NOT GETTING BLOWN SIDEWAYS BY DISASTER

by Steve Brown

Growing up watching Gilligan's Island we learned that in order to survive a hurricane all you had to do was to hold onto a palm tree. After you get blown horizontal, the wind will gently set you back down. After Hurricane Irene, we now know that the tactic only works for CNN reporters. These intrepid reporters tell you to evacuate, but can't wait to be blown horizontal for fame. Having just watched 72 hours of hurricane coverage, we were both saddened by the damage and loss of life, but thankful that it wasn't worse. In order to learn from the destruction, we highlight 3 lessons for banks. The evident impact of Irene gives banks an opportunity to test or simulate a disaster contingency plan. Banks in affected areas had little choice, but all banks should be asking themselves whether their plans up to the task of coping with a widespread emergency. The massive loss of power, internal and external communication, evacuations, physical security and a host of other items need to be considered. While most banks covered the basics well, there were some finer points that tripped up several. As we called around, there were some questions that some banks in Irene's path struggled with on Friday that are worth thinking about. Do you have the ability to both institute a phone, email AND text communication effort to reach all employees. Can you account for their status and to let them know changes on Monday? Who is responsible for accounting for expenditures for insurance purposes? Who is responsible for ensuring liquidity sources are operational? Since PCBB is a correspondent bank to many, we prepared by attempting to ID customers that might be affected, increased liquidity and moved some operational functions to later in this week, to compensate for some clients and services on the East Coast being out today. Banks that made the last minute decision on Thursday to increase Friday branch hours where happy they had e-mail addresses for their clients, the ability to quickly modify their websites and the ability to utilize social media. Our point here is that there are many banks on the East Coast that were unfamiliar with hurricane preparedness. While the next disaster in your community may not be a hurricane, every bank should ask how their plan could be improved with each disaster. Our second point is not so evident, but runs along the same lines. Outside of the tactical implications of having a specific plan to contend with a widespread devastation, all banks in the nation should also take notes today of what risks arise from having a major financial center, such as New York, hit with destruction. Even though your bank may not be directly impacted, subtle issues like problems with securities settlement and flight delays for your executives are still small manifestations of risk. If your bank doesn't already have a NY destruction scenario left over from 9/11, now is the time to create one and make it part of your pre-planning. This not only allows for a reality check of your existing capabilities, but it will provide better testing in the future (as you have an actual case to test against). In addition, it also ensures you maintain institutional knowledge, by documenting your experience for future management teams. Finally, the other not so evident point is the subtle shift the impact this emergency had on certain bank delivery channels. As banks move more online and mobile, a geographic emergency has less of an impact. A decade ago, having a wide area of branches out of commission would bring everything to a screeching halt. Now, while some bank customers for example, couldn't deposit checks in some branches, they didn't have any issues using remote capture or online technology. As more and more banking moves online, geography (perhaps the single largest risk in community banking), is partially mitigated. Technology presents a formidable defense against disasters. While no one wants more Irene's, it is important that banks try to claim back some of the 'canes destructive power for the common good of the industry. By taking this opportunity to enhance your contingency plan and building mitigation you're your longer term strategy, you will be better able to withstand gale force winds and hopefully be set down gently.

BANK NEWS

Another Day

The Fed has tacked on another day to the Sept FOMC meeting, so the group can have more time to discuss and evaluate recent turmoil in the economy, the slowdown and other financial issues.

Consolidation

Old National Bancorp (IN) said it will close 17% of the 52 branches it acquired when it bought failed Integra Bank. Old National plans to move accounts in affected branches to other nearby offices.

Competition

Royal Bank of Canada booked its 2nd quarterly loss in 18Ys in 2Q, driven by charges tied to discontinued operations in the US. Royal took a $1.3B write-down from its planned sale of its struggling U.S. retail bank to PNC Financial.

Less Shipping

CNBC is reporting that container traffic at the Port of Long Beach, CA fell 2.5% in July, marking the first decline in 20 months. Long Beach is the nation's 2nd busiest seaport, handling 20% of all goods imported into the US. When combined with the Port of Los Angeles, the total rises to 40%. Meanwhile, total container volume at the Port of Los Angeles, including empties, was down 12.2% in June compared to June 2010 (the latest data we could find on that port).

Consumer Saving

The personal saving rate has remained in the 5.0% to 5.5% range for about the past 18 months.