

A BETTER DECISION MAKING PROCESS

by [Steve Brown](#)

.....Anthony Weiner. That is it. That is the whole punch line this morning. His actions are so wrong and so funny in a variety of ways, that any attempt to build a comedic theme around him would just take something away from the joke. A framed picture of President Clinton in the background...really? Sorry, we slipped so we will move on. However, there is a teachable moment here. The rash of recent stupid elected representative tricks highlight the fact that, as humans, we often succumb to cognitive biases that result in bad decision making. The problem is that when you are in Congress, or any other high powered position, overconfidence, a confirmation bias, excessive risk avoidance or any other decision making frailty gets magnified and distorts the way we collect and process information. What Rep. Weiner could have used is a good CFO by his side.

Of all the positions within a bank, the CFO, we would argue, is in the best position to be the owner of the strategic decision making process. As longtime readers know, we are big fans of the institutionalizing of processes to drive franchise value. Process matters in decision making because it is easy to let hubris end up supporting a hypothesis that you want to see supported. While there are lots of ways to limit biases, one way is to create a multi-person decision making process where the CFO is responsible to make sure critical decisions are made in a systematic way.

One way to do this is to ensure a counterpoint is heard. Assigning someone or a group to look into an opposite viewpoint is helpful to bring up facts that may run counter to the decision. In a similar vein, making sure all assumptions in the decision are highlighted is another excellent exercise. Here, members of the decision making group go around and highlight as many key assumptions as they can. Is the growth plan dependent on economic conditions improving? What are the interest rate assumptions? What are the cost saving assumptions? Highlighting assumptions for biases helps bring to light the critical underpinnings of a model or decision which few see.

Another important technique that the CFO should ensure gets into the decision making process is the "pre-mortem." Here, decision makers play a game that assumes that the project in question just failed. Each member is asked to anonymously write down 3 reasons why it has just failed. This may highlight some counterpoints that committee members may be reluctant to bring up for fear of looking uncommitted or pessimistic.

A third technique is all the assumptions, risks, counter-arguments and reasons of failure should be documented in order to make sure a concise list of negatives or counter points are reviewed during the final decision. Often all the negative input is forgotten about when the final decision time occurs, so that institutional knowledge is often lost at the most critical time. Writing these items down helps not only bring thoughts forward, but also provides a record in which to reflect back on in the future to evaluate your decision making process.

Finally, a checklist should be developed that helps codify the process that the CFO must ensure in order to try to limit both overly negative and overly positive views in the decision. By creating a checklist, a record of the process will be maintained that can be improved upon.

Bad decisions will always occur, but the trick is to limit the ugliest ones. If the risks, assumptions and biases were properly highlighted in the decision and the project turned bad, then so be it. This is going to happen. However, by institutionalizing the decision making process, hopefully bad decisions, like the ones from Congressman Weiner, can easily be avoided.

BANK NEWS

Regulators Risk Retention

Regulators have extended the comment period on risk retention from Jun 10 to Aug 1.

Leaving

The chairman of the White House's Council of Economic Advisers, Austan Goolsbee, will resign this summer to return to teaching at the University of Chicago's graduate school of business.

Buying Back

In an effort to balance its consumer and commercial loan portfolios and further diversify its revenue sources, Regions Bank has signed a deal to buy its \$1B portfolio of branded credit cards from a subsidiary of Bank of America for an undisclosed amount.

Mobile Expansion

First Tennessee bank said it will begin offering mobile banking services to corporate customers because of "huge" consumer adoption of mobile and because "consumers are the same people that run and own businesses." The service will let businesses check balances, transfer funds, release ACH files and handle positive pay approvals remotely.

Downgrades

Moody's said it might downgrade Bank of America, Citigroup and Wells Fargo as the credit rating firm reviews whether the US government will limit its support of such banks under financial reform. Moody's said this group of banks has seen their ratings supported by the "uplift" from government support of the banking system, but that could go away. Moody's also cited risks including a large exposure to residential mortgages and potential legal costs related to faulty foreclosure practices.

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