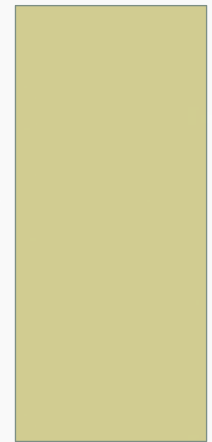


# EVOLVING TRENDS IN FINANCIAL SERVICES

2015 LENDING & MARKETING CONFERENCE  
MICHIGAN CREDIT UNION LEAGUE



## EXHIBIT 2.4

Sample Bank Balance Sheet for the Years Ending  
December 31, 19X2, and December 31, 19X1

	19X2	19X1
<b>Assets</b>		
Cash and due from banks .....	\$ 5,498,000	\$ 5,425,000
Interest-bearing deposits in banks .....	1,000,000	1,000,000
Investment account securities:		
U.S. Treasury securities .....	11,023,000	14,674,000
Obligations of other U.S. government agencies and corporations .....	2,493,000	4,690,000
Obligations of states and political subdivisions .....	23,279,000	23,364,000
Other securities .....	900,000	800,000
Trading account securities .....	4,640,000	5,915,000
Federal funds sold and securities purchased under reverse repurchase agreements .....	2,100,000	—
Loans, net of unearned discount and allowance for loan losses .....	48,586,000	43,772,000
Investment in leveraged leases, net .....	1,897,000	1,113,000
Office buildings, equipment, and leasehold improvements, net .....	2,144,000	1,878,000
Customers' acceptance liability .....	237,000	379,000
Other assets .....	1,408,000	794,000
	<u>\$105,205,000</u>	<u>\$103,804,000</u>
<b>Liabilities</b>		
<b>Deposits:</b>		
Demand deposits .....	\$ 24,534,000	\$ 24,061,000
Savings deposits .....	32,135,000	31,449,000
Other time deposits .....	33,074,000	31,381,000
	<u>\$ 89,743,000</u>	<u>\$ 86,891,000</u>
Federal funds purchased and securities sold under repurchase agreements .....	2,279,000	4,558,000
Acceptance outstanding .....	237,000	379,000
Accrued interest and other liabilities .....	1,918,000	2,062,000
Subordinated debentures .....	1,000,000	1,000,000
	<u>\$ 95,177,000</u>	<u>\$ 94,890,000</u>
<b>Commitments and contingent liabilities</b>		
<b>Stockholders' Equity</b>		
Capital stock, common, par value \$10; authorized and outstanding 150,000 shares .....	1,500,000	1,500,000
Surplus .....	4,500,000	4,500,000
Retained earnings .....	4,028,000	2,914,000
	<u>\$ 10,028,000</u>	<u>\$ 8,914,000</u>
	<u>\$105,205,000</u>	<u>\$103,804,000</u>

Source: Bank Management, Johnson and Johnson, © 1983, ABA, p. 14.

## EXHIBIT 2.3

Sample Bank Statement of Income for the Years Ending  
December 31, 19X2, and December 31, 19X1

	19X2	19X1
<b>Interest income:</b>		
Interest and fees on loans .....	\$4,359,000	\$4,027,000
Interest on investment account securities:		
U.S. Treasury securities .....	741,000	836,000
Obligations of other U.S. government agencies and corporations .....	186,000	268,000
Obligations of states and political subdivisions .....	1,248,000	1,256,000
Other securities .....	58,000	42,000
Interest on trading account securities .....	221,000	241,000
Interest on federal funds sold and securities purchased under reverse repurchase agreements .....	132,000	105,000
Interest on deposits in banks .....	66,000	72,000
	<u>\$7,011,000</u>	<u>\$6,847,000</u>
<b>Interest expense:</b>		
Interest on deposits .....	3,946,000	3,840,000
Interest on federal funds purchased and securities sold under repurchase agreements .....	33,000	78,000
Interest on subordinated debentures .....	80,000	80,000
	<u>\$4,059,000</u>	<u>\$3,998,000</u>
Net interest income .....	2,952,000	2,849,000
Provision for loan losses .....	60,000	68,000
Net interest income after provision for loan losses .....	<u>\$2,892,000</u>	<u>\$2,781,000</u>
<b>Other income:</b>		
Trust department income .....	187,000	166,000
Service fees .....	106,000	103,000
Trading account profits and commissions .....	174,000	67,000
Other .....	74,000	77,000
	<u>\$ 541,000</u>	<u>\$ 413,000</u>
<b>Other expenses:</b>		
Salaries and wages .....	727,000	718,000
Pensions and other employee benefits .....	153,000	130,000
Occupancy expenses, net of revenue 19X2, \$52,000; 19X1, \$47,000 .....	356,000	304,000
Furniture and equipment expenses .....	92,000	62,000
Other operating expenses .....	655,000	586,000
	<u>\$1,983,000</u>	<u>\$1,800,000</u>
Income before income taxes and net securities gains (losses) ..	1,450,000	1,394,000
Applicable income taxes .....	80,000	48,000
	<u>\$1,370,000</u>	<u>\$1,346,000</u>
Securities gains (losses), net of related taxes (benefits) 19X2, \$65,000; 19X1, (\$15,000) .....	\$ 65,000	(15,000)
Net income .....	<u>\$1,435,000</u>	<u>\$1,331,000</u>
<b>Per share of common stock:</b>		
Income before net securities gains (losses) .....	\$ 9.13	\$ 8.97
Net income .....	<u>\$ 9.57</u>	<u>\$ 8.37</u>

Source: Bank Management, Johnson and Johnson, © 1983, ABA, p. 15.

# THE FINANCIAL SERVICES INDUSTRY

- A Historical Perspective – 1978
  - Deposit Accounts
    - Checkun
    - Savuns
    - Paaasbook Savuns

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- A Historical Perspective – 1978
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  - Loans
    - Consumer Loans
    - Commercial Loans

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- A Historical Perspective – 1978
  - Deposit Accounts
    - Checkun
    - Savuns
    - Paaasbook Savuns
  - Loans
    - Consumer Loans
    - Commercial Loans
  - Net Interest Margin
    - Average Interest Rate      10%
    - Average Cost of Funds      2%
    - Net Interest Margin          8%

# HISTORICAL PERSPECTIVE (CONT'D)

- Financial Services Officers were members of.....
  - Civic Clubs
  - The Chamber of Commerce
  - Country Clubs
- Our branches were staffed with.....
  - 6 Tellers at 6 Teller Stations – all day long
  - Loan Officers – Who were order takers
- With our protected NIM, we.....
  - Sponsored every Little League baseball team
  - Threw logo'd footballs at every high school game
  - Allowed officers to volunteer at will for non-profits



# HISTORICAL PERSPECTIVE (CONT'D.)

- Welcome to the 1980's
  - Interest on Checking Accounts!
  - Consumer Certificates of Deposit!
  - Competition from Non-Bank Competitors (MasterCard, VISA, Discover)
- The Resulting Effect
  - Narrow Interest Margin
  - Review of Branch Staffing (fewer tellers, peak time staffing)
  - The Role of the Bank Officer
  - More well-defined marketing strategy
  - The Christmas Bonus.....





## CHRISTMAS BONUS

IT WAS SUPPOSED TO BE ½ MONTH'S SALARY!

# TRENDS IN LENDING AND FINANCIAL SERVICES

- Retail Delivery Systems – Branches
- The Use of Technology
- Talent – The Role of the Credit Union / Bank Officer
- Competition
- Understanding the Customer
- Organizational Structure

# RETAIL DELIVERY SYSTEMS - BRANCHES

- Number of Branch Locations
  - By 2017, the percentage of customers who are expected to stop using the branch is expected to increase by 6.1%
  - In 2005, 41% of customers viewed their bank favorably because of its convenient locations and number of branches. In 2010, that number fell to 28%.
  - One particular institution reported that, in 2000, 75% of retail transactions were done at a branch. In 2010, the same bank reported that only 33% of retail transactions were carried out at a branch.
  - As reported by The Associated Press in October 2014, the number of bank branch locations in the State of Ohio was at its lowest level since 2004.



# RETAIL DELIVERY SYSTEMS - BRANCHES

- The Type and Focus of the Branch\*
  - The “value” of the branch will need to be redefined. Branches will become sales and consultation facilities vs. transaction processing points.
  - Branch banking will be undergoing a significant transformation. They will take many forms, from flagship information, advisory and engagement hubs (offering education, financial advice, full-service capabilities to smart kiosks offering service, sales and contact with a wide range of specialists.
  - Regarding the look and feel of the branch, the facility will begin to look more like a Starbucks than a traditional bank with a strong emphasis on technology and total financial services.

\*PWC Retail Banking 2020, June 2014

# TECHNOLOGY

- PWC: When every aspect of banking can be done online, an institution's target market and competitive arena is no longer defined by its physical footprint, but by its technology, regulatory boundaries and marketing budget.
- Technological Advances
  - Mobile Banking\*
  - Online Banking
  - Remote Deposit
  - PayPal
  - Apple Pay...

# TECHNOLOGY – MOBILE BANKING\*

- 90% of adults own a mobile device; 50% of them are smartphones
- 96% of U.S. households have at least one online subscription
- 1/3 of online bankers are actively using their mobile device to engage with their financial institution
- Mobile bankers are accessing their financial institution 59% more often than non-mobile online bankers
- 3/4 of branch interactions are routine, costly to the institution and could be done via mobile sources

\*Forrester Research, Digital Insight and Bain Company, 2014

# TECHNOLOGY – ONLINE BANKING

Online / Mobile Banking Statistics*	Data
Percentage of those who managed household finances who banked online at least once in the past 12 months	81%
Number of Americans who bank online	69M
Online banking customer satisfaction	78%
Percent of customers who paid a bill via online banking	56%
Customers who used their smartphone to....	
Check their account balance or recent transaction	90%
Transferred money between accounts	42%
Made a bill payment	26%
Deposited a check using phone camera	11%
Received a text message alert from their bank	33%

\* Pew Research Center, Federal Reserve, July 2014



# TECHNOLOGY - PAYPAL

- Payment volume Q1-2010 to Q3-2014 \$51.97Billion
- Registered Users as of 9/30/2-14 156.9Million
- Q3-2014 894.6Million Payments



# TECHNOLOGY - APPLE PAY

- Launched October 2014 in conjunction with release of Iphone 6 and 6+
- Market share as of 11/30/2014, 1.7% of mobile payments
- Top five retailers:
  - Whole Foods
  - Walgreen
  - McDonalds
  - Panera Bread
  - Subway



# TALENT

- Are we training bankers and empowering them to make decisions? Or are we training keyboard specialists and asking them to only be the mediator between the online decision and the customer?
- Financial Advisor vs. Keyboard Specialists
- Graduate School of Banking at LSU – 187 graduates vs. 400 graduates
- The Boling Burger Basket Restaurant featuring the “DaddyBurger”
  - Objectives:
    - Consistent Product Quality, Unparalleled Service, A Fair Price

# TALENT

- Salesperson vs. Order Taker
  - Trained in market knowledge
  - Knowledgeable of our institution's products and those of our competitors
  - Astute at listening, understanding the customer's needs and matching a product to that need
  - Focused on...
    - Retaining Key Customers
    - Expanding Relationships of High Potential Customers
    - Key Prospects
    - Centers of Influence

# TALENT

- Sales Management and Compensation
  - The sales force:
    - 20% of the staff are “high performers”
    - 70% of the staff are “average performers”
    - 10% are “mismatch”
  - The focus of the manager is on the 70%....this is where progress can be made!
  - Average performers must be given clear direction; clearly communicated
  - Performance is reviewed in regular individual and team sales meetings
  - “Intentional consistency” is the key

THE GREATEST  
LESSON I  
LEARNED IN  
SELLING.....

“Would you like fries with  
that”?

“Would you like to try a  
hot apple pie”?



***“My name is Jimmy.....I’ll  
take all you gimme”***



# TALENT

- Compensation
  - Salary plus incentive based upon performance
    - (Not everyone will get a turkey breast!)
  - Incentives should be aligned with business strategy and objectives as well as personal salesperson goals
  - Compensation plans should be designed to attract and retain solid performers
- The banking school Sales Management Class exercise.

# COMPETITION

- Understanding your competition is key to developing a successful strategy for differentiating your institution from the competition.
- Question: Who are your competitors?
  - 1978 – First National Bank of Anderson County  
ORNL Credit Union
  - 2014 – Other banks.....MANY other banks
  - In 1980, 93% of consumer funds were held in FDIC insured accounts. By 2002, market share was 45% and in 2005, 35%.
- What does our bank do well? Do we attempt to be “all things to all people”? If so, do we have the capital, technology, and talent to do so?

# COMPETITION

- What do our competitors do well? Are we proactively developing strategy to maximize our competitive advantage or are we simply reacting to what happens down the street.....or in San Francisco or New York?
- The hearing center example.....we **must** maintain our focus and commitment to our business model and what have been the keys to our success! Let's not be distracted and spend too much time and energy focused on those things we cannot control!

# THE CUSTOMER

- In 1978 the customer wanted a checkun and savuns account!
- In 2014 the customer wants.....everything!
  - Interest Checking
  - Money Market Account (highest rate, please)
  - Savings Account (ditto)
  - Certificates of Deposit (ditto again, thank you)
  - Installment Loans
  - Home Equity Line of Credit
  - Online Banking
  - Mobile Banking with Remote Deposit....and the list goes on!

# THE CUSTOMER

- To effectively design / offer products to meet customer needs, we must first understand the buying patterns and needs of our customer base and prospects.
  - McDonalds vs. Burger King....different but both customer centric
- What do we know about today's customer?\*
- Their expectations are being shaped by the interactions outside of the financial services industry.
- They increasingly want the type of quality of service they receive from companies that place significant focus on the customer experience, i.e. Apple, Starbucks....

# THE CUSTOMER

- What do we know.....(cont'd)
  - They are increasingly connected to others across social, geographic and demographic boundaries. Everything from reputation to purchasing decisions to sales is impacted.
  - Unprecedented numbers of women are heading households, controlling wealth and spending and becoming the primary wage earners.
  - Customer trust is at an all time low and they want their financial institution to be socially responsible.
  - Customers are very concerned about their privacy and security.

# THE CUSTOMER

- Social Trends and Buying Patterns
  - Seniors, Born 1925-1945: Frugal and financially conservative
  - Baby Boomers, Born 1946-1965: Largely responsible for the growth in consumer credit. Demand for investment products will soon replace credit usage as they accumulate wealth from inheritance and careers.
  - Generation X, Born 1965-1976: Technologically oriented, more mobile, leisure time is important to them.
  - Generation Y, Born 1977-2000: 15% of the U.S. population. Value education, have grown up in affluence, not loyal customers, favor more technologically advanced products.
- Marketing and product development strategy must be built around what we know about the customer.



# THE CUSTOMER

- By 2020 we expect....
  - Institutions will evolve their customer experience to be more female-friendly....erase the gender gap.
  - Social media will be THE media
  - Customer trust will be returning.....to regain customer trusts organizations will inform and integrate customer education as part of their sales process. For customers to trust their financial institution they must feel the organization is acting in their best interests.
  - Cyber security is paramount to success and rebuilding customer trust. Recent security breaches have created fear and uncertainty. The winners will invest significantly in this area.

# THE CUSTOMER

- Who is your best customer?
  - The one who comes in to the office regularly, enjoys a cup of coffee with the branch manager and says nice things about your organization in community?
  - The one who calls regularly, speaks to one of your branch employees to check an account balance and/or transfer funds?
  - The one who, based upon your in-house data, is the most profitable customer to your branch and/or organization?
- Given limited resources, where do we want to spend our time?

# ORGANIZATIONAL STRUCTURE

- In the 1980's the financial services market was dominated by smaller, community oriented organizations.
- In several states, state-wide branching laws were restricted to allow organizations to own banks across county lines and allowed organizations out-of-state to purchase banks in other states.
- The result....
  - Larger institutions who hoped to achieve “economies of scale” and immediate earnings boosts that came from purchasing portfolios while consolidating some backroom operations.
  - More complex institutions

# ORGANIZATIONAL STRUCTURE

- The result (cont'd.)...
  - Challenges for management to control / “get their arms around” the larger organization
  - Centralization of systems, processing, underwriting, operations
  - The emergence of “silos” – separate departments in the organization staffed by specialists in those respective disciplines, i.e. corporate, consumer, small business, retail, private banking, etc.
  - Challenges because the customer didn't have one point of contact and was bounced between different officers.
  - Significant opportunities were not realized because of communication gaps and lack of coordination between officers.

# ORGANIZATIONAL STRUCTURE

- By the year 2020, organizations are expected to restructure around customers instead of products of channels / “silos”.
- Financial institutions will focus on a seamless customer experience.
- Sales and service will be coordinated / integrated across all channels / departments.
- Organizations will focus on market research, developing products based upon that research and becoming organizations that “meet needs” vs. being viewed as a company that simply pushes products.

# SUMMARY

- Much is changing in the financial services landscape related to...
  - Regulation
  - Technology
  - Demographics
  - Changing Customer Expectations
  - Greater Competition
  - Business Models and Organizational Structure
- The response of financial institutions will vary depending on...
  - Current Position of the Organization

# SUMMARY

- Response (cont'd.)....
  - Aspirations for the Future
  - Desired Customer Focus
  - Organizational Capabilities
  - Brand Promise
  - Regulatory Situation
  - Capital Constraints
- At the end of the day, a financial institution must focus on....
  - Effectiveness
  - Efficiency
  - Differentiation

# DIFFERENTIATION



# GREATNESS

“Greatness is not a function of circumstance. Greatness, it turns out, is largely a matter of conscious choice, and discipline.”

James Collins  
*“From Good to Great”*