

MARINES AND BANKING

by [Steve Brown](#)

The Marines have an unofficial mantra of improvise, adapt and overcome. Many say this mantra was adopted by the Marines because in the early days they generally received Army hand-me-downs and were sometimes poorly equipped. As with the Marines, community bankers have also had to improvise, adapt and overcome over the years as well. Consider that over the 20Y period ended December 2006, more than 6,000 commercial banks in the industry disappeared. Whether you believe that is simply because there were too many banks to begin with, or it is survival of the fittest and competition has begun to weed out some of the weaker ones, there can be no doubt that the total size of the drop is startling. As of the 2Q there were 7,350 FDIC insured commercial banks operating in the country. We don't have to tell readers that means there are still a lot of banks around and competitive pressures are extreme. As technology has improved and customer demands have increased, many bankers find themselves competing with far-flung financial organizations well beyond the local neighborhood. While studies show most customers will do most of their banking with a bank within 10 miles of their home or office, the success of financial services companies such as ING and their orange ball are noteworthy. In fact, from June 2005 to June 2007, ING has been able to grow its deposits by 55% to a whopping \$55B. Even more astounding, they have done this without branches and without a local presence. It just goes to show that people have changed and they are much more willing to move their money around. Small businesses are another example where being adaptable and improvising are crucial. While many businesses still get their financial services from a local community bank, credit unions, large national banks and conduits have made significant inroads over the past few years. In fact, a quick perusal of Wells Fargo's news releases finds they have generated loan growth of 30% each of the past 2Ys in the small business arena. By giving customers account access and payment flexibility through a myriad of delivery channels, banks are finding out that customers are quirky indeed. Community bankers are continually telling us deposits are hard to come by, but that isn't surprising when you consider ING, or the fact that aggressive acquisitions have pushed the share of deposits held by the top 10 largest banking organizations from 17% in 1985 to more than 44% as of the end of 2006. As these numbers indicate, large behemoth banks have made significant inroads on the deposit front over the years. Our point in all of this is to try to raise awareness and say to community bankers that it is time to get in the habit of embracing innovation. Whether it is automated underwriting, mobile banking, credit scoring, risk management, internet banking, remote capture or something else; innovation has been woven into the fabric of banking. Fighting innovation is not only useless, but it also puts the organization at a significant disadvantage. Bankers used to be able to wait until a new product or service was around 10Ys old before they were forced to react to it. As we can see, those days are gone and the velocity of financial innovation and adoption now require community bankers to analyze new trends, products and services within 12 to 18 months after first becoming aware of them (and adopting them fully within 24 to 36 months). The more community bankers can adapt to new threats, improvise strategies and overcome problems, the better chance they have of taking back lost ground.

BANK NEWS

Mobile Banking

Bank of America started issuing one-time passwords that expire within 10 minutes of being sent for customers using SafePass, an online banking program that is accessed via cell phone.

Contactless Pioneer

Central Bancompany (\$7.8B, MO) said it is the first community banking company in the US (and the first issuer in MO) to offer contactless cards. 12 of the bank's 14 subsidiaries now offer MasterCard's PayPass cards to their customers.

High Tech Targeting

Nevada State Bank, a subsidiary of Zions Bancorp (\$16B, UT), is using mapping technology that incorporates demographic, psychographic and lifestyle data, as the company targets customers more precisely and focuses on where to build new branches.

Consumer Credit

Federal Reserve data showed that consumer credit grew in July at an annual rate of 3.7%, down from 5.9% a month ago. Revolving debt grew 6.6% annually in July while non-revolving debt grew by 2%.

Countrywide, Again

Countrywide Financial Corp is trying to put together another multi-billion dollar bailout plan, its second in the past month, as the company continues to struggle amid the global credit squeeze and deteriorating housing market. Last month, BofA paid \$2B for a new series of Countrywide's preferred shares.

Tough Banking System

A former official at the Agriculture Bank of China was executed on Tuesday as punishment for taking bribes and embezzling bank funds worth nearly 15mm yuan, or \$2mm.

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