LEARNING AND CHANGING IS AN ONGOING PROCESS

by Steve Brown

Back in the early 1980's, writer and management consultant, Peter Drucker gave us all a couple of pieces of sage advice that still ring true today. The first point he made was that to be truly successful, you have to look at change as an opportunity instead of a threat. Just understanding that is critical to moving forward on any new innovation or dealing with such industry changes as we find ourselves in now. He also indicated that new innovation needs to have a good marketing strategy behind it that asks "what is it you are trying to do?" if it is going to truly find an audience and see strong adoption. Changes in the banking industry demand everyone modify how they do business in order to succeed. As such, community bankers should constantly ask themselves whether existing or new products or services solve a problem that customers really want solved and either adapt them or eventually abandon them as part of the process. Doing so will drive higher adoption rates and increased profitability. Next, Drucker taught us not to be arrogant. He cautioned that one of the biggest mistakes we can make is to be so proud of our latest product or service that we are not willing to adapt it to the realities around us. Understanding what you don't know, asking yourself who the customers will be, what those customers are seeking and the right way to deliver the product, for example, will help increase success.

Speaking of change, we have heard around the conference circuit that many community bankers are worried they have to get to at least $300mm to $500mm in assets as quickly as possible if they are to survive. More regulatory costs, greater risk management requirements and lower leverage are all taking a toll and many exhausted bankers out there really seem to wonder what the end game might be. Our outlook isn't quite so dire, because we firmly believe it matters where you are located, how many other banks you are competing with and how well you keep up with customer demands through innovation.

Absolutely it is true that costs have increased and profitability is harder to come by, but our experience shows it is equally true that when everyone thinks one thing is going to happen, the opposite usually occurs. Certainly, a slow economic recovery has hampered loan growth for community banks and the nastiness in the Middle East (as well as Europe) have added volatility into the mix, but the fundamental business model remains sound. Small business customers need somewhere to go to get help and community bankers are the best place for that to happen.

That does not mean, however, that change will not be required. Many banks remain unprofitable, so it is time to focus on which sorts of customers you want to bank. Once you develop that, you can create a plan of attack, which at the very least will give you a fundamental approach with a well laid out plan to go along with it.

Getting a more efficient branch delivery structure takes time, training staff how to cross sell, reducing costs and improving structural components isn't easy, but it can be done. Focus on the opportunities in front of you, pick some that can be implemented and start moving forward. Before you know it you will see traction and profitability will also begin to increase.

In closing, by understanding change is inevitable and working to embrace it instead of fighting it, you better position the bank to move forward. As you do so, remember this final piece of advice from Drucker - when a given action or strategy doesn't seem to be working anymore, apply the rule "if at first you don't succeed, try once more and then do something else." There is only so much time and you only have a limited pool of resources, so moving on from time to time is just part of the process.

BANK NEWS

Debit Bounce

The American Banker has an interesting article how some large banks are considering allowing debit cards to "bounce" or not be honored similar to checks. The move may be an effort to unbundled debit processing so that banks can charge for the guarantee of the debit transaction to better align risk and reward.

FDIC Deposit Training

The Agency will offer 10 complimentary webinars starting 3/23 that are designed to better educate bank employees on how to work with deposit insurance. For the schedule, to register or for a copy of the presentation, go here: http://tiny.cc/BIG_FDIC_Ins

Credit Unions

The NCUA reported that Federal credit unions produced earnings of $4.6B in 2010, compared to $1.5B in 2009. The average ROA was 0.51% (compared to 0.66% for banks). Total assets grew 3.4% (compared to no change for banks) and delinquencies remained at their record high at 1.74% (compared to 3.11% for banks).

Rich Pressure

Even the wealthy feel pressure in this economy. In fact, analysis finds 20% of affluent investors have tapped their long-term savings and investments to meet immediate financial needs. Reasons cited included covering monthly expenses (35%), paying down excess debt (27%) and compensating for a loss in income within the family (19%).

Banking Stats

The FDIC reports that as of the end of 2010, banks with assets <$100mm held 23% of assets in securities vs. 20% for banks $100mm to $1B and 21% for banks $1B to $10B. Meanwhile, the loan-to-deposit ratio for each group, respectively, was 86%, 98% and 98%.