Here's What Investors Need to Know About Canadian Imperial Bank of Commerce's New Brand, Simplii Financial

Description

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) has been one of the busiest Big Five bank stocks of late. The company has been making deals to beef up its U.S. exposure and, more recently, CIBC announced that it's replacing President's Choice (PC) Financial and will be cutting ties with **Loblaw Companies Limited** (TSX:L), the company behind the PC brand. The partnership between CIBC and Loblaw has lasted for nearly 20 years, and it remains a mystery as to why the two firms are parting ways now, as neither company has commented on the reasoning behind the split as of this writing.

Existing customers of PC Financial will be moving existing accounts over to Simplii Financial, a new online bank that will be run by CIBC. PC Financial has over two million customers, and CIBC's management team made it clear that the transition will be without disruption, as there will be no account number changes, and the terms and conditions of mortgages will remain the same.

Existing customers will get new debit cards starting November 2017, and all PC Financial pavilions and ATMs will be shutting down by March 2018.

Transition will result in a Q4 charge of $100 million

CIBC is set to take a $100 million charge for the fourth quarter as the company invests in its new and refreshed mobile and online banking platform. Part of the cash will also be used on incentives to retain as many customers as possible.

We all know how much of a hassle it can be to get new cards and have your existing points expire. There's a high degree of risk that many existing PC Financial customers may look elsewhere instead of being moved over to the new Simplii Financial.

Will Simplii Financial benefit CIBC over the long term?

The 20-year partnership was profitable for CIBC; however, one pundit who's familiar with the terms of the original deal believe that "the partnership was skinny in terms of margins and returns" and that

CIBC may see a "… path to greater profitability by bringing [operations] in house."

The elimination of a partner may allow CIBC to pursue different growth opportunities in other spaces. The move appears to be a positive for long-term growth, but that's if PC Financial customers have enough reason to stay through the transition.

Doug Young, a bank analyst at Desjardins Capital Markets, warned that any potential increases to long-term profitability "will depend on how many clients CIBC is able to hold on to."

The management team knows that it'll need to do everything it can to keep customers happy, otherwise CIBC may take a medium-term hit on the chin. I believe the transition will be successful, and I'm confident in the management team's ability to drive long-term value from this move. But over the short term, this is really nothing to get too excited about.

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Date
2025/08/27
Date Created
2017/08/21
Author
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