

TESTING BANK STRATEGY (PART 2 OF 2):

by [Steve Brown](#)

Coming up with a strategic plan is difficult, but coming up with a strategic plan that makes a difference to shareholders is even more so. However, if it was easy, everyone would be doing it. Because it's difficult, designing and executing a strong strategic plan is itself a competitive advantage. To help banks hone their plan, we present the 10 tests that we like to use to determine if a plan makes sense. Yesterday, we presented the first 5. Today, we cover the rest.

6) Does the strategy invest the right amount of capital on the right units? Not all bank operations have the same risk or require the same capital. Strategies that acknowledge this and treat certain business lines, customer segments and geographies accordingly, are on the right track to more efficiently managing resources. The market and objectives should define a bank's organization and not the other way around. Have enough granularities in your strategy so that you can properly see, resource and manage key operations.

7) Is your strategy flexible? A good strategy will be flexible enough to slow down or speed up depending on the changing market. A well thought out strategy will list the assumptions and variables (and priorities) that would influence potential changes in a bank's strategy. This not only helps validate a strategy, but helps put a pre-plan in place so the bank can react faster to changing market conditions. Given the volatility of the economy, geopolitical risk and DFA, more flexibility is mandatory for a top performing strategic plan.

8) Is your strategy designed around a bias? When designing a plan, it helps to acknowledge and limit any inherent biases. Too many times we see banks attributing success to the wrong factors or trying to copy another bank that has a completely different DNA. The worst offenders here are, over-optimism, loss aversion (fear of taking risks), herding (following the crowd), anchoring (basing our decisions on an arbitrary reference point), confirmation (overweighting data that validates the strategy) and the famous champion bias (placing merit to a strategy because of the person that proposed it). Just the act of looking at your plan for bias will help management understand where the possible weakness is.

9) Does your plan have conviction? Many good strategies fail because of faulty execution stemming from the lack of conviction. A good strategic plan requires more than Board approval - the whole company must share the passion. A common mistake is for the CEO to dictate a plan and expect it to be heeded. When the CEO dictates a plan, he or she has usually spent 6+ months living it. Sometimes management must invest resources in key employees in order to lead them on a journey of discovery so that they can arrive at the same conclusions management did.

10) Can you translate your strategy into an action plan? Once a strategic plan is approved, the battle is only 20% over. The real value is in execution. Making sure your managers can turn the plan into a detailed roadmap to include initiatives and accountability is crucial to success. The CEO must also ensure that resource allocation matches the process so the Company has the right operational, marketing, legal, financial and risk management resources to execute.

Good strategic plans are in short supply in banking, but there has never been a greater need for them. Usually, April is the traditional time to do the first check of your 2011 plan, so it might be helpful to look at it through these 10 tests. Since planning is a dynamic process, hopefully these tests will help keep you on track.

BANK NEWS

SBLF Save the Date & Update

We are trying to set up an SBLF strategy call in conjunction with the Treasury on the 11th of this month around 2pm ET. (Save the Date) to discuss the ins and outs of this program. We will confirm details early next week. Until then, we note that the Treasury released new guidance regarding the reporting required under SBLF. Samples of the reports can be found here:

http://tiny.cc/BIG_SBLF_Rpts

Loan Mods

Many large banks received a 27 page letter from state attorney generals and several federal agencies outlining what the gov't would like to see in SFR loan modifications. While we have not seen the letter, we are told that it heavily supports banks taking more principal forgiveness.

Profitable Progress

According to Market Rates Insight, relationship deposit products now compose 31% of the average bank's deposits, up 3% from last year.

USDA 502 Loans

The Agency dropped the upfront fees for 2012 from 3.5% to 2% on their SFR guarantee program.

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