

DEBUNKING FALLACIES AND ADAPTING TO CHANGE

by [Steve Brown](#)

An old saying indicates the ostrich will hide its head in the sand when confronted by a significant change to its environment it perceives to be dangerous. As with ostriches, this could also be applied to people at times.

In fact, whether we know it or not, we all have certain biases that result in behavior that runs counter to our best interests. One such bias many community bankers we have seen actively utilize can be dubbed the Status Quo Bias ("SQB"). In short, SQB is a fancy psychological term that explains why people irrationally overvalue something they already know and have – even when an obviously superior alternative is readily available. Often, not selecting the better option makes things even worse, as it also damages franchise value.

Psychologists will tell you that SQB also intensifies over time. In short, the older we get, the more we subconsciously embrace SQB and the less we are open to ideas of change. After all, it is much easier to say "we have always done things that way and been successful" than to admit the world has changed and we may not have all the answers.

Perhaps this is one reason why these same people often refer to another popular adage and say "you can't teach an old dog new tricks." As professional dog trainers will tell you, that is a bunch of bunk. While it is true that older dogs do not come to training classes with a clean slate, they can be easily trained to modify their behavior – particularly if the trainer makes it worth their while to do so.

Admittedly, humans aren't dogs or ostriches and old habits can be hard to break. However, to remain competitive, we also intuitively know we will have to update and change our product offerings, services and delivery channels. It is therefore incumbent upon us all to thoughtfully consider any new products or services that might bring added value to the bank – even if we cannot figure out how at the current moment.

It is important to know that when people who complete SQB experiments are shown at the end how their behaviors are irrationally skewed toward the status quo, they become defensive, skeptical and shocked. People just don't see SQB coming, as our psychological awareness to it is low. We have also been trained over the years that if something works we should not change it. This is so much the case that we inherently fight altering things we know currently work - unless we perceive it will improve things by at least 4x more than the way we are currently doing them.

We bring all this up today because our world is rapidly changing and community bankers must fight hard for change within their own bank. We are not asking your subconscious mind to change the way it is wired, but rather, we are asking you to fight its urge. The next time someone tells you about a new product, try to open your mind and consider the potential impact on the organization if it were implemented. Think how much further ahead your bank would be if you had embraced such products as remote deposit capture, loan hedging and product bundling at an earlier time.

The competition from large national banks has forever changed the small business landscape and community banks must adapt to new ideas at a faster rate than ever before.

As you begin work this morning, know that we support you and firmly believe that banks that do not innovate inherently take on reputation risk. Every one of our customers is a community banker just like you and we want you to win this fight. Innovation is critical and sticking one's head in the sand is not a strategy.

BANK NEWS

M&A

PremierWest (\$1.1B , OR) will purchase Stockman Bank (\$378mm, CA) for approx. \$91mm, or 1.9x book. The purchase will give PremierWest a larger Sacramento presence, & a team that has routinely thrown off a 26% annual return (5Y average).

Branch Growth

The latest data shows the average number of offices per bank has now reached 5. Note that this is up from only 1.2 branches 25Ys ago. Meanwhile, about 1 in 10 branches is now located in a retail store.

Bernanke on Predictability

The Fed Chair spoke last Friday and said that "predictability is critical in building credibility." In addition, Bernanke said that the Fed is once again considering adopting inflation targets.

Customer Defection

A Synergistic Research poll finds that 67% of users seek out their own bank's ATMs to avoid fees. In addition, 6% say they would switch banks to avoid higher ATM fees. The study comes when many banks are starting to increase their non-network ATM charges.

CRE Loans Tighten

A recent study found that lenders are requiring developers to put up nearly 25% of equity financing for CRE loans, up from 10% to 15% a few months ago before the credit crunch began.

Deposit Competition

Bank of America has seen a 50% increase in the number of daily deposits made on its new 2,500 image capture ATM machines compared to its traditional ones.

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