DISAPPEARING JOBS & RISK MANAGEMENT

by Steve Brown

You can blame massive growth in technology, changing tastes, globalization or something else; but no matter how you slice it, the data indicates some jobs are just going to disappear forever. Like the home milk delivery job that disappeared about 40Ys ago, so too we wonder about tellers, librarians, stock traders, travel agents, postal workers, toll takers, cashiers, clothing mill workers and journalists to name a few. Heck, if we can figure out the robot thing and get them to do more than just clean up the floor, pretty much all physical or manufacturing jobs could quickly disappear. We likely will have a few more decades at least until some of this happens, but it is interesting to think about occasionally. Speaking of things to think about, you might be interested to know the Fed has identified four key things every bank should have in order to have an effective risk management program. Since so many banks are working on this now, or fine tuning existing programs, we thought it might help you to gain this insight this morning. The first component identified is to have active board and senior management oversight. To have a truly robust risk management process, both the board and management must be involved and active. Question where revenues are coming, expenses are going and why things change from period to period. Determine the biggest risks in the bank; generate reports to measure, monitor and manage them; and raise awareness and education to help get more smart people around the organization to help. These are some of the key approaches used by teams today, that can help surface issues early. Another area regulators focus on is whether or not the bank has adequate policies, procedures and limits. Exam teams have learned that too much of any one thing can be detrimental to the health of a given bank, so the need for diversification is one key lesson from the credit crisis. Policies, procedures and limits exist for a reason and trouble can appear quickly and unexpectedly when they are not followed. When exceptions appear, ask why, focus on the primary reasons driving the exceptions and determine an appropriate course of action. Periodically spend a good amount of time thinking about, analyzing and closely reviewing policies, procedures and limits to see where you may have weaknesses. The industry is continually evolving and the regulatory approach is as well, so the more you stay on top of this the more likely you are to avoid trouble. A third area of focus is on whether the bank has an adequate risk-measurement, monitoring and management information systems. Technology continues to change and more than ever, regulators now expect to see board and management reports with a decent amount of useful detail. You must be able to monitor concentrations, understand funding sources and have some way to perform forward-looking analyses. Regulators expect bankers to analyze, review and share information throughout the bank to better understand how the loan portfolio may perform under periods of stress. The more you can do this the better off you will be. Finally, make sure the bank has comprehensive internal controls. Here, regulators will test to see how well the bank's internal controls are keeping pace with changes in its risk profile and growth in relation to the external risk landscape. Challenging budgetary assumptions as industry conditions change, closely reviewing examination and audit reports and understanding how and where issues may arise in general as a result of industry changes are good places to start. All internal control functions including internal audit, risk management and compliance should be reviewed on a regular and ongoing basis to stay on top of areas that may need improvement. We don't know for sure which jobs in the banking industry may go away in the future and which ones won't so we will all have to be patient as things continue to evolve.

We do know, however, that the job of risk management won't be one of them, so it makes sense to spend some effort here to outperform.

BANK NEWS

Earnings

Zions reports 2Q earnings of $55.2mm, or double that of 1Q and almost double the same period last year. Loan growth was moderate and charge offs were down. Despite the growth, earnings were below estimates and hurt by greater ALLL provisions and shrinking NIM. Region's 2Q earnings spiked to $284mm, more than double 1Q and 4x higher than the same period last year. Credit quality was up, provisions down, loan growth flat and NIM improved. In addition, the sale of Morgan Keegan added $4mm to net income this quarter.

ATM Closures

In an effort to cut costs, company filings show Bank of America has reduced its ATM network by 9% this year.

Recap Fraud

The FDIC issued an alert about a scam where "private investors" attempt to charge capital-needy banks retention, due diligence and legal fees under the auspicious of investing in the bank. Of course, the capital never comes. The FDIC stressed the need to verify credibility of potential investors before paying any funds.

Corp. Earnings

With about 20% of the S&P reporting, 73% of reporting companies beat earnings estimates. The average margin for surpassing estimates was 4.7% and 42% of the reporting companies did it by an increase in top line revenue expansion. By comparison, the average bank has exceeded expectations by about 11%, the most in the S&P.

Sub Creation

A Fed study shows that U.S. banks established more than 10k special subsidiaries over the past 22Ys using these structures to limit liability, reduce capital, pay lower taxes or avoid regulation. JP Morgan created the most followed by Goldman Sachs and Citigroup.