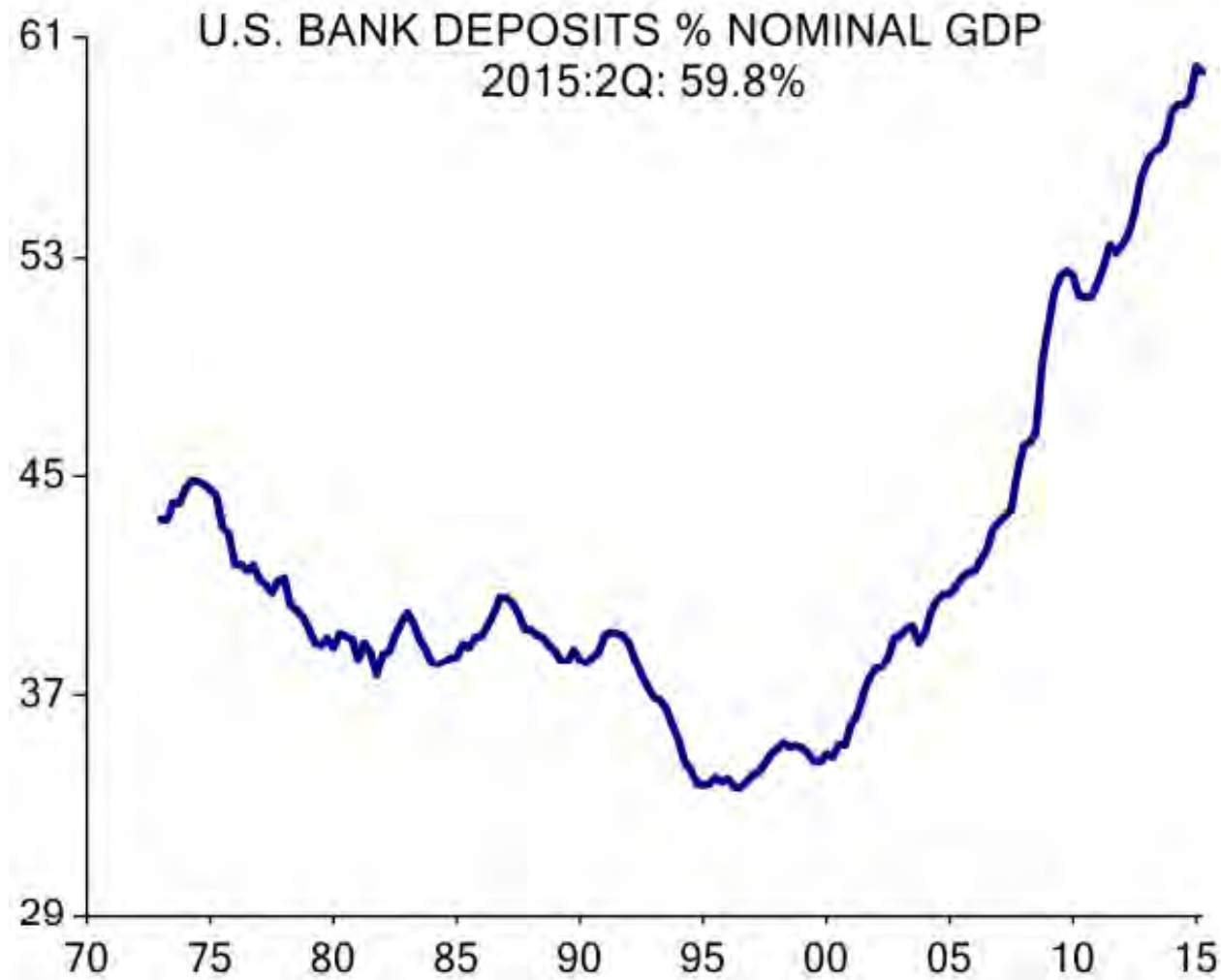
Disclosed NII Impact of +100bps Instantaneous Parallel Shift



(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.

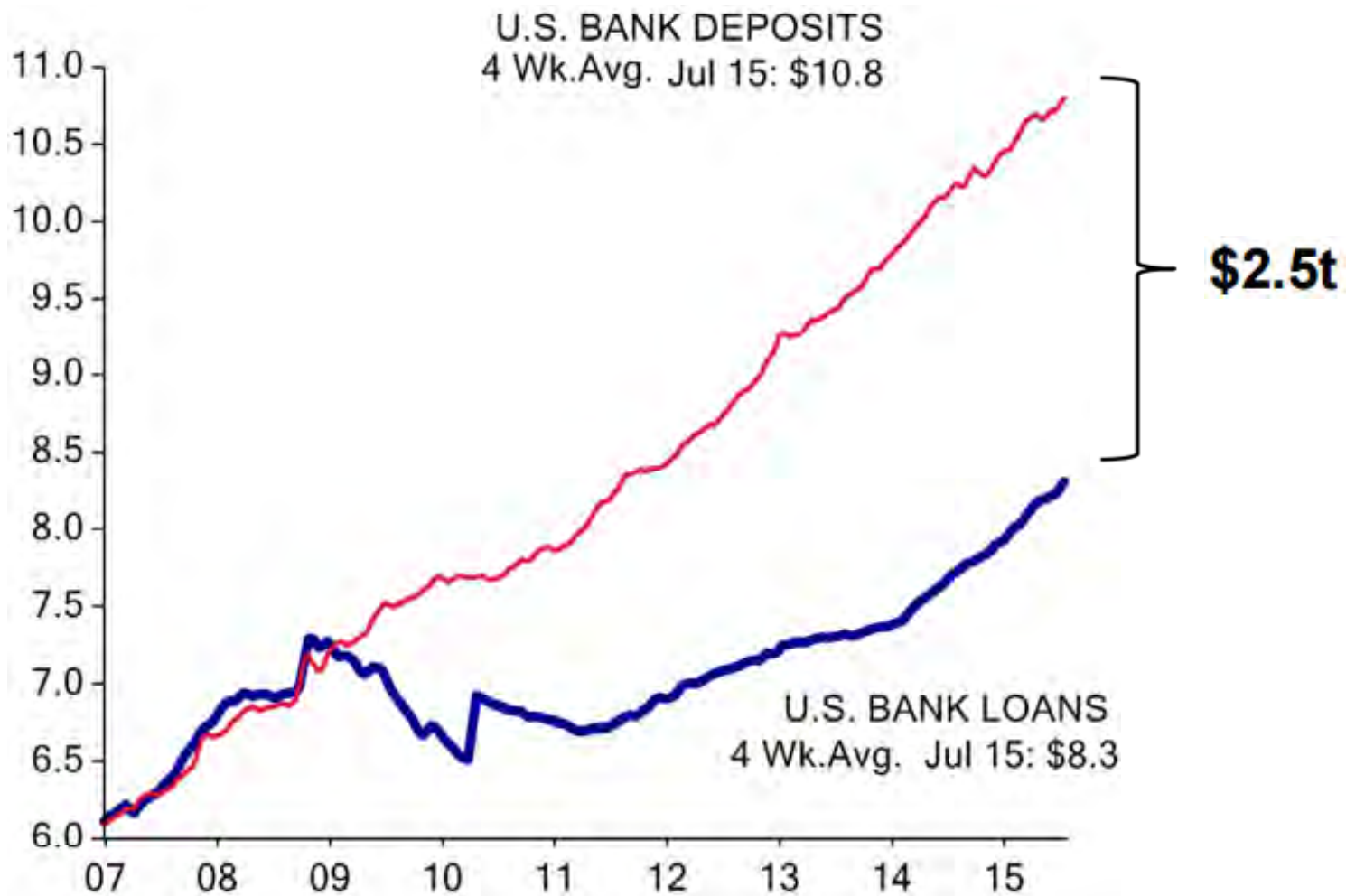
Source: John McDonald, Bernstein Research; "Large Cap Banks: Who are the Banks Who Say NII?", June 8, 2015; Company Reports, Bernstein analysis

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

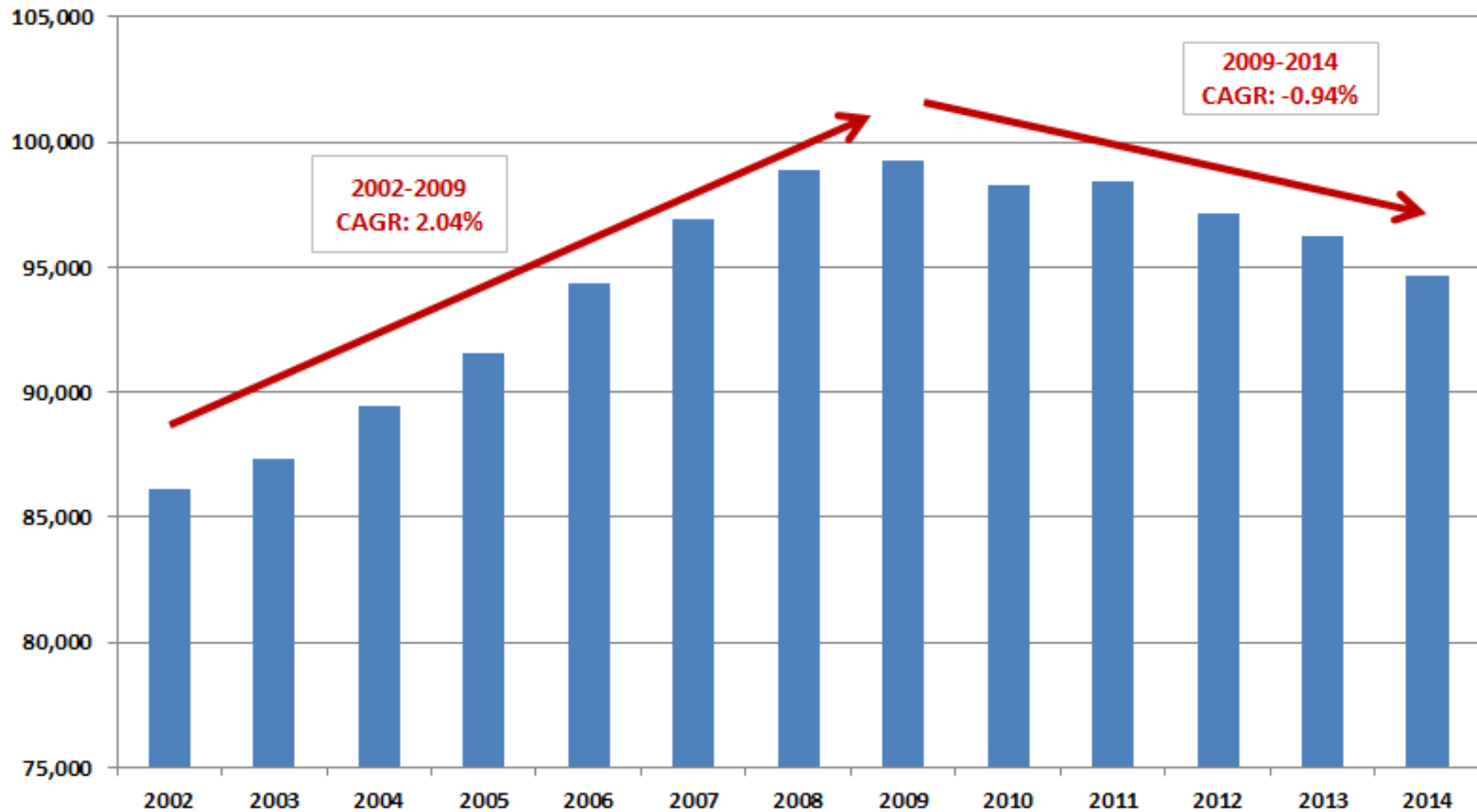
- Low to NO revenue growth !!!!!

Retail Banking Challenge

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

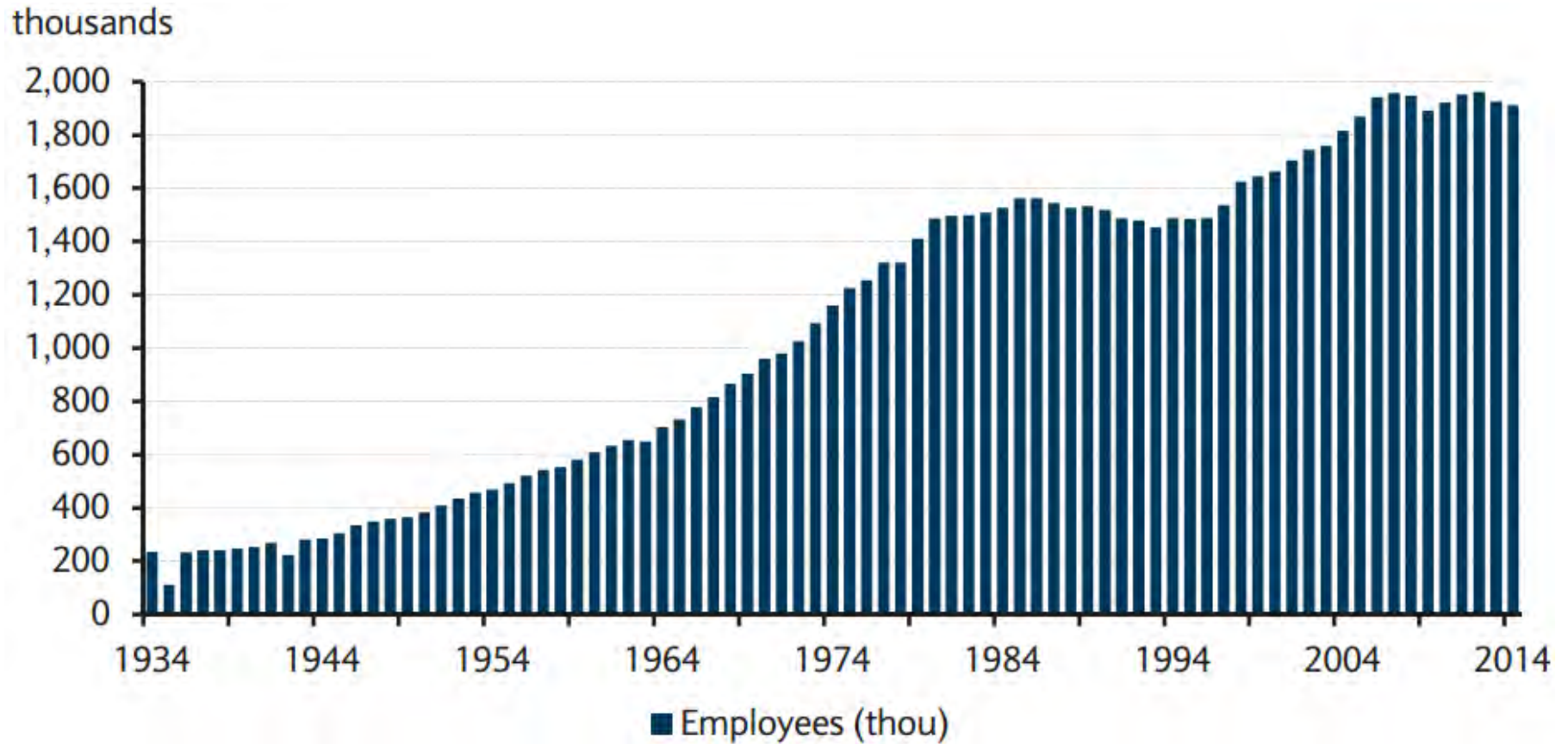
US Bank and Thrift Branch Count

(2002 - 2014)



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

Full Time Equivalent Employees at Banks, 1934-2014



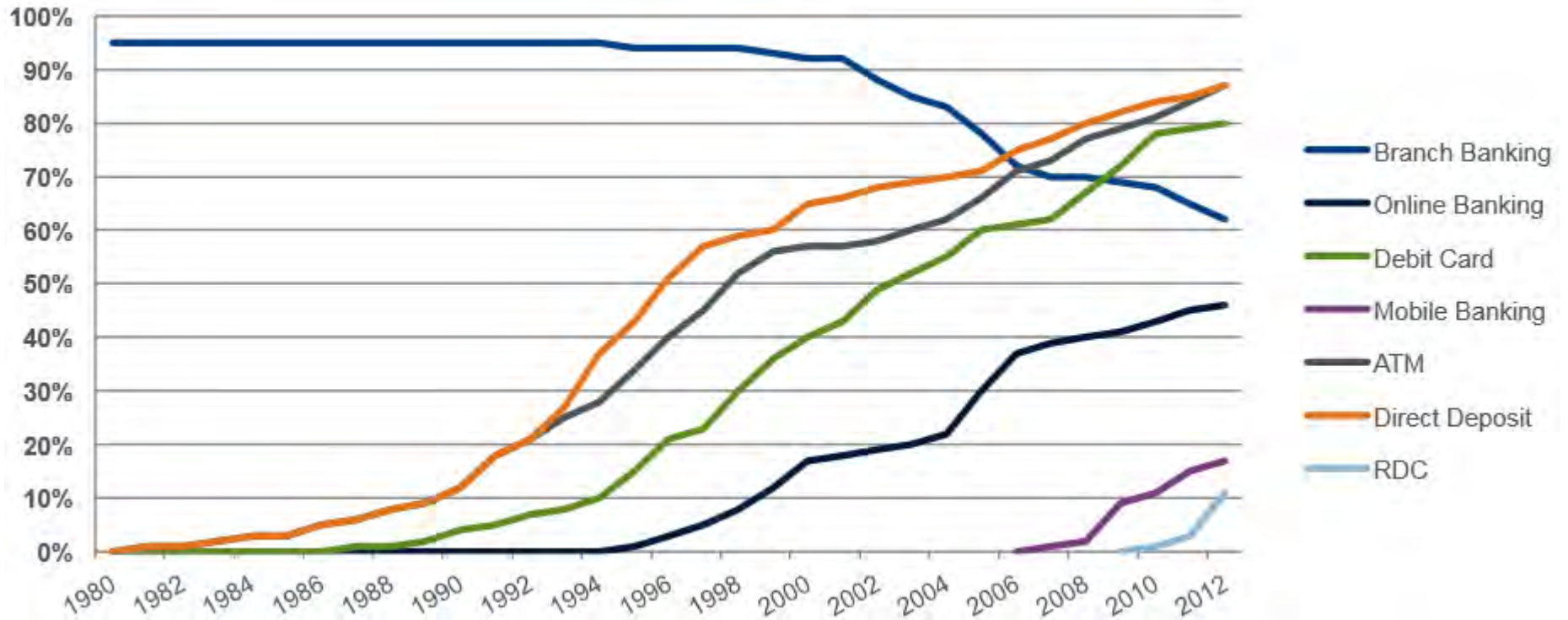
Source: Jason Goldberg; 'US Large & Mid-Cap Banks: Bank Chartbook: 1934-2014', March 2, 2015; Barclays Research, FDIC

Retail Banking Challenge

- Low to NO revenue growth !!!!!
- Retail Delivery Expenses are way too high!!!!
- 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

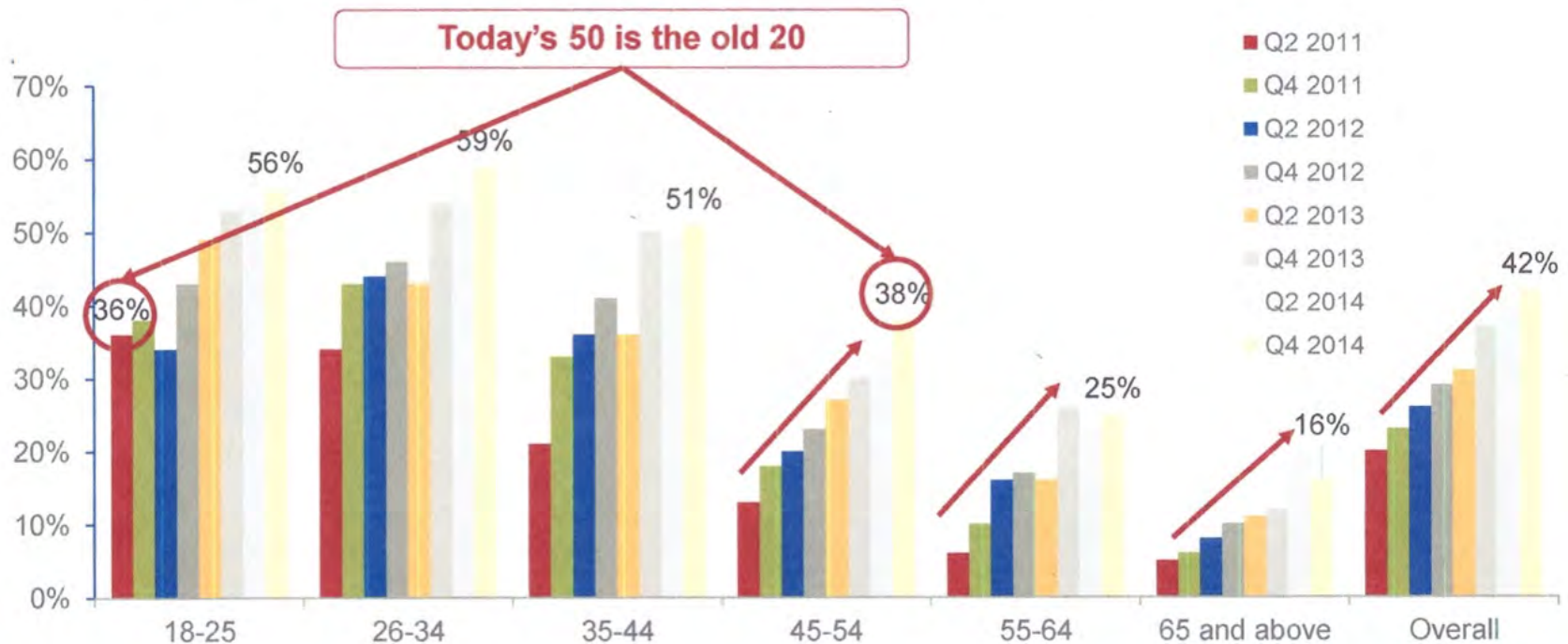
How our Behavior is Changing

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

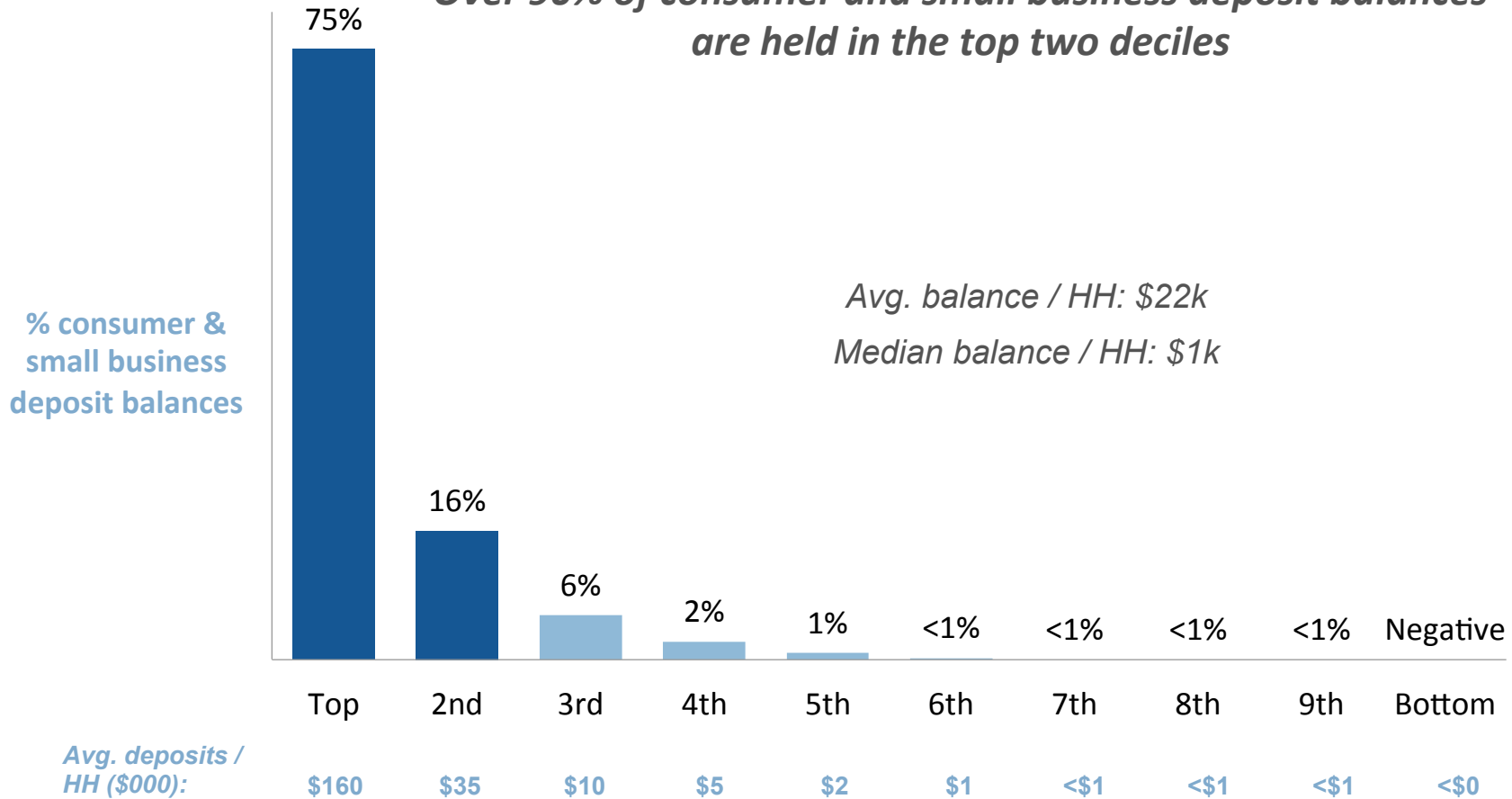
Source: "How Banks Can Play Offense", BAI Payments Connect, March 2, 2015

Retail Banking Challenge

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- Deposit Balances are concentrated which makes changes very difficult

Deposit Balance Deciles

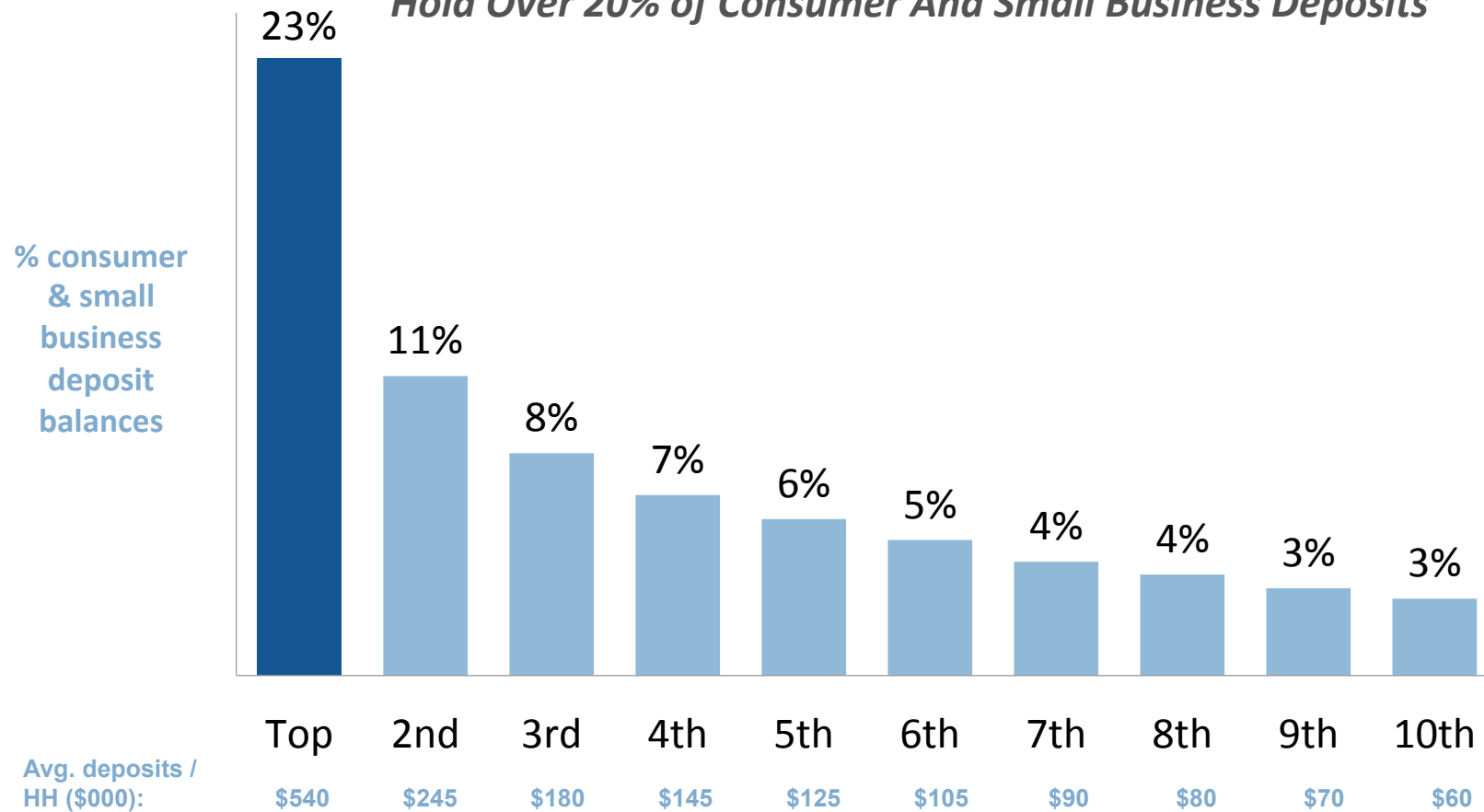
Over 90% of consumer and small business deposit balances are held in the top two deciles



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

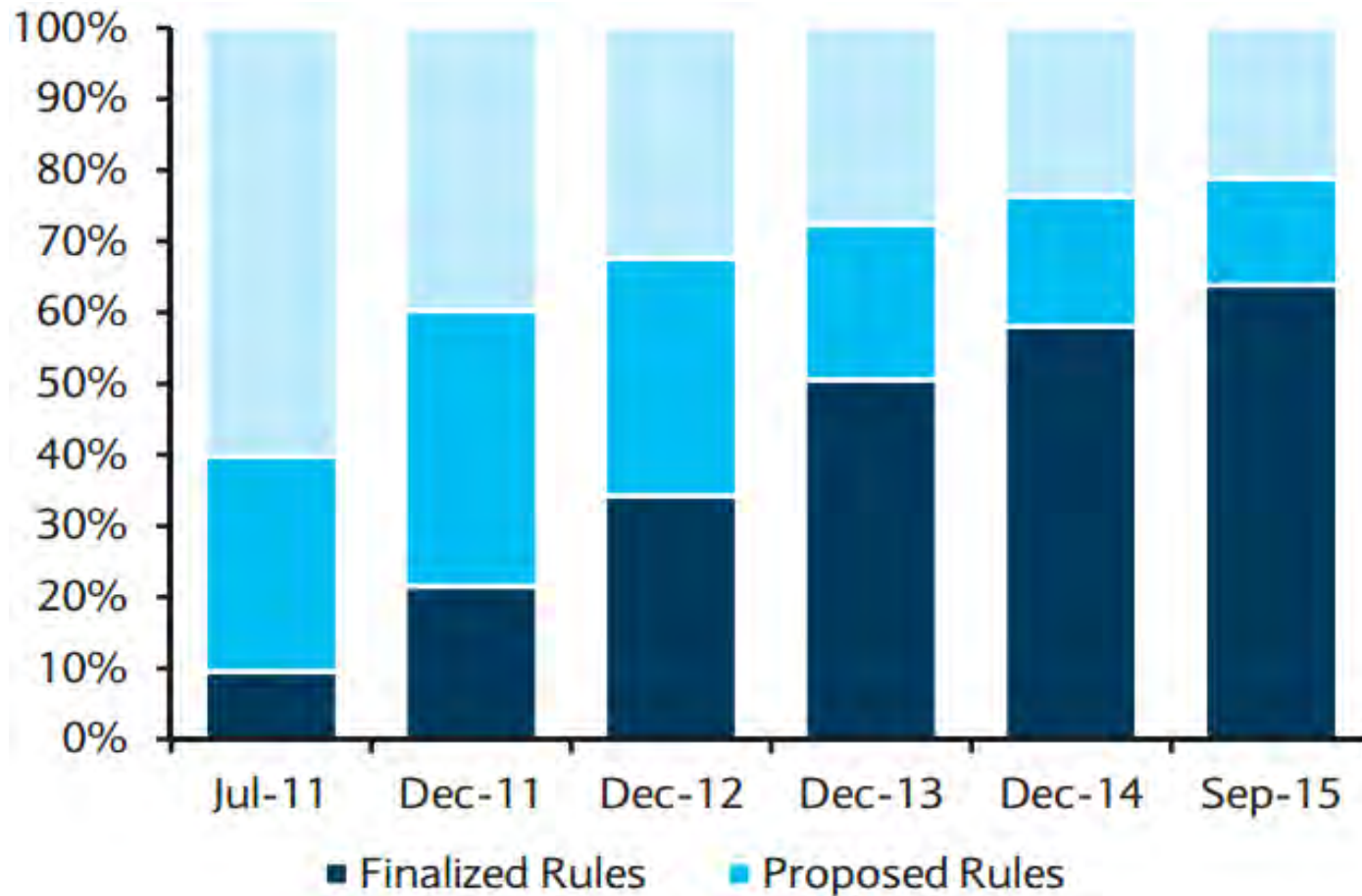


Source: FMCG case study analysis over the last three years of multiple BHC's household-level customer databases

Retail Banking Challenge

- Low revenue growth !!!!!
- Retail Delivery Expenses are way too high!!!!
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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

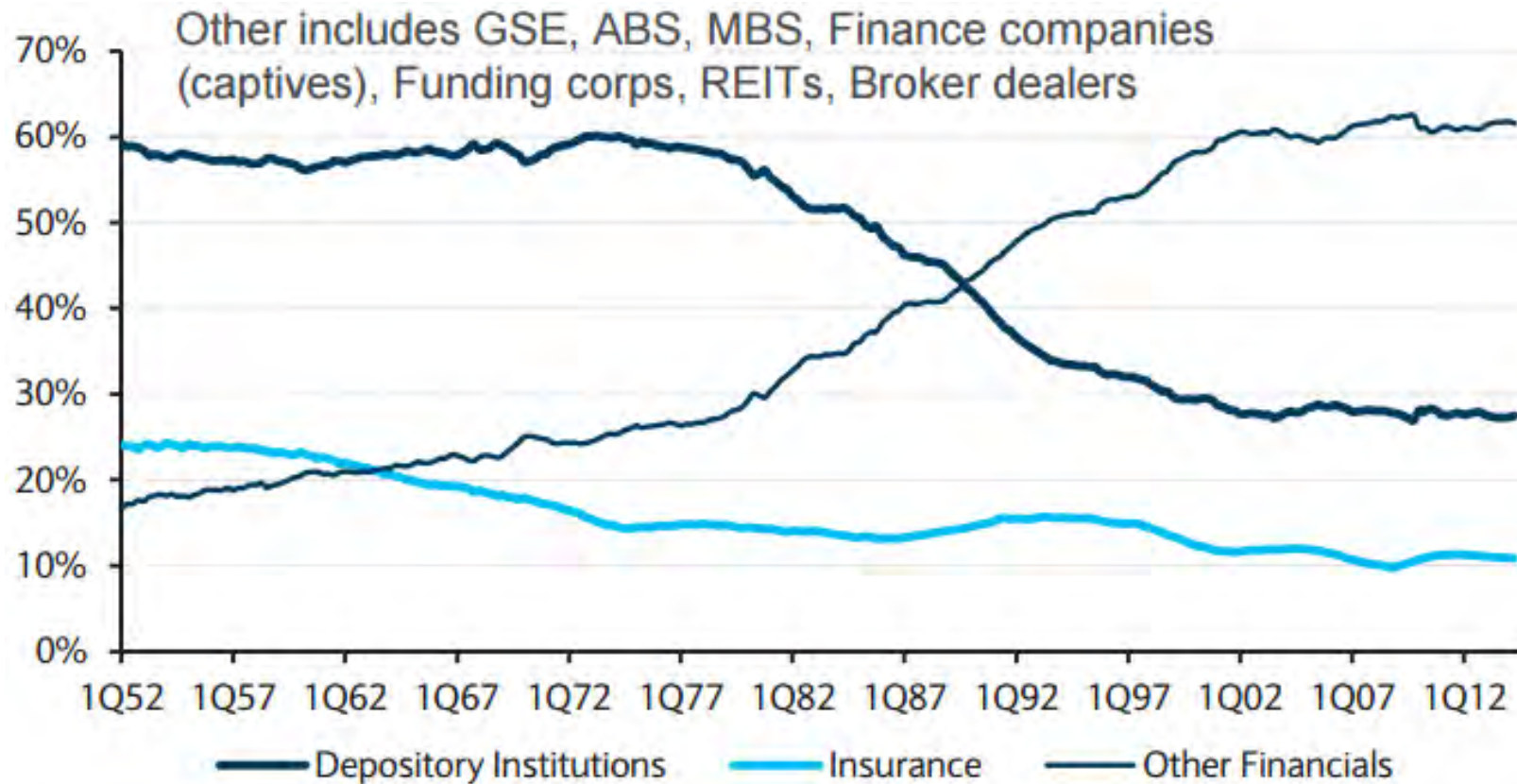


Source: Jason M. Goldberg, Barclays; "U.S. Large Cap Banks 2016 Outlook," January 4, 2016; Barclays Research, FDIC, Federal Reserve

Retail Banking Challenge

- Low to NO revenue growth !!!!!
- Retail delivery expenses are way too high!!!!
- 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
Doug Freeman
DouglasKFreeman@bellsouth.net

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Thank You

