MOVING FROM A RED LIGHT TO GREEN IN TECHNOLOGY

by Steve Brown

You may not have given it much thought, but the average American spends 6 months of their lifetime sitting at a red light waiting for it to change. That is a whole lot of wasted time, but when you consider life without the omnipresent traffic light, the alternative resulting car crashes probably make that time well spent. So, the next time you are sitting at a stop light pondering life, consider that the red light usually contains some orange to provide some support for people with color blindness. In addition, many speculate that the color of the traffic lights was derived from maritime rules identifying port (red) and starboard (green) and governing right of way (the boat on the left yields for the one crossing on the right). We don't know if that is true or not, but suffice it to say that technology keeps advancing over time.

Recently, we spent some time pouring over numerous studies on technology at banks, which we have compiled here so you don't have to stop and read them yourself. At a high level, IDC Financial indicates US banks are on track to spend about 2% more in 2011 than they did last year, with an upper range of around 4%. Overall, ICBA reports most community banks spend from 5% to 9% of noninterest expenses on technology.

By area, ICBA also reports that top technology concerns include: complying with regulations (82%); protecting data and infrastructure (63%); systems availability and recovery (61%); detecting and mitigating fraud (57%) and adding value to the bank (44%). Meanwhile, areas banks expect to increase spending over the next 24 months include: compliance (60%); security (50%); network infrastructure (49%); risk management (49%) and mobile banking (47%). This last data point isn't surprising when you consider mobile banking is growing faster than internet banking and smartphone sales. In fact, mobile sales are projected to outstrip PC sales for the first time by 2012.

Customer access points are changing and banks are moving to adapt. Consider research by Javelin that finds in 2010, 88% of people visited a branch to make a deposit or withdraw money; 78% used online banking; 76% used an ATM and 58% visited a branch for some other reason. Over time, the data shows branch usage is falling at about 1 full percentage point per year, a level that is expected to accelerate as more and more people continue to access banks through other channels and the population ages. That shift (along with pressure due to lower loan volume, more regulatory costs, more M&A and lower fees) provides the backdrop that drove bank analyst Meredith Whitney to predict (in late 2010) that by the middle of this year alone, US banks will close 5,000 branches nationwide. We will have to wait for the final tally, but it doesn't seem that far fetched when you take everything into account.

Finally, survey data from the ICBA finds over the next 2Ys, community banks plan to implement the following technologies: mobile banking; document imaging; remote deposit capture; online account opening and server virtualization.

No matter what you do on the technology front at your bank, you know intuitively that things will continue to change. Customers demand more, they are much more mobile and banks are responding. Right now many community banks are busy working on credit problems, so it is natural that discussion around technology might be sitting at a red light. That said; we know credit issues will pass and the technology light will once again turn green, so watching the flow of traffic just makes sense.

BANK NEWS

New FDIC Chair

Marty Gruenberg, currently the agency's Vice-Chair, is expected to be named the next chairperson of the FDIC when Chair Bair's term is up in June.

FHLMC

The beleaguered GSE posts its 2nd profitable quarter since the downturn and now issued a statement that it will require no more funding from the Treasury. 1Q profit was $676mm, an improvement from their $6.7B loss for the same period last year. More importantly, non-performing loans fell for the first time in more than 4Ys.

Foreclosure Rules

The FDIC put out a special Supervisory Insights, to be found on their website. It provides lessons and best practices culled from the nation's 14 largest residential mortgage servicers.

BofA Mortgage

Taking some of the FDIC issued foreclosure rules to heart, the Bank announced it will triple the number of call centers to help with mortgage questions and problems.

Muni Bonds

Prices of muni bonds at banks had their greatest improvement of the year this week, as supply remains low and defaults continue to remain in line with historical levels.

EU Rates

As expected, the EU Central Bank left their short-term target rate unchanged at 0.50%. Another 25bp rate hike is expected next month in order to stave off inflation.

Gossip Mongering

A survey by Steelcase finds 28% of employees rely on gossip as a first source of information. Interestingly, a study by a Harvard University researcher found there is an even blend of positive and negative gossip in 72% of gossip relationships, predominantly positive gossip in 21% and predominantly negative gossip in 7%. In addition, some 96% of employees admit to engaging in gossip at work.