SNLFinancial

Reprinted from SNLFinancial

Bankers sharpen focus on deposits, efficiency and M&A

March 16, 2015
By Kevin Dobbs

Kevin Dobbs is a senior reporter and columnist for SNL Financial. The views and opinions expressed in this piece represent those of the author or his sources and not necessarily those of SNL.

As the industry awaits a Federal Reserve interest rate hike later this year, bankers are focusing more on core deposits while also continuing to hunt for new technology and other ways to bolster efficiency.

Many also are on the lookout for potential acquisition targets that could help them expand into new business lines while also picking up talent and core deposits that are sure to be of increasing value in a higher rate environment.

These were among the key takeaways from the inaugural Drexel Hamilton Financial Services Conference in Florida on March 12.

"We're not bankers; we're entrepreneurs," John D'Angelo, president and CEO of Baton Rouge, La.-based Investar Holding Corp., said, summing up the thinking of many at the conference.

While global economic uncertainty could contain long-term interest rates this year, bankers said at the conference, there is a general expectation that Fed policymakers will begin to boost short-term rates by their September meeting — a move that could at least begin to boost the cost of deposits and intensify competition for accounts.

On the M&A front, D'Angelo said, an entrepreneurial approach means looking at targets not just as a means of getting bigger or expanding a footprint with a string of branches. Rather, a deal ideally would first prove an efficient way to pick up a base of core depositors — who are more likely to stay put even when rates rise because these customers often have multiple connections with a bank — as well as a way to acquire teams of proven lenders who can put that funding to work and drive meaningful long-term growth.

Customers Bancorp Inc. Chairman and CEO Jay Sidhu took that thinking a step further. He has no interest in a whole-bank acquisition, he said at the conference, because what he is after are talented teams of bankers who can bring in new customers, and with those customers come both deposits and loans — and perhaps new types of business.

"We will not be buying a bank," Sidhu said. "We will buy teams."

The Wyomissing, Pa.-based bank, in other words, is looking to lure away from competitors established lenders who would bring with them loyal customers, viewing this as a far more efficient way to grow than buying out another whole bank and taking on its network of high-cost, brick-and-mortar branches.

With technology advancing at an enormous clip and the typical American doing more business online or via mobile devices, as opposed to walking into branches, connecting with customers via talent and tech is increasingly more important than trying to attract business with physical locations, he said.

"Banking is going through a once-in-a-hundred-year change," Sidhu said.

As this development plays out, he and other bankers say, financial companies need to grow increasingly efficient in order to carve out money to constantly invest in new technology and delivery channels in order to keep pace with customers' preferences and needs.

While branches are not going away altogether — bankers say customers still want to meet face to face when addressing complex credit matters — executives are constantly examining the profitability of each physical location and showing little hesitancy to shutter underperforming branches.

"We are looking at the profitability of every branch every day," Michael Daly, president and CEO of Pittsfield, Mass.-based Berkshire Hills Bancorp Inc., said at the conference. Berkshire has closed several branches over the last few years, he said.

The total number of U.S. bank branches declined by more than 1,400 locations in 2014, extending a five-year trend of overall declines, according to an SNL analysis.

"We will still have branches, but we are going to have fewer of them, and the branches we have are going to be smaller and more technology driven," Robert Cozzone, treasurer and CFO of Rockland, Mass.-based Independent Bank Corp., told SNL after speaking at the conference.

He said his bank and many others do not need multiple teller stations anymore because customers handle routine transactions digitally. Instead, he said, branches more often are being designed to house fewer but more advanced staffers — lenders, investment professionals and others who can help customers with the relatively few but more complex transactions they want to tackle in person. These branches also are often equipped with "smart ATMs" and other devices that can connect customers digitally to an off-sight teller or banker for certain other needs.

Cozzone said that the size and design of branches likely will vary by neighborhood and demographics. In an area with a high population of young adult residents, for example, small, primarily tech-driven branches are most likely. In a neighborhood dominated by baby boomers, in contrast, a more traditional branch might still be needed for years to come.

At the end of the day, though, the ultimate focus is on delivering service fast and conveniently — and each year that increasingly happens via digital means, Cozzone said.

This is, of course, not isolated to community banks; it is an industrywide trend. Larger regional banks and national players are on similar paths.

"Speed and simplicity are important for everyone now, certainly including banking," Norman Bagwell, a former JPMorgan Chase & Co. executive and current head of Texas banking for Tulsa, Okla.-based BOK Financial Corp., told SNL. "They are keys to winning business." *i*