The Future of Banking

Five banking trends and how they may affect you.

BY BETH HAWKINS

For the financial services industry, it has been a time of constant change. As the United States economy slowly tries to work its way out of the lingering economic slump of the past couple of years, lawmakers and regulators continue to debate exactly what reforms are needed to most effectively create a more stable and transparent financial industry. As consumers retrench, they are reexamining the concept of value, both in terms of the things they personally value as investors, parents, or community stewards, and in terms of value received for their money. Additionally, and perhaps most dramatically, technology is driving innovation in virtually every arena of our lives, including the way we bank.

Some of these changes will be immediately apparent to anyone who has a relationship with a bank or investment manager. Others—the technology platforms that will help service providers comply with new laws, for instance—might not be visible at all, even if their effects are. Here are five of the biggest changes in banking and how they may affect you, today and in the future:

1. WE'RE GOING MOBILE

It could be argued that this year's number-one banking game-changer is the growth of smartphones and tablet devices, such as the iPad. A stunning 270 million mobile devices were sold in 2010, a 55 percent increase over 2009.[1] The number of "apps" allowing people to manage their financial lives from anywhere, 365 days a year is exploding even more quickly. Tracking spending, shopping for mortgage rates, and checking on stock prices are some of the more obvious uses currently, but look for proprietary technologies performing more sophisticated applications as well.

The smartphone could surpass debit cards and paper checks as the go-to mechanism for completing transactions ranging from retail purchases to paying bills. In 2010, consumers made approximately $16 billion in payments using mobile phones.[1] Market analysts at Aite Group, a research and advisory firm focused on business, technology, and regulatory issues and their impact on the financial services industry, expect this number to grow by a compound annual rate of 68 percent over the next five years, reaching $46 billion next year and $214 billion in 2015. Also, providers (including U.S. Bank), are experimenting with handset "chips" that function like prepaid debit cards, turning a phone into a kind of mobile wallet, complete with loyalty rewards systems and coupons.

U.S. Bank this year is making significant investments to upgrade and update its mobile and web platforms. Many of the new technologies are aimed specifically at meeting the unique needs of clients of The Private Client Reserve, who are both "early adopters" of cutting-edge technologies and frequent travelers.

Clients already can make deposits via their desktop scanner or iPhone. Android and iPad apps are in the works. In general, investors should look for faster rollouts and adoption rates of new technology tools.

"If you're traveling and someone writes you a paper check, the last thing you want to do is figure out how to get it to the bank," says JP Nicols, Chief Private Banking Officer with U.S. Bank Wealth Management. "Our clients can literally take a picture of it on their iPhone and "deposit" it in their account. Think about that: With wireless Internet as ubiquitous as it is now, including on airplanes, you can deposit a check at 30,000 feet."

2. GEN Y AND BEYOND

Whether they will become the stewards of wealth accrued by their parents or grandparents, or are simply focused on growing their own wealth, this is the time when the so-called Millennials—those born between 1982 and 2000—are beginning to engage in long-term financial goal setting and planning.

Online banking via the Internet might have been a rarity a decade ago, and its popularity will continue to rise as financial institutions overhaul their technology, but today a web presence is as taken for granted as the bricks-and-mortar branch office. A staggering 94 percent of Gen Y, meanwhile, own a cell phone, which they expect to be able to use to satisfy virtually any need wherever they happen to be when it arises.

At The Private Client Reserve we have been engaged in an ongoing conversation with leading researchers and social scientists about generational differences for a number of years. There are several factors behind this push. As part of helping families plan the transference of wealth from one generation to another, Wealth

Management Advisors at The Private Client Reserve often engage younger generations around money. Sometimes in casual conversations, sometimes in a more formal way, such as during a family legacy-planning meeting.

"Most clients today at every level of wealth are taking an increased interest in understanding their financial situation and how the financial products in their life help them achieve or not achieve their goals," says Nicols. "Encouraging people to take an active role in the wealth management process at an early age is a big part of that, but so is understanding clients' values—at any age."

3. BACK TO FUNDAMENTALS

However, not all innovation has been good. Remember the so-called liar's loan? The stated-income mortgage? The NINJA loan (no income, no job or assets)? Too often in recent years, innovation in banking became synonymous with inappropriate risk-taking. Congress, government regulators, and shareholders have sent a clear message to the offenders to get back to the fundamentals of lending. As a result, even high net worth individuals might find the new lending climate to be a challenge.

Generally, high net worth borrowers represent lower repayment risk, and they may well be surprised to find solid financial institutions as willing as ever to extend loans on reasonable terms.

"We didn't engage in the risky lending and investing that plunged other institutions into crisis, and as a result we didn't have to fundamentally change any of our practices as a result of the economic and financial meltdown," says Nicols. "We have always engaged in fundamentally sound banking. So we're able to lend according to our clients' needs and abilities today just as much as we ever have been."

4. FEE VS. FREE

When interest rates plunged a couple of years ago, investors weren't the only ones hit hard. Lower rates, along with lower demand and increased regulatory compliance combined to contract revenue streams for virtually every financial institution. To make up for this, many financial institutions began raising fees or charging new ones on all kinds of services.

The costs add up, certainly, and so does the frustration level. Checking accounts previously advertised as free often now carry complicated rules dictating minimum account balances. In addition, there is the challenge of juggling multiple credit and debit cards that come with different rewards programs.

"We will continue to make any changes required by new legislation," says Nicols, "but we place our clients at the forefront of our product design. Because we are focused on long-term client relationships, we don't have any monthly or annual maintenance fees or any minimum balance requirements for any of The Private Client Reserve deposit accounts. High net worth clients don't mind paying for value, but there has to be value received," says Nicols. "They don't want to be nickeled and dimed."

What they do want is simplicity. So individuals who choose to do their everyday banking with The Private Client Reserve can choose from a variety of accounts—interest-bearing with FDIC insurance insured to the maximum by law, or non-interest-bearing with unlimited FDIC insurance[2] (newly available as a result of regulatory reforms during the financial crisis). Similarly, while clients can use their smartphone to locate the nearest in-network ATM, they no longer have to. We do not charge fees at ATMs either—even if the cash withdrawal is taking place from another bank's ATM halfway across the globe.

3. BACK TO FUNDAMENTALS

Also on the rise has been the popularity of programs that are supposed to reward consumer loyalty with perks like free flights. Too often, trying to reap those rewards has turned out to be challenging.

Capitalizing on the popularity of U.S. Bank's FlexPerks Credit Card program, named best travel rewards card by *Kiplinger's*, The Private Client Reserve now offers a credit card exclusively to its clients that is designed to make their lives simpler with relevant rewards. In addition to the ability to redeem points on any commercial airline, without blackout dates, FlexPerks Reserve cardholders can select their favorite airport lounge membership for free, and soon will be able to earn and spend points on private aircraft flights via NetJets. There are no foreign currency transaction fees, no service fees, and few restrictions on the rewards clients can earn. Benefits range from town car and office services to exclusive high-end resort discounts.

The future of banking is evolving. And from advancing technology to keeping up with regulatory changes or the needs of the next generations, The Private Client Reserve remains committed to its role as a thought-leader in the industry—today and in the future. ■

View the Private Banking video on our website at privateclientreserve.usbank.com to hear JP Nicols talk about security, value, and convenience in banking.

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Deposit products offered by U.S. Bank National Association, Member FDIC. Credit products are subject to normal credit approval. Credit cards are issued by U.S. Bank National Association N.D. U.S. Bank is not responsible for and does not guarantee the products, services or performance of third party providers. Aite Group, Kiplinger's and any organization mentioned in this article are not affiliated or associated with U.S. Bank in any way. Foreign Transaction fee: 2% of each foreign purchase transaction or foreign ATM advance transaction in U.S. Dollars. 3% of each foreign purchase transaction or foreign ATM advance transaction in a Foreign Currency. As of 10-1-2010, the Annual Percentage Rate (APR) for purchases is 9.99% and will vary based on the Prime Rate. The APR for Balance Transfers is 9.99% and will vary based on the Prime Rate. The APR for Cash Advances is 20.99%. Balance Transfer fee of either $5 or 4% of the amount of each transfer, whichever is greater. Convenience Check Advance of either $5 or 4%, of the amount of each advance, whichever is greater. Cash Advance fee of either $10 or 4%, of the amount of each cash advance, whichever is greater. Cash Equivalent Advance is either $20 or 4% of the amount of each cash advance, whichever is greater. There is a $2 minimum finance charge where interest is due. The annual fee is $299 per year.FOOTNOTE: 1) Source: United Business Media (UBM) TechWeb. 2) All funds in the U.S. Bank Reserve checking account are fully insured by the Federal Deposit Insurance Corporation (FDIC) from December 31, 2010 through December 31, 2012. The temporary unlimited coverage is in addition to and separate from the coverage of at least $250,000 available to depositors under the FDIC's general deposit insurance rules. Beginning January 1, 2013, the U.S. Bank Reserve checking account will be insured under the FDIC's general deposit insurance coverage rules. Please reference the handout titled: Information Regarding FDIC Deposit Insurance provided to you by your banker for information on FDIC deposit insurance coverage. For more detailed information about FDIC insurance coverage, visit www.fdic.gov. For remote deposit capture some geographic limitations may apply. See your Agreement for details.