

Where Have Transaction Account Balances Gone!

By: Mr. Thomas W. Grottko,
President, NEBSG, LLC and Managing Director, *The Wheatfield Group*

It never fails...”...we are struggling with our cost of funds...” “...we are unable to maintain or grow our core deposits...” or “...we can’t seem to gain checking account relationships...”...to be mentioned to me as I meet new community and regional bank clients or as I converse with existing bank clients, these are top of mind issues of senior bank executives.

The last major stock market decline led to community and regional banks being awash in funding and, at the time (end of 2001 and 2002), banks were benefiting from a low interest rate market. Now, as US stock markets have endured significant declines and have been struggling to get any footing for nearly six months, there are no signs that investors have parked their funds back in these banks.

Clearly many investors have migrated large amounts of their portfolios to “cash” during this market decline, but why aren’t community banks and even the super-community and regional banks benefiting from this flight to cash? Although there are a number of reasons for this lack of a noticeable macro-shift of US household liquidity; in the opinion of this industry analyst, I think besides many obvious economic factors (i.e., such as less disposable income and declining household wealth) impacting the gross amount of dollars US consumer households have in cash, the substantial growth and acceptance of the individual retail investor brokerage account with a built in Money Market Account has locked up huge sums of money that in the flight to cash would have historically gone to the primary bank of the household. Even some of these retail brokerage account providers now have seamlessly tied traditional checking accounts to these brokerage accounts, thus further reducing the need for the local bank account.

If this assumption is true, and we really will not know until long after this economic cycle is over and the economists and government agencies do their usual retroactive analysis, we have a major structural change in the delivery of consumer depository services that has been completed. We can conclude that this change has taken place in just five short years since the last major stock market period of investor uncertainty (e.g., 2002).

It demonstrates the absolutely strong level of consumer acceptance of, and the sizable penetration into US households of, the use of retail brokerage accounts or their Internet-based relative Money Market depository relationships with the likes of ING and others. Does it stem from Jim Cramer and his nightly Mad-Money shows or just the continued overall acceptance of the Internet as a place for consumers to do their banking and financial business. Whatever the cause, from my view it has occurred and the shift in where and how households manage their money is here!

This structural shift can be expected to cause almost every banking organization that competes to be the primary banking services provider to US consumer households to take note of, and seriously respond to, these types of depository vehicles US households have embraced for their transaction and short-term money management needs. Thus the long term approach to gathering and retaining meaningful transaction account balances has to consider tying, in one form or another, the bank's transaction deposit accounts to such retail investor type accounts.

So what can community bankers do right now? We are advising our clients who compete in this space to: (1) remain visible and keep your image up as a competitive provider of consumer banking products and services; (2) emphasize and invest aggressively in your Internet banking services and your Internet presence; (3) at all times have at least one enticing depository and one enticing credit based product published and visible on the Internet, in all your communications with customers, and prominently displayed at your brick and mortar locations; and finally (5) when you feel that "tug-on-your-fishing-line" be ready to close the deal and over deliver on the expectations of that customer at that point of contact, no matter where and how that tug is received.