BANKING BY JENGA

by Steve Brown

This week we have transitioned from the gaming complexities of 3D chess, to robots punching each other to a test of steady hands that we explore today in Jenga. This tower building game consists of 54 wooden rectangular bricks that are placed in layers of 3 at right angles to each other. Players then alternate removing bricks until the tower topples down and the restacking begins once again. Steady hands, a clear mind and a low wind playing area are critical to the success of this game. As with Jenga, a few wrong moves in banking can result in blocks tumbling down around boards and management teams. Pressure is everywhere so it is hard to have a steady hand.

To avoid hearing the clatter of game pieces hitting the table, bankers will need to adapt and change at this year's strategic planning session and in their daily lives. Given the significance of industry change that has already occurred and the massive changes expected in the next few years, community bank management teams and boards should challenge all major business assumptions. Ask whether the assumptions that originally built the organization still fit reality and are consistent with the current outlook.

We all know that the environment has shifted drastically, which has sharply impacted both internal and external factors that feed the business model. While the basics of banking still provide a strong foundation (take a deposit and make a loan), some long-held aspects of the business have already changed or are in process of doing so in the next few years. Consider that long-time competitors have failed; customers are demanding more; large banks have captured significant market share through acquisitions during these tumultuous times; customers have gone high tech; mobility is common and growing; regulatory pressures are dialed up to maximum intensity; and, customization of product delivery regardless of channel is now the norm.

Ongoing adaptation to change is certainly going to be required to thrive in this new world of community banking. Bankers used to think of their community as the 5 to 10 mile area around each branch. Now, customers are multi-dimensional and hyper-connected. In fact, bankers should take note that a recent study found 40% of people that became sick went online to get more information about their ailments and challenged their doctor's opinion because it conflicted with the information they found. Traditionally, it was a rarity to challenge a medical professional's opinion, now this is another example of customer empowerment.

As interconnectivity grows, community banks have found themselves competing with online banks, international banks, electronic commerce businesses, credit unions and others. The playing field isn't local anymore and new studies now show 40% of business customers (the #1 response) want their bank to meet their individual needs, know them as an individual and know them as a business customer. In short, customers want value, control and more personal interaction from banks.

Frank-Dodd, technology, the economy and competition have radically altered banking. The future is uncertain, but we are confident that it will be radically different in terms of the business model, delivery and products. No matter which block you pull out first at your strategic planning session, having a strong underlying foundation and challenging assumptions with a steady hand, will help you win the long-term game of banking Jenga.

BANK NEWS

M&A

Grandpoint Capital ($68mm, CA) entered a deal to purchase Southern Arizona Community Bank ($99mm, AZ) and part of Bank of Tucson ($210mm, AZ) from Capitol Bancorp. Capitol will hold on to one of Bank of Tucson's branches and $20mm in equity.

Treasury Refis

The long awaited Treasury meeting on FNMA and FHLMC was significant in what it did not announce. While rumors were swirling that the Treasury was going to force FNMA and FHLMC into refinancing mortgages at lower rates in order to provide additional stimulus; Fannie and Freddie would be consolidated into one (or into Ginnie); or the GSEs would be privatized - none of these announcements were made.

Footprint

According to the ABA, branch numbers in the US grew annually over the last 5 years, but as of 1Q end, the total dropped an annualized 0.11%. In addition a survey by Celent noted in July, banks experienced declining traffic volumes and expected their footprint to shrink by 10% in the next 5Ys.

FINREG

The Conference of State Bank Supervisors (advocate for the state banking system) has suggested the new legislation will likely result in 300 new regulations.

More Bankruptcy

Statistics compiled by the Administrative Office of the US Courts finds bankruptcy filings jumped 20% for the 1Y period ending June 30. By type, personal filings increased 21%, while business filings climbed 8%.

Job Stress

The Bureau of Labor Statistics reported yesterday that while all categories of companies reported job losses in the 4Q, nearly 62% of all net job losses in the private-sector came from businesses with less than 50 employees.