

# AMERICAN BANKER.

## Will Wal-Mart Checking Siphon Customers from In-Store Banks?

by [Jackie Stewart](#)

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Wal-Mart's plans to offer a checking account product must be getting the attention of banks with in-store branches.

Such locations have historically provided access to a large audience, even as foot traffic steadily declined at freestanding branches. Over time, a group of banks has relied heavily on locations inside stores belonging to the nation's biggest retailer.

The GoBank account, which Wal-Mart will offer through Green Dot's regulated banking unit, could poach customers and prospects, thus forcing institutions reliant on in-store branches to rethink their business models, industry observers said.

"You have to wonder if those banks are mad," said Dory Wiley, president and chief executive of Commerce Street Holdings. "It seems like this would cannibalize their customers. What is the intent of Wal-Mart in the future with those relationships?"

Fears exist that the GoBank account will be a direct competitor to banks, especially those with branches inside Wal-Mart stores, some experts said. In a traditional commercial real estate lease there are usually provisions that would bar a landlord from renting space to a tenant's direct competitor, said Jon Winick, chief executive of Clark Street Capital.

"It's very common in CRE for businesses to be sensitive to who their neighbors are," Winick said. "Some banks may decide this is a bad idea since Wal-Mart is potentially backing a competing banking enterprise."

Generally, banks that operate a large number of branches inside Wal-Mart locations tend to make money by collecting fees, especially from overdrafts, said Ken Thomas, an independent bank consultant and economist in Miami.

Woodforest National Bank, a \$4.2 billion-asset institution in Woodlands, Texas, is a good example. A majority of the bank's more than 700 branches are inside Wal-Marts; more than half of its 2013 revenue came from service charges. In comparison, the average bank with \$3 billion to \$5 billion in assets derived roughly 5% of revenue for such charges, according to data from the Federal Deposit Insurance Corp.

"Banks like Woodforest clearly do not go after deposits and loans," Thomas said. "But they go after transactions."

The GoBank account could tap into the customer bases at Woodforest and other banks with a promise of no overdraft fees. Transactions would simply be blocked if there wasn't enough money in the account to cover it.

This follows an industry trend where several banks, such as KeyCorp and Bank of America, have unveiled accounts that give customers access to banking services while removing the possibility of overdrawing the account.

"It is really forcing many banks to have a new payments mindset," said Robert Giltner of R.C. Giltner Services. "Banks should offer no-overdraft-fee accounts. In doing so, they'll find that they will grow their customer base without cannibalizing their existing ones."

Wal-Mart and Woodforest did not respond to requests for comment.

Woodforest and other banks that operate inside Wal-Mart stores must reexamine their products and pricing to make sure they are keeping up with industry trends, industry experts said. Robert Marling Jr., Woodforest's CEO, told the *Wall Street Journal* earlier this year that the company was piloting an account that doesn't allow overdrafts or check writing.

Still, some believe that concerns over the GoBank account are overblown. "It isn't a product for everyone," said Tim Scholten, founder of Visible Progress.

People who switch to a no-overdraft-fee account, such as the GoBank account, generally want to avoid such fees anyway since they can't afford them or don't want to be surprised, Giltner said.

Most consumers who overdraw their accounts understand the cost of what they are doing, said John Davis, president and chief executive of Fort Sill National Bank in Oklahoma, which operates about 60 branches inside Wal-Mart stores.

"There is a misconception about overdraft," Davis said. "Customers who want it have made a rational choice."

Banks have historically done a poor job reaching lower-income consumers. Wal-Mart's ability to penetrate the underbanked market could create opportunities for banks, including those with in-store branches, said Michael Archer, a partner at Kurt Salmon.

"I really see this as adding to Wal-Mart's interest in being a bank service provider," Archer said. "Wal-Mart carries more than one laundry detergent, so they are offering more than one banking service. That isn't necessarily detrimental to other players in the store."

The GoBank account also requires the customer to complete most transactions online or through an ATM, something that won't appeal to people who prefer personal interactions, Scholten said.

Executives at Fort Sill National Bank predict that the GoBank account will "have a very limited impact" on the bank, Davis said. Customers prefer personal contact, he said, adding that his bank has already dealt with Wal-Mart offering products such as the [Bluebird prepaid card](#).

The \$394 million-asset bank, a unit of JRMB, did not receive advanced notice about the planned checking product. "Wal-Mart is a good partner to work with," Davis noted, adding that the bank has had "an overall good experience" with the retailer.

Fort Sill National will look at the potential effects after the checking account had been available for a while before making any decisions, Davis said.

"Wal-Mart likes to try innovative things, so this doesn't surprise me," Davis said. "We'll know more after they have been issuing the accounts and we need to learn more about this product."



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