



Bank of Nova Scotia Looks to Retail for Growth

Description

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) launched two new retail formats this past week in an effort to meet the needs of its customers. While it might seem odd to be launching new types of branches at a time when many Canadians prefer online banking, Bank of Nova Scotia believes its customers, especially millennials, want options; these new branch innovations are the latest moves to keep up with its domestic competition.

Are these innovations enough to wrestle business away from **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)), Canada's leader in retail banking?

Probably not, but given the 2016 results from the J.D. Power Canadian Retail Banking Satisfaction Study released July 28, which showed Bank of Nova Scotia slipping to fifth spot in the annual survey, the timing certainly couldn't hurt.

Adding to the excitement is the fact that **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) finished first for the first time in the survey's history, displacing TD, which had taken top spot every year since it was launched in 2001.

The winds of change are upon us. If ever there was an opportunity for the other big banks to make a splash here in Canada, it appears that now is the time. That said, Bank of Nova Scotia has to do more than open new branch formats if it wants to get any traction in the fight for domestic retail customers.

The bank's retail customers are part of its Retail and Small Business Banking division, one of three divisions operating in its Canadian Banking segment. Tangerine, its online banking operation acquired from ING in 2012, is also part of the group. In 2015 Retail and Small Business Banking generated \$6.2 billion in revenue for the bank, an 8% increase over fiscal 2015. Net interest income and non-interest income grew 7% and 11% to \$3.5 billion and \$2.7 billion in 2015, respectively.

There are all very good numbers.

In addition, Tangerine managed to rank first among midsize banks in J.D. Power's 2016 study. So, it's not as if its retail banking business is struggling—it's just that it could do better.

Meanwhile, TD's Personal Banking division within its Canadian Banking segment delivered a 4% increase in year-over-year revenue in fiscal 2015 to \$10 billion. While it breaks out the revenue of its four major product groups within Canadian Banking, it doesn't break out the net interest income or the non-interest income for each, but they're likely both around \$5 billion.

Bank of Nova Scotia's retail banking unit in Canada sits about \$3.8 billion behind TD. It's not an insurmountable amount given TD's preoccupation with the U.S. market. Certainly, if the latest J.D. Power satisfaction survey is any indication, TD is prime for the taking.

It would really help the bank's cause to connect Tangerine with Bank of Nova Scotia, so customers could have accounts at both banks, enabling them to more easily move money around while still partaking in many of the products and services offered by each.

In the short term, it might seem like a move that would reduce the bank's overall revenue (Tangerine's no-fee banking) but in the long run, I believe it would create a better customer experience, leading to additional revenue possibilities beyond the typical monthly fees charged for maintaining bank accounts, etc.

What does it mean for investors in Bank of Nova Scotia stock?

Look for it to make waves in Canadian retail banking in the months and years to come. Emerging markets might be the sexier play, but Canadian banks can never forget their meat and potatoes here at home.

The new branch formats and acquisition of Tangerine suggests Bank of Nova Scotia hasn't.

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