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By Tim Sewell

AREA BANKS ARE BRANCHING out in a number of directions as they seek to provide more products and services for their customers using a wider variety of delivery methods.

"All financial services companies-not just banks-have been gathering a lot of information about their customers," says John Kelly, president of First Tennessee Bank, Memphis. "The more information we have, the better we as an industry should be able to meet the needs of our customers and meet those needs through delivery vehicles that provide as much convenience for the customers as possible."

Scott Storbeck, managing director and chief executive officer of Market Line, an Atlanta-based bank product profitability firm, says that banks over the past three or four years have refocused somewhat their research efforts.

Rather than focusing just on the profitability of certain bank products, Storbeck says, banks have been analyzing the delivery channels to understand both the behavior and the cost of certain customers. "That involves asking everything from, 'How often do I go to someone else's ATM to get cash?' to 'How often do I stand in line to get cash from a teller?,'" Storbeck says. "We're looking at what products and services the consumers want and the best means of delivering those products and services in a cost-effective way."

Over the past few years, First Tennessee and the city's other large banks have added a number of new items to their product lines. In addition to the checking accounts, savings accounts and other traditional banking products, the banks in many cases now are offering full-service brokerage services, discount brokerage services, fixed annuities and variable annuities.

Recently, area banks either have added or are considering adding property and casualty insurance. "Securities and other investment type products have been sold by First Tennessee and other banks for two-five years. So, I would say that, by now, they're pretty much mainstream products," Kelly says. "Now, we're all looking at the insurance products in the property, casualty and life areas that are new to banking." "Our expectation as an industry is that the customer would see his bank as a more diversified financial services company," Kelly adds. "The expectation would be that, due to existing good relationships, the customer would at least listen to the banker's proposal for an expanded array of products."

James R. Arnold is the president and chief executive officer of PFIC Corp., a company based in Brentwood, Tenn., that manages annuity, investment and insurance programs for more than 100 banks located in 40 states. According to Arnold, approximately 85% of the banks in the nation have some type of program through which they offer non-traditional

banking services. Those non-traditional services may represent anywhere from 15%-20% of the income generated through a bank's retail banking division, Arnold says.

That percentage is expected to climb, he says, to 40%-50% over the next five-10 years. PFIC's client list includes the Memphis-based Union Planters Bank. PFIC began working with Union Planters about three years ago. The company has helped Union Planters develop and market a wide range of new services, including full-service brokerage, discount brokerage, fixed annuities and variable annuities. "All banks over the past five years or so have been exploring new products and services to offer our customers," says Bill Andrews, senior vice president of Union Planters Corp. "That's the big trend now and it's a trend that's likely to continue into the foreseeable future."

Diversified Product Lines

According to Arnold, most banks today are in the securities business offering full-service brokerage and discount brokerage services. A number of banks are moving rapidly into the insurance market, Arnold says, and most of them will be offering full-service insurance lines at some point in the near future.

Also in the future, Arnold says, banks will be offering 401(k) plans, pension plans and cafeteria plans. While several Mid-South banks have been operating for some time in the securities market, they're just now experimenting with offering various insurance products. National Bank of Commerce, for instance, moved into the insurance business earlier this year when it created a subsidiary to offer insurance services to customers. William R. Reed Jr., vice chairman of National Commerce Bancorp., says the bank initially will offer annuities and credit life insurance.

Eventually, it will offer life insurance for individuals as well as property and casualty insurance for individuals. At some point in the future, the bank will try to become a full-service insurance broker. "We're offering annuities and some estate planning policies and some term insurance," Reed says. "Early next year, we'll be in the property and casualty side of the consumer retail business." "Over the next year or so, insurance-life, accident, property and casualty, home, disability, extended care-is going to get more and more attention from banks," Reed adds. "I think you're already seeing banks buying insurance companies, visiting with manufacturers of products and getting those in their delivery systems and channels. It's the newest things that banks are starting to offer and the boundaries are still somewhat unclear."

A Careful Approach to Securities

While banks have been offering a number of non-traditional products for some time, they really haven't marketed those products very extensively, Reed says. "In general, banks have been very conservative in marketing the fact that they're in the securities business," Reed says. "That's because the regulators were afraid that consumers would think that those securities sold by banks were insured by the federal government like deposits are."

Because of that, banks have been very careful with how they've approached that business." "Now, banks are more comfortable with that and they're doing a better job of communicating those services to the customers," Reed adds. "We are in the securities business, we are in the annuities business and we can help with retirement planning. As the competition continues to heat up, you're going to see banks making a much stronger effort to communicate that to their customers."

Just as banks are offering new products and services, they also are developing new delivery systems to get those products and services to the customers. In 1996, for instance, the larger local banks created Web sites and began expanding their range of personal computer banking products. Today, they're continuing to explore a wide range of computer-based technologies to expand their customer base, save time and money and provide more convenient banking services to customers.

Internet Like ATMs of the '70s

Andrews at Union Planters compares today's development of Internet and computer banking products to the development in the 1970s of the automatic teller machines (ATMs). "At this point, you only have 1%-2% of the population using the Internet and personal computer for their banking needs," Andrews says. "This technology really is where ATMs were in the early and mid-70s. It took them awhile to hit their stride, but since then they've skyrocketed-especially in the past 10 years. We expect the same thing to happen with the new technology."

Reed agrees and says that all banks are laying the foundation now for a technology-driven future. "The basic forms of electronic banking, such as Internet banking and Web TV banking, are in place and they're just now starting to gain momentum," Reed says. "We fully expect that growth to continue, although it may take more time than we think. It may take people, particularly older people, a certain amount of time to develop confidence in these new banking options."

According to Reed, a slightly higher percentage of electronic banking customers are using the PC banking products as opposed to the Internet banking products. He expects that to change in the very near future. "Internet banking appears to be ready to leapfrog over PC banking," Reed says. "PC banking may have a higher percentage right now, but it's not as user-friendly because you have to keep updating the software. Barring some unexpected failure of the Net, I believe that Internet banking will be the fastest-growing segment of banking technology in the next five years."

Internet Transactions in '98

Several area banks are in various stages of developing an Internet banking product. First Tennessee, for instance, is scheduled to unveil its Internet banking product in the first quarter of 1998. "We've tried to be very aggressive in introducing new products, particularly in the electronic banking area," Kelly says. "We were leaders with home banking and we'll be among the first in our market with actual Internet transaction

capabilities in the first quarter of '98. We're pilot testing that with our employees this quarter."

According to Storbeck, the anticipated growth of Internet banking has a number of banks making very significant financial investments in their technology infrastructure. "A lot of the growth in Internet banking is going to be dependent on the providers-on whether or not they have the capability to handle this," Storbeck says. "The biggest issue for financial institutions is the cost. The upfront investment for this capability-the cost of software and systems to support that approach-can easily approach \$100 million.

"When you have only 1%-2% of your customers using this technology, then it's definitely an investment for the future," Storbeck adds. "But, especially for larger banks in areas where there is a lot of competition, it's quickly becoming a necessary investment."

As Kelly points out, the primary thrust of all these changes is to improve the outlook for growth in the banking industry. "Of course, we've seen that reflected in recent stock price increases," Kelly says. "The more products that a company has to sell then the greater the expectation there is for growth-both in the revenue line and also on the profit line."

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