

STAYING STRATEGIC

by [Steve Brown](#)

We are halfway through our strategic planning work for banks this year and thought we would recommend a couple of items that may deliver improvement. A good strategic planning session should do 2 things. In the first 90 minutes it should reaffirm and update the strategic targets of the company – ROE, ROA, capital, asset growth, etc. Whatever these are, management should have a clear understanding (not – "above average growth") of what they have to achieve and the priority of metrics that need to be measured. A good way to do this is to ask what the bank is willing to sacrifice for achieving a given metric. If you will sacrifice customer satisfaction for ROE then ROE needs to be moved up. Will you sacrifice ROA? CAMELS? NIM? Find out what is really important to the Board and then make sure there is a clear set of priorities to hit. Don't include everything and the kitchen sink and don't include anything that can't be concretely measured (like community service or customer satisfaction). While "squishy" goals may sound fine, they don't do anyone any good if they can't be measured. Management obviously has to make their customers and community happy to achieve other long-run goals, so let the numbers speak for themselves. Our favorite goal comes when banks say they will "achieve a high standard of ethics." It sounds nice, but means nothing. Hopefully, the team already has a high standard of ethics and professionalism. If it doesn't, they will most likely lie about it anyway. The other major issue with strategic plans is that they often have little to do with strategy. Many that we have observed are nothing more than 3Y budgeting exercises. Coming up with a plan on when to open branches, hiring and how to raise capital is good; but don't delude yourself into thinking that this is strategy. Most of what is discussed in strategic planning sessions is usually tactical. True strategy revolves around identifying new opportunities (markets, products, geography, process, etc.) and/or changes in the environment that can be exploited. Getting out of the mortgage business, expanding into another state and getting into the valuation market are all the fabric of true strategic plans. Quality strategy starts with a premise (i.e., mobile banking will be the wave of the future) and ends with a quantitative plan on how to achieve that strategy that also highlights the risks and rewards. If a bank can walk away from its planning process with a set of clear initiatives that it will either be taking or getting out of, then the session was a success. If a strategy outlines tactics to achieve that plan, so much the better, but it is not required. Making an acquisition, hiring a team of people or building a business from scratch might all be ways to achieve a desired plan and should be thought of in that context. Some strategies require certain economies of scale - such as the development of payment systems or additional capital. If this is the case, be sure to leverage us. Our business platform allows us to quickly and efficiently pull together large groups of banks from different markets to help exploit changes in the markets and defray risk. During our High Performance Bank Workshop next week in Los Angeles, we will spend a fair amount of time discussing strategic planning. Attendees will also learn about new ideas that other banks are working on or currently using to give them a competitive advantage 5Ys from now. Until then, make sure your strategic planning is truly strategic. Focus on outlining a set of goals for which you can measure success. Becoming adept at planning becomes a strategic advantage in itself.

BANK NEWS

Credit Change

TransUnion has broken ranks with Experian and Equifax and said beginning October 15th that it will allow individuals to freeze their credit histories. The three credit bureaus have lobbied for years to stop credit freezing laws from being passed in nearly every state. Consumer advocates say the move will help people become more proactive about preventing ID theft.

Deposit Regulation

The WSJ is reporting that regulators and lawmakers are currently reviewing ways to prevent banks from freezing certain deposits. Specifically, the review is under way on money transferred from Social Security and other federal agencies. Banks say they have little choice when courts order accounts be frozen.

Banking Sector

A Merrill Lynch banking analyst downgraded Wells Fargo; saying rising credit losses and an already high stock valuation will restrain additional price appreciation for several quarters. In addition, the analyst downgraded Keycorp (weak revenue growth, higher credit losses) and Regions (fee revenue is susceptible to capital markets weakness).

Bank Profitability

According to the FDIC, about 42% of bank revenue these days comes from noninterest income - up from 34% about 10Ys ago.

ATM Usage

A new study finds the 395k ATMs operating in the U.S. now process roughly 10.1B transactions per year. In order, the top 5 companies with the most ATM machines are: Bank of America (17,000), Cardtronics (10,000), JPMorgan (7,310), U.S. Bancorp (7,164) and Wells Fargo (6,200).

Copyright 2021 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.