THANKFULLY DRIVING THE RISK MANAGEMENT ROAD

by Steve Brown

Sticking with the theme of Thanksgiving this week, we point out that historical records show the first Thanksgiving lasted for three days (same for us given the leftovers), was attended by 52 Pilgrims and roughly an equal amount of Native Americans. In addition, Edward Winslow (who was a participant) wrote in a letter that the meal included barley, corn, waterfowl, venison and turkeys (hey, where are the cranberries and pumpkin pie?). Shifting forward to current day, we know travel is on many people's minds, so we also note research finds about 42mm Americans will travel 50 miles or more from home this holiday. Interestingly, the American Automobile Association says it is a myth that Thanksgiving is the busiest travel day of the year, pointing out there are about 5 to 10 days during the summer that are busier. Who would have known? As you consider what you are going to do this Thanksgiving, we shift our focus to banking and in particular, risk management. This subject has gained in popularity over the years, as bankers and regulators alike have responded to lessons learned from the credit crisis. Having a stronger approach to managing risk in the overall bank is now something bankers everywhere have embraced in concept, but are struggling to achieve due to its complexity. After all, there is much to consider when you try to capture all of the risks in a bank, analyze them and present them in some fashion management and the board can utilize. Along these lines, we were intrigued by the results of a study from Deloitte and Forbes. It asked executives at U.S. companies across many different industries what they were doing in the area of risk management. Overall, 91% said they "plan to reorganize and prioritize their approaches to risk management in some form in the coming 3Ys." That is a huge number, particularly when you consider this survey cut across industries that were much broader than the financial sector (where you would expect such high percentages to be more likely). Given a financial responsibility to shareholders, however, we know this does not come as a total surprise our readers. Another area of the study we found interesting related to areas where corporate executives expected to see volatility and increased risk over the next 3Ys. Main risk areas cited were financial volatility (66%), strategic (63%) and operational (58%). These were closely followed by regulatory (54%), political (53%) and technology (52%). As the data indicates, the risks faced by corporate executives are driving a greater desire to measure, monitor and manage it through better risk management. The final area of note in our report this morning relates to the findings of the study in areas where executives are focused to better manage risk. As the data shows above, executives are clearly worried about a variety of risks that could negatively impact the business, so it makes sense they would move to ramp up efforts to better manage those potential risks. Here, the study found the main areas of focus were elevating risk management throughout the company (52%); reorganizing risk management processes (39%); providing additional staff training (37%); incorporating new technology (31%) and integrating risk management into strategic planning (28%). All of the items above are applicable to community bankers seeking to improve risk management processes, but it does take time, so patience and persistence are critical during the journey. As you follow the risk management road to your ultimate destination some miles away, know you are not alone on that busy and winding financial highway.

BANK NEWS

Branch Closures

First Financial Bancorp ($6.3B, OH) said it will close 3 branches and consolidate them into nearby locations, as it seeks to reduce costs and adjust to changing customer habits.

CU Biz Lending

Analysis finds business lending at CUs has increased 8.3% YOY as of 2Q, reaching $35B in total. Business loans now equal 5.9% of total loan portfolios and about 30% of all CUs (2,121) have outstanding business loans in their portfolios. In Aug. the NCUA designated 1,000 CUs as low income, removing the business loan cap for this group.

Dividend Taxes

Some companies have been announcing special dividends this year, in order to take advantage of the current 15% federal tax rate on dividends. That's because in 2013, the dividend rate is scheduled to jump to 39.6%, with an extra 3.8% (total of 43.4% federal tax) on top of that (to pay for Medicare) for those with adjusted gross incomes of $200k+.

Shadow Banking

A report by the Financial Stability Board (established by the 20 largest countries in 2009), finds the shadow banking system has reached $67T globally (about 50% the size of the regulated banking system). Regulators say they plan to move on shadow banking, as they seek to reduce potential systemic risk. As one banker we know put it - if it quacks like a duck, it should be regulated like a bank.

Mortgage Modifications

Five large U.S. banks have delivered $22B in mortgage relief through first lien modifications and other actions required under their foreclosure settlement deal.

ID Theft Risk

A study by ID Analytics finds there are 10,000 active identity theft rings operating in the U.S. The study also found states with the highest number of fraud rings were AL, DE, GA, MS, NC, SC and TX.