Flying Pigs And A Healthy Opportunity

by Steve Brown

Is the trough half full or half empty? A team of British scientists who studied 36 pigs found pessimistic pigs were much more influenced by their environment when making a decision than optimistic pigs. The optimistic pigs could live in the most basic conditions and were still curious about an unknown substance that suddenly appeared, without external enticement. On the other hand, pessimistic pigs thought it was something "bad tasting" if they lived in primitive conditions and were more encouraged it was something "good tasting," if they were living in deluxe conditions. Bottom line: Mood plays a key role in the pessimistic pigs' new experiences but not so much for their optimistic brethren. Taking a cue from the optimistic pigs, community banks may be seeing more business come from the healthcare sector.

While millennials seem to dominate the headlines and are a major focus of marketers these days, it is baby boomers that may well have the biggest impact on the federal US deficit over the next few decades. Baby boomers are a group of roughly 75mm members, second only to millennials in size. As baby boomers begin moving towards old age, the healthcare industry is bracing for a major increase in overall demand for medical services, as well as a major jump in the need for specialized care. These are great areas of growth for the same businesses that many community banks already serve.

Between the overall size of the baby boomer generation, its combined wealth and its general expectation for a high quality of life, healthcare spending among members of this group is expected to soar well beyond the 17.5% of the GDP that healthcare spending accounted for in 2014. In fact, according to the IMF, the global healthcare sector is expected to experience 6% growth over the next 10Ys. Given this reality, healthcare is one area that could potentially help community banks boost revenues on a long-term basis.

Given healthcare providers and businesses ranging from medical supply companies to hospitals are expected to experience significantly heightened demand, many of these organizations will need loans to expand and meet that demand. Additionally, given the intricate web of service providers and insurers involved in providing healthcare services, payment services is another area of business that community banks can tap to boost the bottom line.

Of course, given the myriad of regulations governing the industry and ongoing changes due to legislation, it goes without saying that community banks should also take the time to develop a firm understanding of the issues unique to the industry. One way to do this is to recruit banking professionals with experience in the sector before diving into healthcare lending perhaps. It is also important to know which businesses within the sector are legitimately poised for long-term growth, and which may have more limited expansion prospects.

Not knowing exactly how the healthcare sector changes will all play out, we suggest keeping in touch with your local healthcare businesses and asking tons of questions. In so doing, you will likely remain optimistic vs. pessimistic and so won't have to wait for pigs to fly to reap the benefits of expanding your lending activities further into healthcare.

BANK NEWS

Concentration Reminder

Community bankers should note that regulatory guidance defines a concentration as obligations exceeding 25% bank capital (Tier 1 Risk Based + ALLL). Obligations are defined as loans; overdrafts; cash items; securities; sale of federal funds; suspense assets; leases; etc. Bankers can exceed this level, but in so doing should ensure concentrations are identified, measured, monitored & controlled.

Digital Strategy

Research by Deloitte finds 93% of financial services executive respondents agreed or strongly agreed that the objective of their digital strategy is to enhance customer experience and engagement.

Analytics Usage

A survey by Oracle and Efma of senior executives at global financial institutions finds 53% of institutions say they do not use real time analytics, 41% say they do sometimes and 6% say they do so on a daily basis.

Phased Retirement

Business executives are shifting strategies to address the impact on their companies of the more than 10,000 baby boomers that are retiring each day. One such action is phased retirement, which allows employees to reduce their work schedules over time in return for staying another 1Y to 5Ys, and mentoring successors. Research by the Society for HR Management finds 14% of US companies offered either a formal or informal phased retirement program in 2016 vs. 10% in 2012.

Fewer COOs

A report by Crist|Kolder finds about 30% of S&P and Fortune 500 companies have a COO today vs. 48% back in 2000 - nearly a 40% decrease.

Heavy Users

Research by Bain finds 18% of consumers are considered heavy branch users, doing 4 or more teller transactions per month. Interestingly, about 7% of customers account for 34% of teller visits.

Tech vs. Human Capital

Research by Korn Ferry finds 67% of CEO respondents say technology will create greater value in the future than human capital.

Priorities

Research by Pew finds millennials rate the following priorities as the most important in their lives: being a good parent (52%), having a successful marriage (30%), helping others in need (21%), owning a home (20%), and having a high paying career (15%).