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Leveraging Digital Advertising

Excerpted from BAI Banking Strategies, July 5, 2016.

Marketing has changed more in the past three years than in the previous thirty as new media channels have proliferated. Bank marketers know they need to move an increasing portion of their ad budget to digital, but how much and to what?

The first thing to do is clearly understand who you are targeting with your campaigns. Once you know this, conduct research into your target consumers' media journey. What media outlets do they use and trust? Tools such as Comscore, MRI, Scarborough, Forrester and eMarketer can help you build a consumer insights profile. This is a good first step to obtain solid directional evidence of whether your investment mirrors your audience's habits.

Another useful insight is to discover everything you can about your competition. Tools such as SpyFu, Borrell, Moat and Kantar that can help you understand what creative your competitors are running, which media they are using and how much they are spending.

Combining these insights should provide directional guidance on where you should be investing digital media dollars. A review of the various media alternatives and what they are best at achieving:

Search Engine Marketing (SEM) or Paid Search. This involves the purchase of key words on search engines. This tactic is used to drive online inquiries and sales for people who are searching for a specific topic or product. Very often the quality and value of those clicks are only as good as the branding efforts that precede them.

Online Display. Banner ads that convey an advertising message can be in standard sizes or involve rich media, be expandable and interactive. They can build brand or sell a specific product.

Online Video. With consumers viewing content across multiple devices, on-demand and in varying lengths, many marketers are hedging linear TV budgets with online video to touch light viewers and increase market reach. It is typically used for brand building rather than product sales.

Streaming Radio. In most major markets, streaming radio like Pandora, Spotify, and Rhapsody, taken together, constitutes the largest radio "station" in terms of listeners. It's imperative to use streaming radio to complement your traditional radio plan.

Native Content. Informational content that is designed to educate the consumer and often resembles news can either be placed adjacent to contextually relevant publisher content, can stand alone on your website or be found via search.

Mobile. Mobile can be used for very tight geo-targeting, which allows banks to be very efficient in advertising around their bank branches. Most mobile campaigns are consumer-oriented and can be both promotional or brand-oriented.

Social. A few years ago, investment in this channel involved managing communities and generating content to engage. While that is still the case, most social outlets are now requiring marketers to pay-to-play. It is generally used for brand building, but can be used for direct response sales for certain bank products.

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Recent Product Offerings for Millennials

The Millennial generation is the largest generation, representing approximately 81 million potential banking customers. Many traditional and fintech firms are now focused on targeting this segment. Below are a few unique products that banks and fintech firms are offering to get Millennials in the door:

1. Radius Bank launched a new debit card product designed to help pay the account holders' student loans. The Bank has partnered with Gradifi, a student debt-repayment platform, to pitch this debt reduction product as part of a plan to capitalize on the large amount of Millennial debt. Tim DeMello, Gradifi's CEO stated, "What Millennials really want is for someone to create a rewards program for them and put all that money in their student loan accounts." The debit card, which is linked to a checking account, applies 1% of account holders' monthly purchases to their student loan balances and is aimed at high-income, high-credit score, and high-debt Millennials.
2. The Bancorp Bank has partnered with financial technology firm Chime to offer an all mobile checking and savings product. The Chime account allows customers to manage their accounts via a smartphone app, which offers more capabilities than merely reviewing their accounts. For instance, the app allows the user to disable stolen debit cards and chat with customer service agents, and it provides real time transaction alerts and a person-to-person payment feature. Chime also offers an automatic savings feature, where each purchase on the card is rounded up to the nearest dollar and the change is transferred into a savings account. The company pays a 10% bonus on the weekly amount rounded up. The checking and savings accounts are FDIC insured through The Bancorp Bank.
3. Aspiration Fund Adviser, LLC is a digital investment firm that markets itself as "having a conscience." Investors can decide the fee amount to pay their investment advisors, and 10 cents of every dollar from that fee is donated to charity. The firm also offers products such as the "Redwood Fund" that invests in sustainable and environmentally friendly companies.

Second Quarter Earnings: Sound Performance Despite a Challenging Rate Environment

Earnings releases for the second quarter among publicly-traded banks with more than $1 billion in total assets showed an improvement in industry profitability despite a decline in the net interest margin. The median stock price increased 2.47% from that of the first quarter, bouncing back from the previous quarter 4.14% decline. The median price to earnings multiple was also higher, up 27 basis points over the first quarter to 15.11x. Impressively, this positive stock performance was accomplished despite global volatility following the June 23rd "Brexit," which dampened expectations of interest rate increases this year, and general uncertainty regarding the global economic outlook.

This improved investor sentiment was driven by improved industry fundamentals. Second quarter showed a slight increase of 4 basis points on the median return on average assets, to 0.96%, as well as a 28 basis point increase on the median return on average equity, to 8.62%. Growth in net loans increased significantly from the first quarter and asset quality also improved. Consequently, revenue increased slightly. Expenses declined as a percentage of average assets by 4 basis points from the first quarter. One down note was that the median net interest margin decreased 5 basis points to 3.42% for the second quarter.

	1Q16	2Q16	Change
Stock Price Performance Metrics (medians)			
Stock Price Change[1] (%)	(4.14)	2.47	6.62
Price/Earnings per Share[2] (x)	14.84	15.11	0.27
Price/Tang. Book Value per Share[3] (x)	1.54	1.54	(0.01)
Key Financial Performance Metrics (medians)			
Return on Avg Assets (%)	0.92	0.96	0.04
Return on Avg Equity (%)	8.34	8.62	0.28
Net Interest Margin (%)	3.47	3.42	(0.05)
Net Loan Growth (Quarter-Only)[4] (%)	1.56	3.00	1.44
Total Deposit Growth (Quarter-Only) (%)	8.02	3.34	(4.68)
NPAs to Total Assets (%)	0.83	0.81	(0.02)
Total Revenue Growth (Quarter-Only) (%)	0.50	3.46	2.96
Revenue to Avg Assets[5] (%)	1.05	1.06	0.01
Nonint Expense to Avg Assets (%)	2.64	2.61	(0.04)
Nonint Inc/Total Revenue (%)	19.76	20.89	1.14

Source: SNL Financial 2016. All data are public and as of July 30th, 2016.
1. Stock Price Change is the change in the closing stock price of the last trading day of the previous quarter to the closing stock price of the last trading day of the current quarter.
2. Price/Earnings per Share (fully diluted) is defined as the closing price as of the last trading day of the current quarter divided by earnings per share, fully diluted over the trailing four quarters.
3. Price/Tangible Book Value per Share is defined as the closing price of the last trading day of the current quarter divided by the tangible book value per share on the last day of the quarter.
4. Net Loan Growth is defined as the change in Total Net Loans from the trailing quarter.
5. Average Assets is defined as the average of the Total Assets reported over the trailing four quarters.

Digital Advertising (continued)

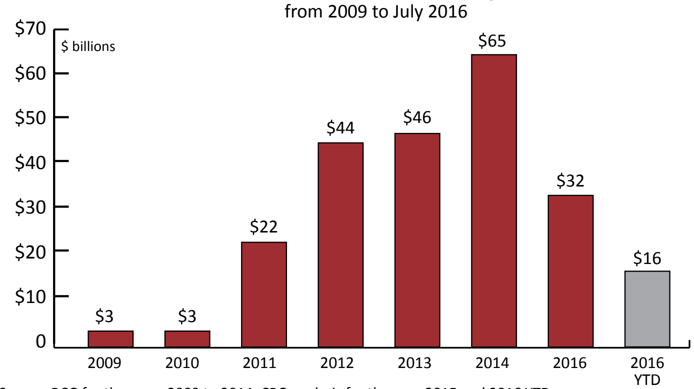
Bank executives expect marketing to be moving in the digital direction and to be measuring the effectiveness of its efforts. There has never been a better time to reach consumers how and where they want to be reached and to quantify the return on your marketing investment.

Where Do You Start?

There are four approaches you can use to pull apart each digital medium to determine which is actually responsible for customer sales. Find out more from CPG on this on *BAI Banking Strategies.*

Trends in Fines & Penalties

Total Fines, Penalties, & Settlements for the 18 Largest U.S. & E.U. Banks from 2009 to July 2016



Source: BCG for the years 2009 to 2014. CPG analysis for the year 2015 and 2016 YTD.
1. Peer group of the 18 largest U.S. & European banks includes the following 6 U.S. banks: Bank of America, JPMorgan Chase, Citigroup, Morgan Stanley, Wells Fargo, and Goldman Sachs, and the following 12 European banks: BNP Paribas, Credit Suisse, Deutsche Bank, UBS, HSBC, Barclays, The Royal Bank of Scotland, Rabobank, Lloyds Bank, Standard Chartered, ING, and Banco Santander. Data only includes fines, penalties, and settlements of $50 million or greater.

July was a very active month for fines, penalties and settlements. Several lawsuits were filed and the results of a high profile investigation were announced in July.

Regulators have emphasized the need for proactive risk management frameworks at institutions of all sizes.

CPG has created the RISK EVENTS MONITOR, a product that allows you to review and respond to outside events in a more efficient and proactive manner. Each report includes:

- A monthly summary of events – including events that could have implications for reputational and strategic risk
- Information on the relative impact of events
- Tools to help you identify priority events for your bank

With the MONITOR, institutions can manage external risk more efficiently and effectively. While institutions have systems in place to monitor internal risk, external risk can be harder to track.

For more information, please contact Claude Hanley at chanley@capitalperform.com or 202-337-7875.

Announcements

Publications

CPG is proud to partner again with the *American Banker* to rank the top performing banks of 2015. For the first time, they are publishing the rankings of banks with assets of between $10B and $50B (previously only available online). The story and the rankings will be in the August edition of the *American Banker Magazine*.

Speaking Events

Claude Hanley to present "Getting Big Results from Small Data Analytics" at the ABA CFO Exchange on September 20th in Charleston, SC.

Mary Beth Sullivan to present "Meeting the ROI Challenge Head On" and "Building a Data-Driven Marketing Organization" at the NEFMA Fall Conference in Hartford, CT on October 14th.

Mary Beth will also present "Achieving Top Tier Performance: Strategies for Growth and Profitability" at the New York Banker's 2016 Financial Services Forum on October 17th in New York City.