



## Bank Management and Directors Conference

FIRST WELLESLEY

### The Future of Banking: What Forces are Transforming the Industry

Presented by:  
**James D. Jones**  
President/CEO

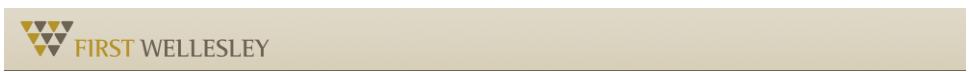
December 1, 2011



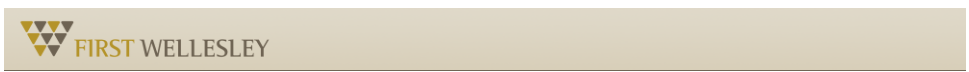
## Session Overview

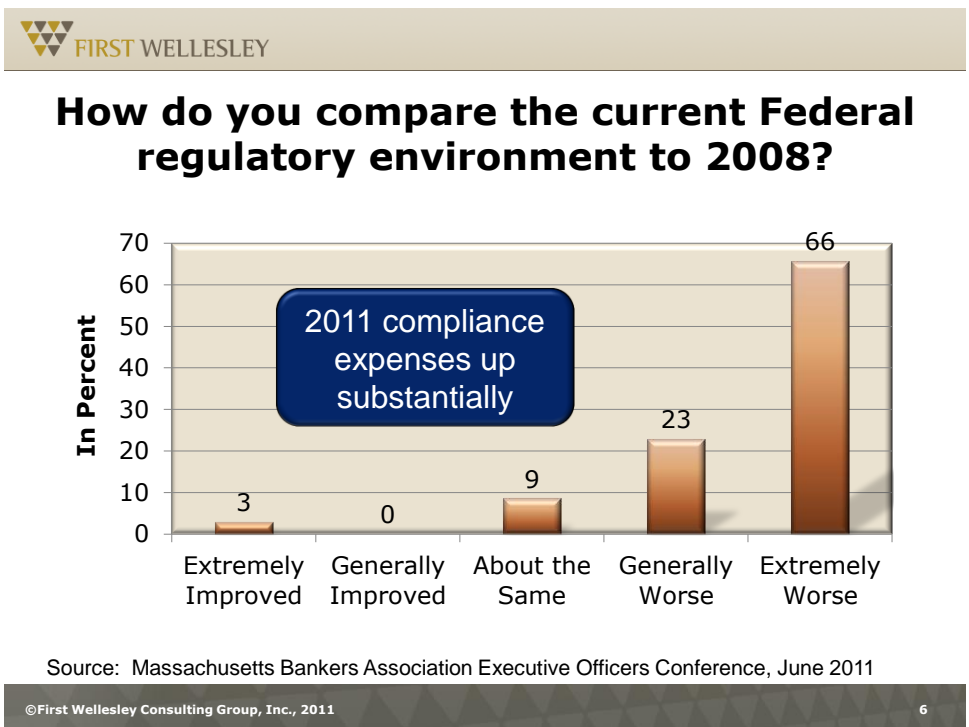
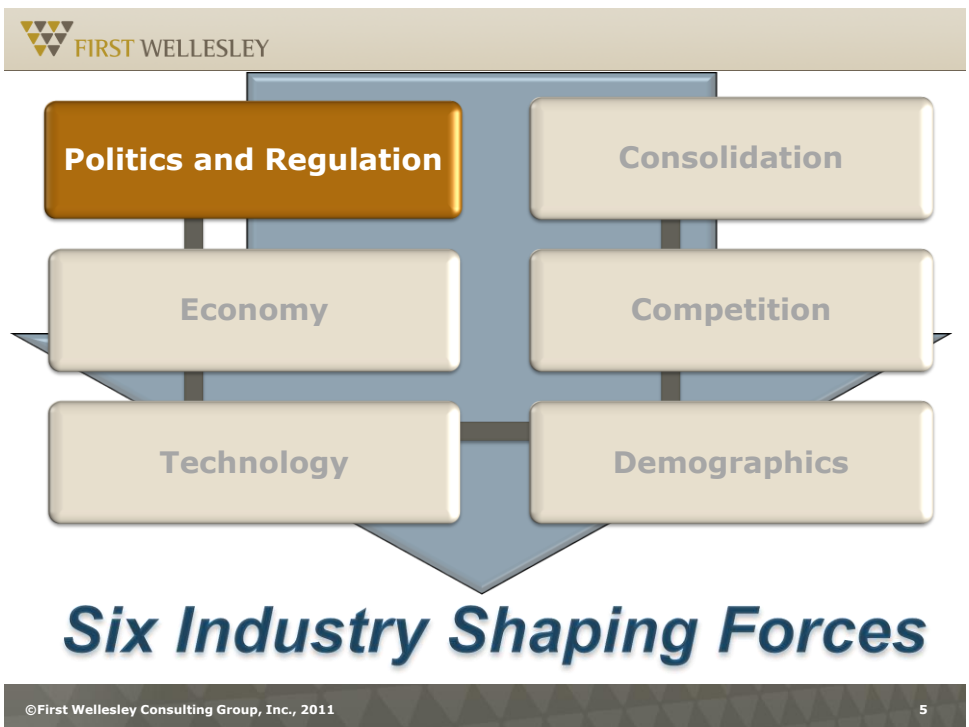
- ▶ The case for transformation:
  - Politics/regulation
  - Technology
  - The economy
  - Demographics
  - Competition
  - Consolidation
- ▶ Transformation opportunities
- ▶ Major challenges to solve
- ▶ Strategic positioning for long-term viability

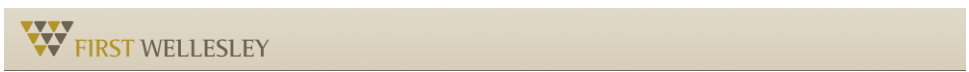




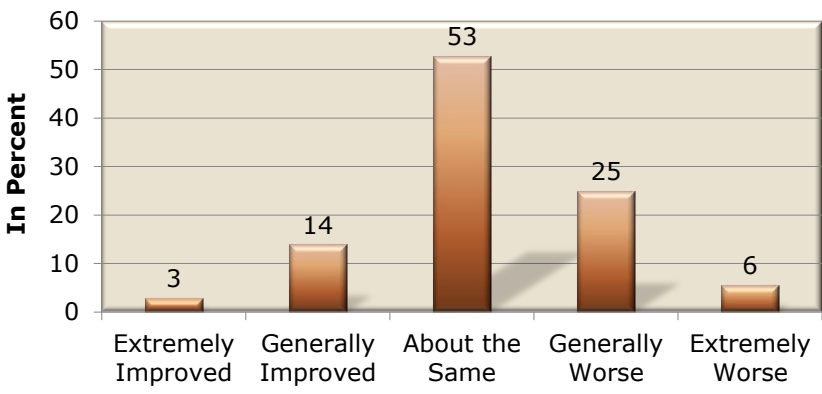
## The World Is Changing ...







## How do you compare the current State regulatory environment to 2008?



Source: Massachusetts Bankers Association Executive Officers Conference, June 2011



## Avalanche of New Regulations

**“Dodd-Frank 385 Rules”**



**Consequences for banks, consumers and businesses?**



## Greatest Political/Regulatory Concerns: 2012-2013

### Far and away...

- ▶ Ongoing Dodd-Frank implementation
- ▶ CFPB implementation

In 2011, 20-25% of average employee time is spent on compliance

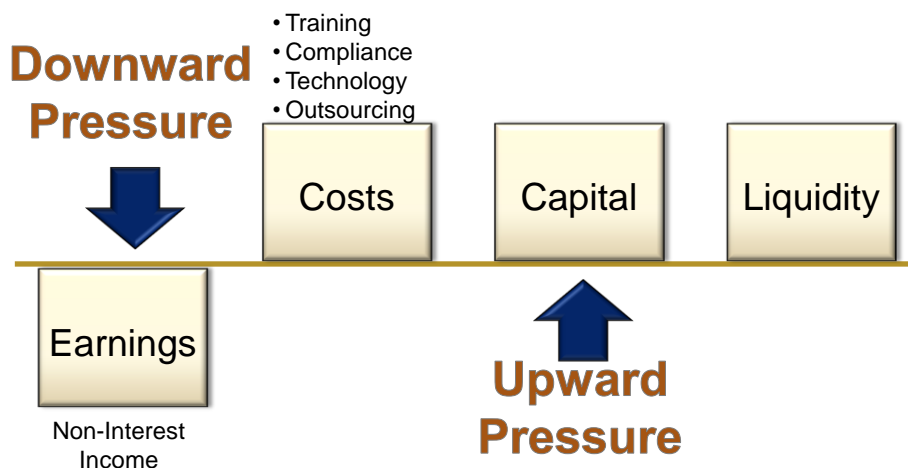
Source: MBA CEO conference, June 2011

©First Wellesley Consulting Group, Inc., 2011

9



## Bank's Regulatory Challenge



©First Wellesley Consulting Group, Inc., 2011

10

## Strategic Positioning

Outlook

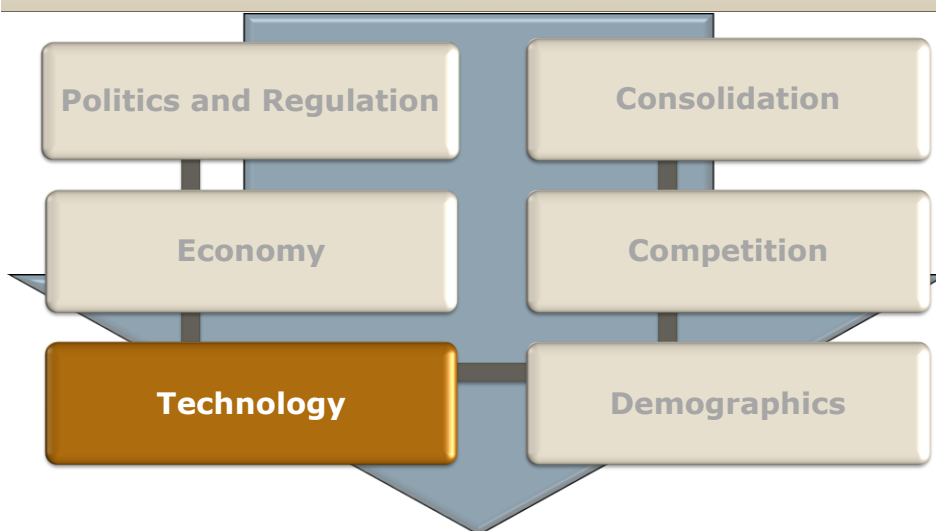


### Prepare for:

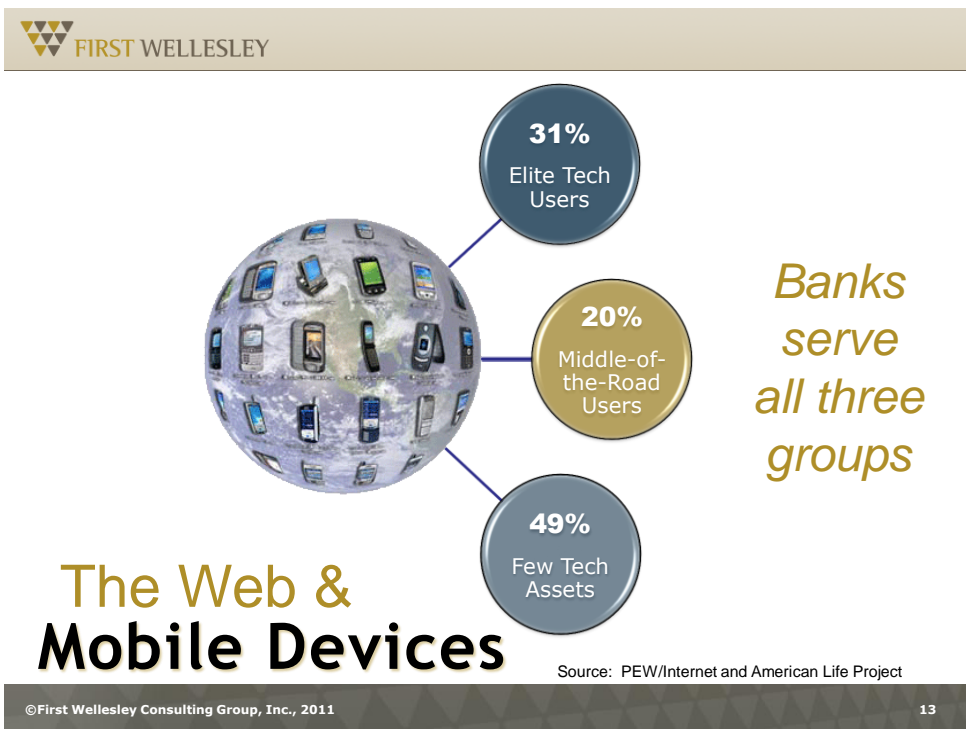
- ▶ Multi-year federal regulatory shifts
- ▶ Greater regulation
- ▶ Greater technology and staffing/outsourcing costs
- ▶ Higher compliance penalties
- ▶ More time dedicated to compliance

### Prepare by:

- ▶ Growing asset base
- ▶ Pursuing fee income replacements
- ▶ Reducing non-interest expenses
- ▶ Building risk management/compliance capabilities

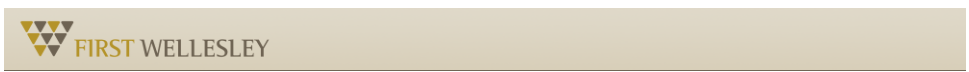
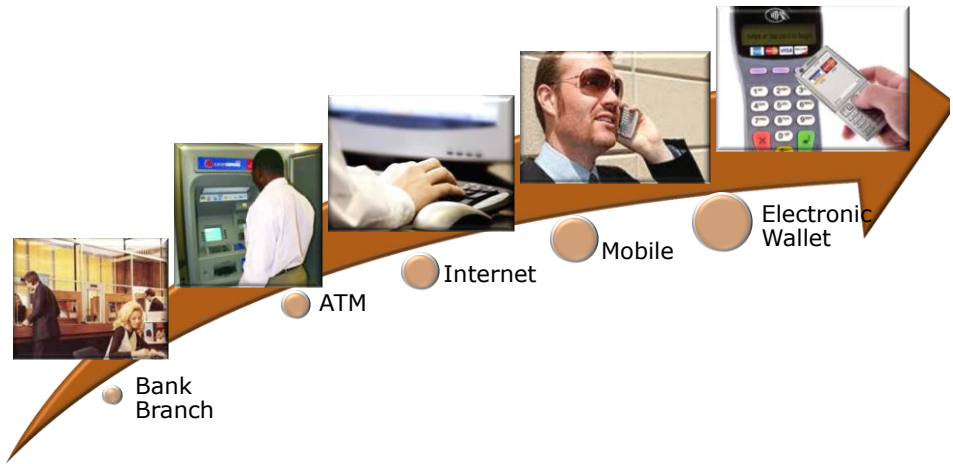


## Six Industry Shaping Forces

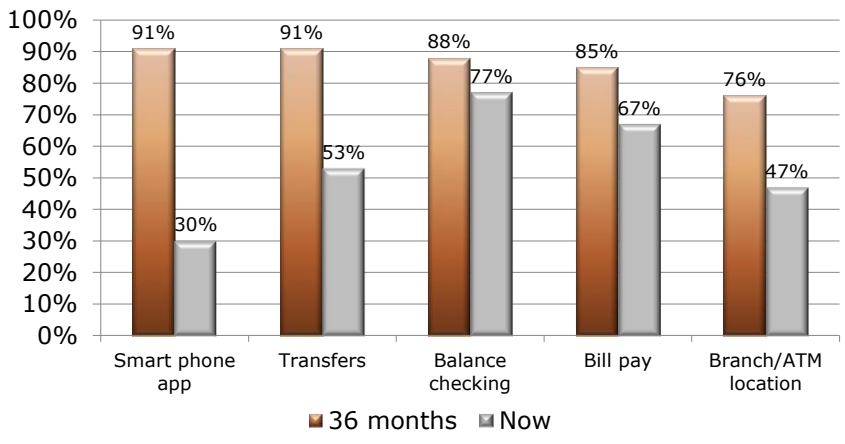




### Bank Delivery Channel Evolution



### Bank Mobile Offerings: Future vs. New



Source: MBA CEO conference, June 2011



## NFC Mobile Payments: A New Dimension to Shopping



©First Wellesley Consulting Group, Inc., 2011

17



## Top Bank Uses of Facebook

- ▶ Build brand awareness
- ▶ Make announcements
- ▶ Attract young customers
- ▶ Promote community events



## Lowest Bank Uses of Facebook

- ▶ Blog
- ▶ Customer service
- ▶ Launch new products
- ▶ Participate in conversations about the bank

Source: MBA CEO conference, June 2011

©First Wellesley Consulting Group, Inc., 2011

18

## Strategic Issues

### Outlook

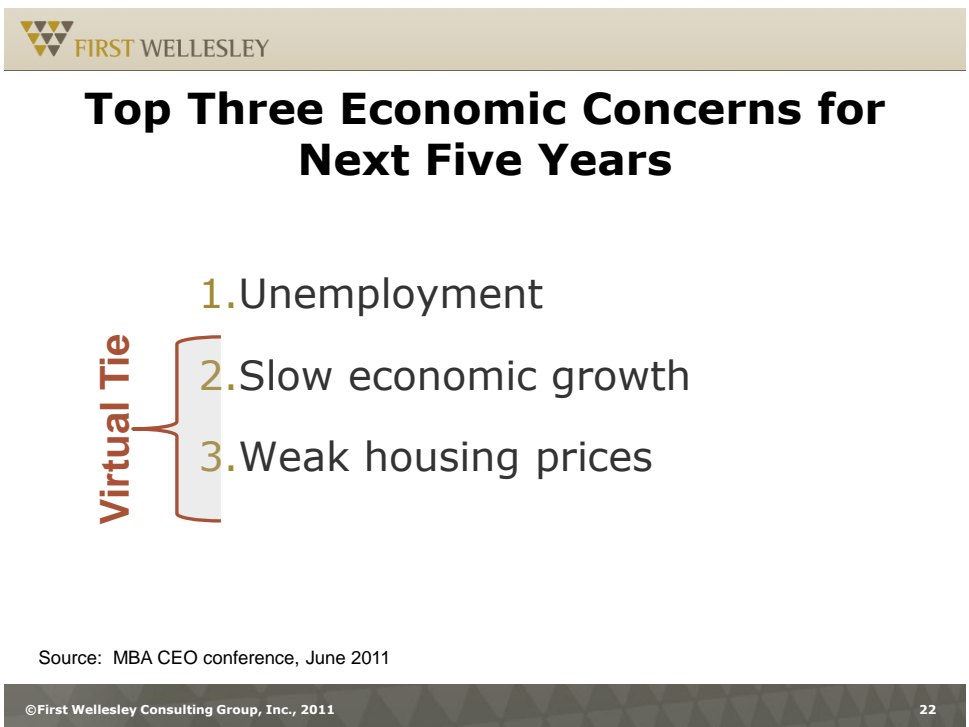
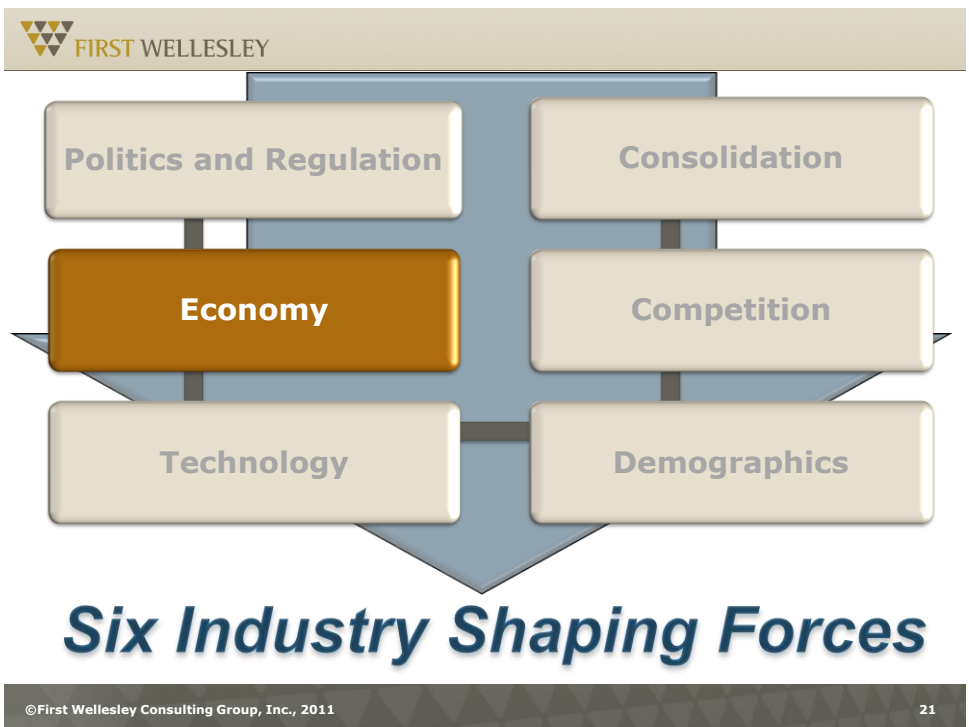


- ▶ Internet and mobile technology innovation will accelerate
- ▶ Advances will increase bank's exposure
- ▶ U.S. mega-FIs, new players and vendors will drive emerging technologies
- ▶ New payment players pose a risk
- ▶ Asia and Europe will lead major innovation
- ▶ Channel investment mix will *slowly* shift
- ▶ Banking 2025 technology will dwarf 2010's

## Strategic Positioning



- Employ "straddling" strategy
- Learn customer and market demographics
- If demographics justify:
  - Invest in mobile technologies
  - Invest in electronic channel (applications, account opening, transactions, chat....)
  - Commit to social media
- Do not neglect traditional customers and channels





## Largest 2012 Cost Increases

### Percent in descending order

- ▶ Employee healthcare
- ▶ Compliance/legal
- ▶ *Technology*
- ▶ Salary and non-healthcare benefits
- ▶ *Alternative delivery channels*

### Dollars in descending order

- ▶ Salary and non-healthcare
- ▶ Employee healthcare
- ▶ *Technology*
- ▶ *Compliance/legal*
- ▶ *New branches*

Source: MBA CEO conference, June 2011

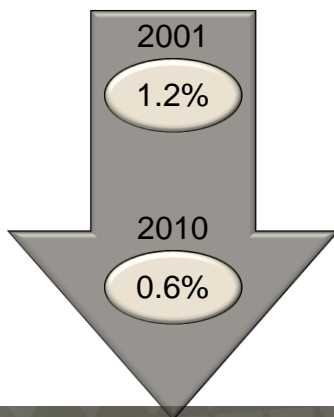
©First Wellesley Consulting Group, Inc., 2011

23

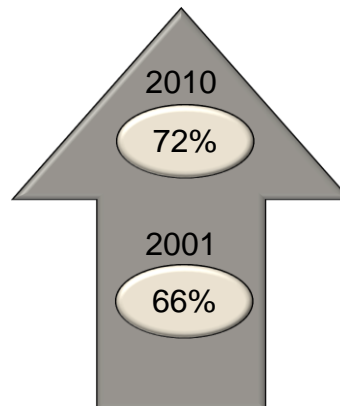


## Some banks' new "normal"?

### Return on Assets (ROA)



### Efficiency Ratio Assets <\$1 billion



©First Wellesley Consulting Group, Inc., 2011

24

## Strategic Issues

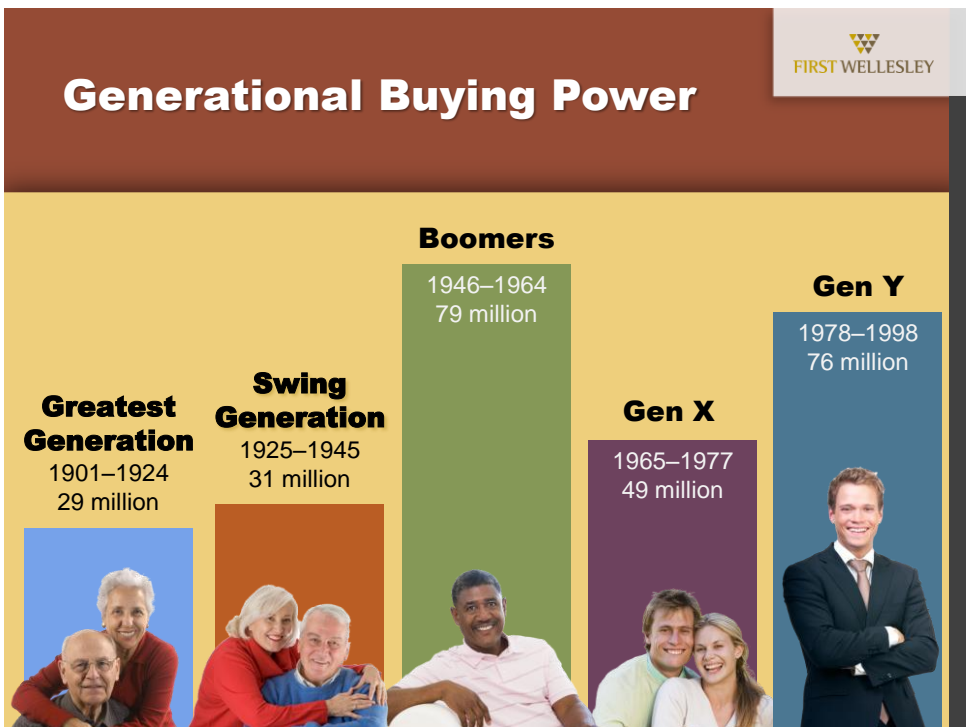
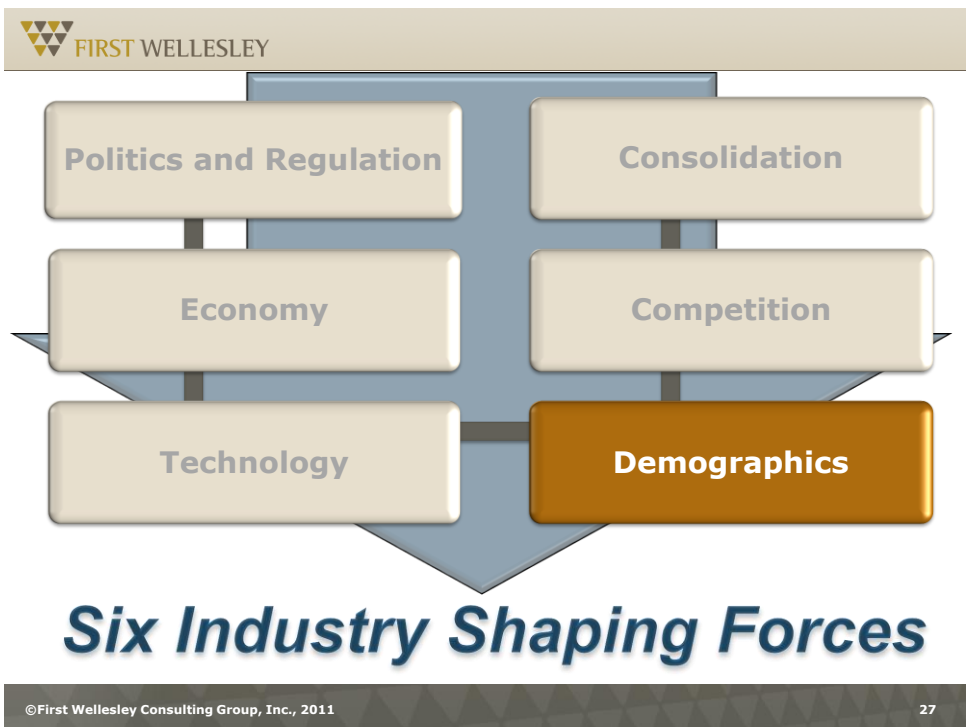
### Outlook

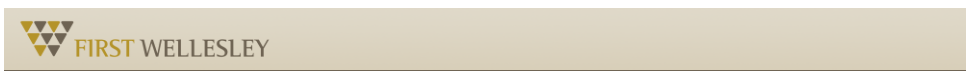


- ▶ Near-term downside risk
- ▶ Sluggish recovery - softer 10-year cycle
- ▶ Global risks heightened
- ▶ Long-term structural changes
- ▶ Long-term inflation, government deficits, interest rates issues
- ▶ Future "perfect storm"?
- ▶ Many consumers and businesses are threatened

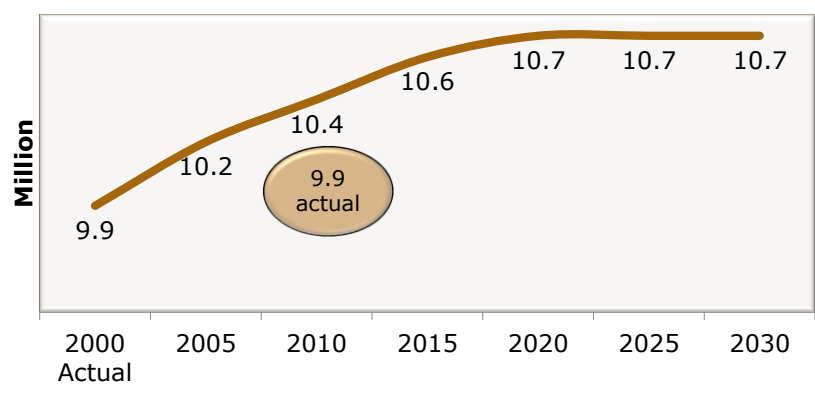
## Strategic Positioning

- Focus on asset growth
- Improve front-line sales capabilities
- Cross-selling can improve earnings
- Avoid "big" bets
- Use technology to reduce FTE dependencies
- Bank costs require attention
- Maintain high asset quality

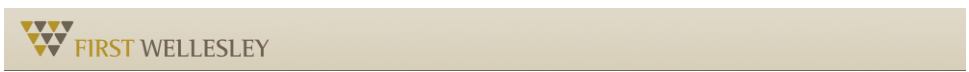




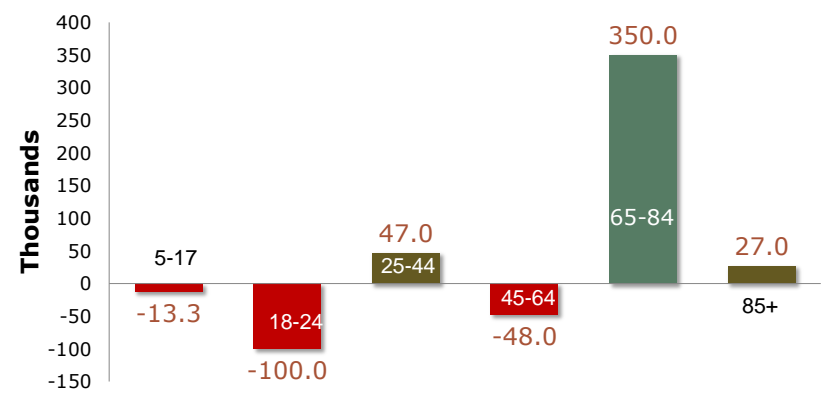
## Michigan Population Projections 2000 - 2030



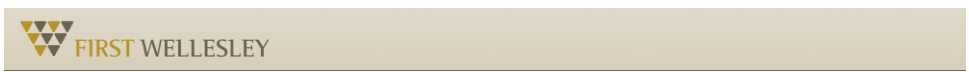
Source: U.S. Census Bureau, 2005  
 ©First Wellesley Consulting Group, Inc., 2011 29



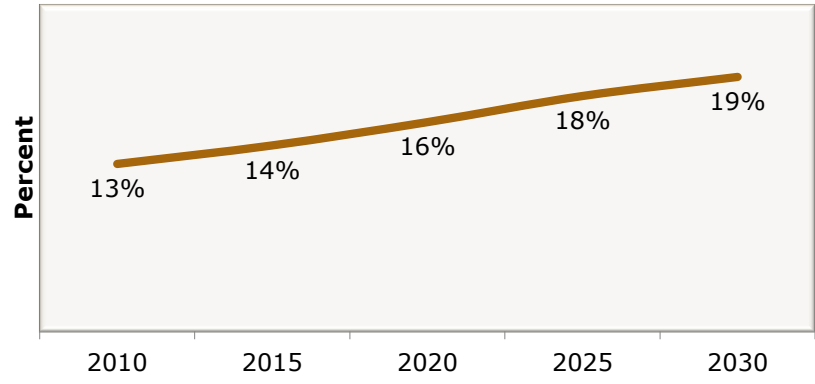
## MI Population Change by Group 2010 - 2020



Source: U.S. Census Bureau, 2005  
 ©First Wellesley Consulting Group, Inc., 2011 30



### MI Percent of Population Age 65 and Older



Source: U.S. Census Bureau, 2005

## Top Two Customer Segments

### NOW

**Swing Generation** **Boomers**

### 2020

**Boomers** **Gen X**

**The Need to Transform**

**The challenge?**  
 Adapt, rethink,  
 expand product/service  
 delivery systems

**GEN X**  
 49.1 million  
 1965–77

**GEN Y**  
 76 million  
 1978–98

PEW Internet & American Life Project

**Traditional Banking**

- Branches
- Customer Service
- Commercial Loan Officers
- Trust Officers

**“New” Banking**

- “Smart ATMs”
- Internet Banking
- Mobile Banking
- Remote Deposit Capture

*Strategically Seeking a Balance*

**Gain & Retain Customers**

©First Wellesley Consulting Group, Inc., 2011 34

## Strategic Issues

### Outlook

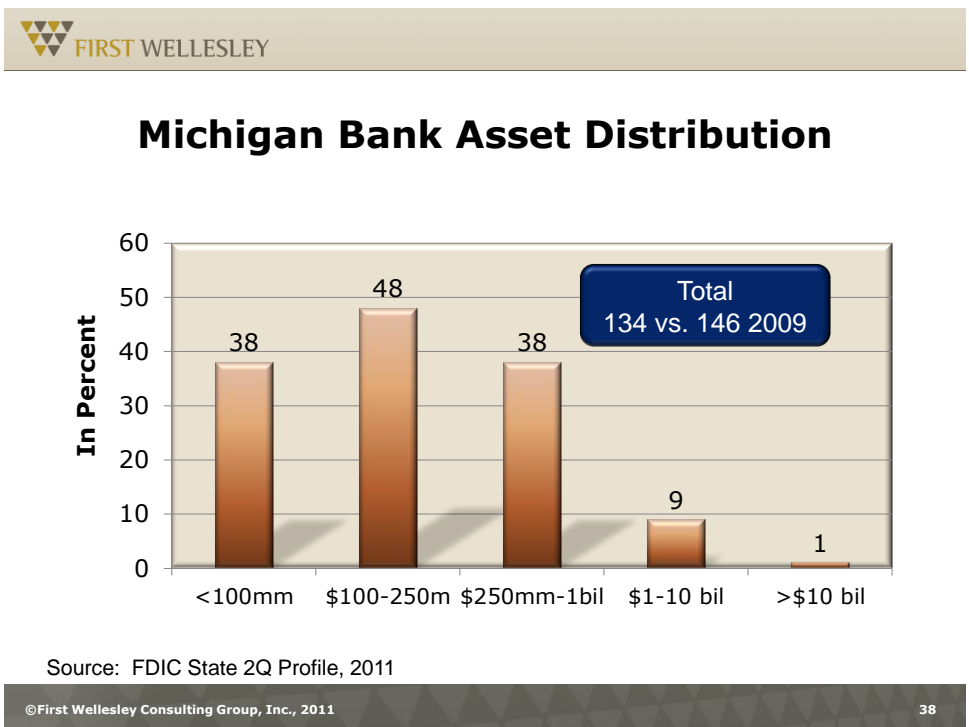
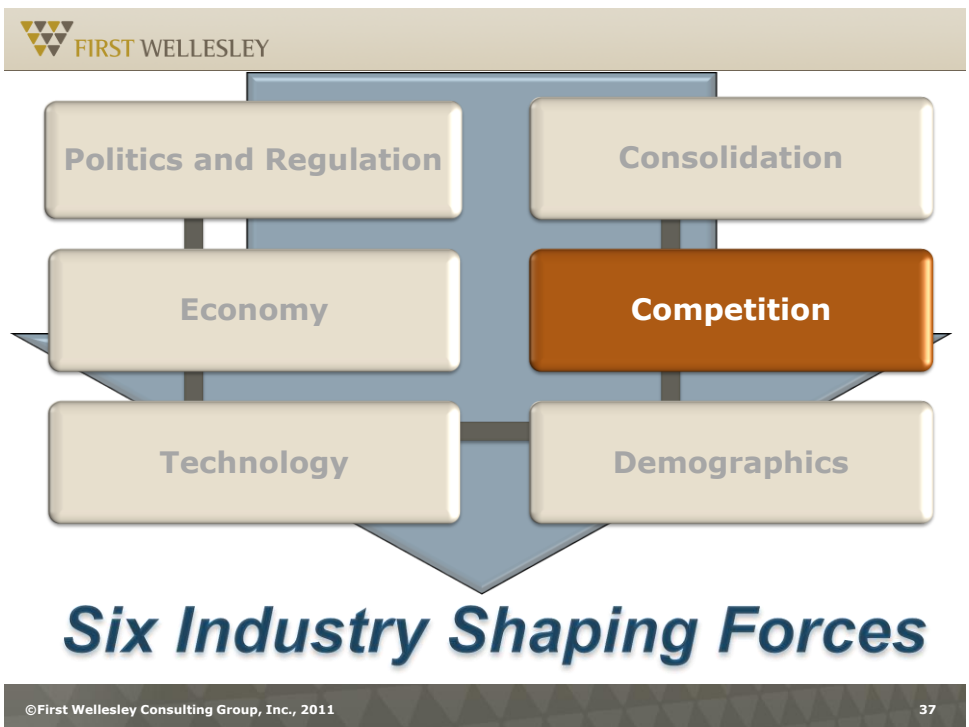


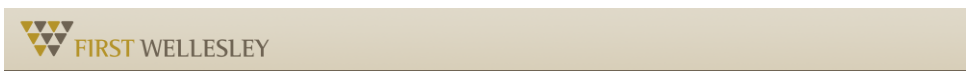
- ▶ Technology preferences shatter generational “barriers”
- ▶ There will be meaningful shifts in channel usage
- ▶ 65+ age group will be a major segment
- ▶ You have tough channel/product investment decisions ahead

## Strategic Positioning

- Know your customer household demographics
- Understand your market demographics
- Forecast generational customer segment changes in your market
- Pursue “straddling” channel/product investment strategy
- Identify key products by generation
- Fill in channel and product gaps



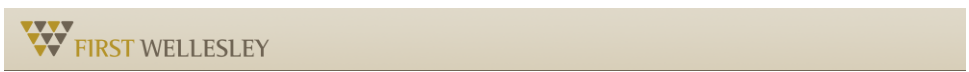




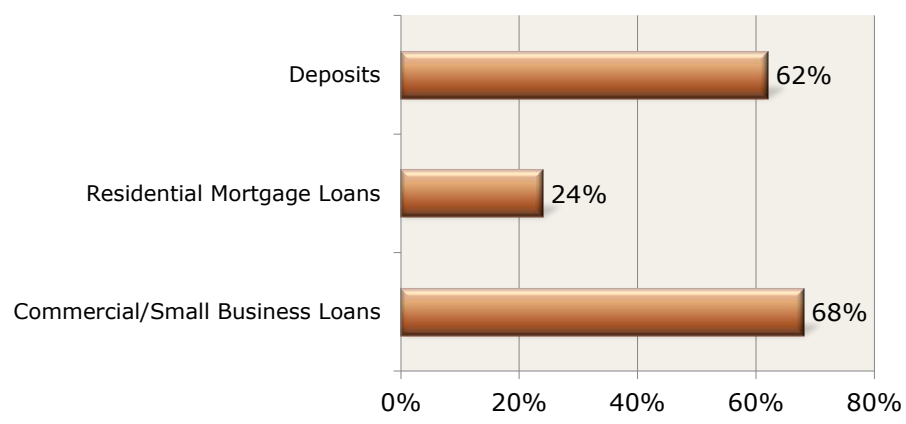
## Our Top Competitors

- Virtual Tie**
- 1. Local, in-state community banks
  - 2. Large banks headquartered in New England
  - 3. Large banks headquartered outside New England
  - 4. Credit unions

Source: MBA CEO conference, June 2011



## In 2011, my bank has had increases in:



Source: MBA CEO conference, June 2011

## Trust, Local, Values and Safety



## Access, Convenience, Price, Service, Experience

### Competition

## Strategic Issues

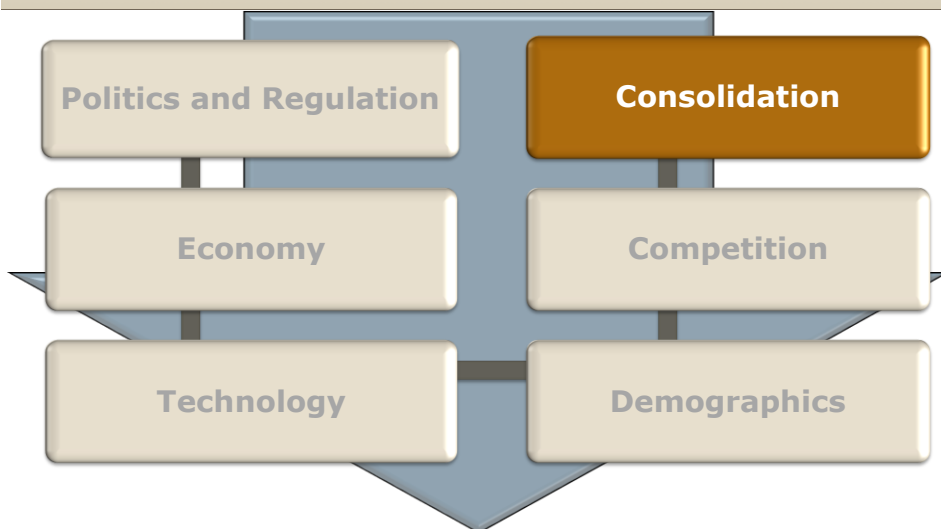
### Outlook



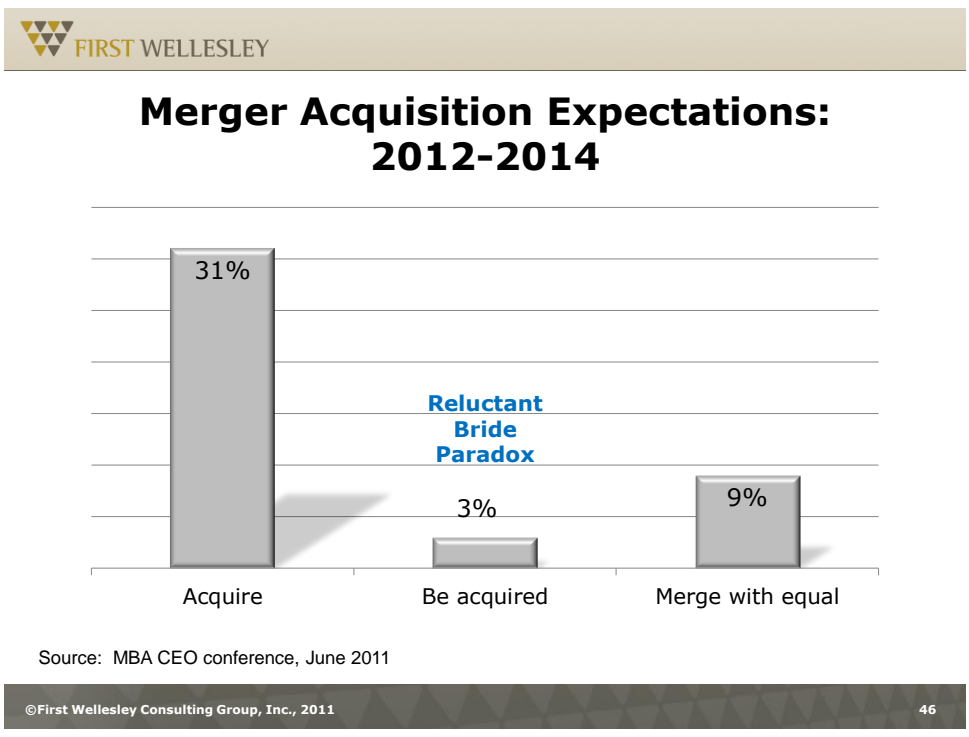
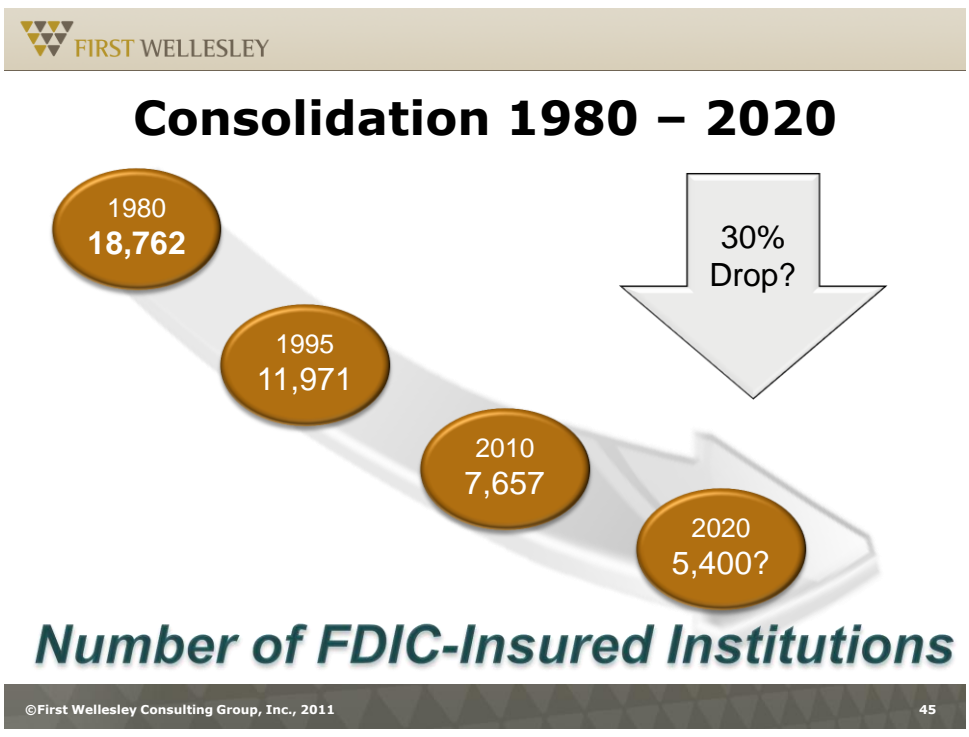
- ▶ Overall, competition will increase
- ▶ Banks will vary in performance and competitiveness
- ▶ "Big Bank" refugees provide some 2012 opportunities
- ▶ Non-bank entrants remain threat (e.g., Wal-Mart)
- ▶ New mobile payment system threaten banks (e.g., Apple, Google)

## Strategic Positioning

- Sales execution becomes vital for success
- Pursue “big bank” refugees: retail, mortgage, small business customers
- Targeted networking can produce new customers
- Niches become more important
- Banks must find a place in mobile payments ecosystem



## *Six Industry Shaping Forces*



## Strategic Issues

### Outlook



- ▶ Merger pace may increase
- ▶ Project 30% fewer banks in 2020
- ▶ Credit union numbers will decline at similar rate
- ▶ Fewer De-Novo bank entrants
- ▶ In-market mergers produce more competition and may create vacuums
- ▶ Cost disadvantage for non-merged banks

## Strategic Positioning

- Choose M&A stance – independent or partner
- Focus on profitable niches
- If independent, find ways to counter scale
- If in-market merger, identify and fill profitable vacuums
- Counter competition with better strategies and execution



# Questions?



# Thank you

James D. Jones, President and CEO,  
First Wellesley Consulting Group  
**781-235-5400 | [jjones@firstwellesley.com](mailto:jjones@firstwellesley.com)**