

Popularity Improving

by [Steve Brown](#)

If you spend much time on online news sites or read the Book Review section of the NY Times, you will come across the "Most Popular" section or the "Best Sellers" list. Each week we wait to see which movie sold the most tickets over the weekend, which books are selling the most and other such fodder. Nothing new about any of this, but why is it

interesting we wonder? Are we so lazy we have no opinions of our own and need to know what the herd thinks before venturing forth? One psychological study may provide insight. It showed a large uptick in music downloads and in satisfaction when a #1 ranking was put next to a song, even when it was in fact the least popular of the 50 songs on the list. Book publishers have been known to buy their way onto best-seller lists by purchasing cases of their own books, because it was the best marketing money could buy. Our opinions and choices can apparently be easily manipulated. It makes one wonder if the placebo effect made that song sound better or the food served by the restaurant that had a terrific review taste even better?

In early June, Gallup did a survey of Americans' Confidence in Institutions. The survey asked 1,500 adults in 50 states how much confidence they had in each of 16 societal institutions. Answers could range from a great deal of confidence to very little. The story made headlines because the US Congress hit another new all-time low for any societal institution. We looked further up the chart and found second only to the military as the highest level of confidence was small business. These are the primary customers at community banks, so hooray for our customers!

The survey unfortunately did not break banks down into small or large or we think our readership of community bankers would be even more pleased with the results. Happy to say that after more time has passed since the inflection point of the crisis, banks no longer are categorized alongside cockroaches, bedbugs, lawyers or even Congress. We are in the middle of the stack, ahead of television news, newspapers and big business. In fact, banks as a whole got out of the bottom quartile, moving from a 21% approval to 26%, so hooray for banks!

We dug a little further into large banks vs. small banks and found encouraging numbers. In a survey by JD Power, only 32% of large bank customers were satisfied, while 41% of local bank customers said they were satisfied. There is certainly room to improve, but this is much better than the big guys. The survey also noted that public perception found smaller community banks to be people-driven vs. larger institutions that were profit-driven.

Let's now go back to our small business customer discussion. There are 7,092 financial institutions in the US, of which 6,201 are under \$1B in assets. Even though community under \$1B hold only 20% of all bank assets this group originates about 40% or more of all small business loans. Community banks truly serve smaller communities and the data shows of more than 3,000 counties in the US, some 20% of them are served only by community banks.

To be fair, bankers are still not the most popular kid in the class, but nonetheless, our image is improving. This is especially true for community banks, so hooray for community bankers quietly serving their communities! We rank you #1 on the list.

BANK NEWS

Capital Change

The Wall Street Journal is reporting that regulators have agreed to a higher leverage ratio for banks under Basel III and will propose somewhere between 5% and 6% vs. the current 3% level. This change will require banks to hold more capital. New levels focus on more risky assets (based on risk weighting) and limit dividends and stock buybacks when the ratio is encroached upon. Basel III rules take effect in 2019, but restructuring capital is not easy so all bank eyes will be on this ruling (expected this week).

Malicious

Research by Kaspersky Lab of phishing attacks registered between May 2012 and April 2013 finds 1 in 5 targeted a bank or other financial institution. Overall, nearly 40% of banks surveyed said they had been affected by a phishing attack at least once in the prior 12 months.

Banker Concerns

A survey by Deloitte and Temenos finds 29% of senior financial managers say their biggest challenge today is retaining the loyalty of demanding and better informed customers and 23% say innovation is important to their future. Other challenges and concerns from this group - they are more worried about competition from large banks (22%) than small banks (9%); M&A is not much of a concern (3%) and PayPal is the leading competitive threat from outside the industry, followed by supermarkets and peer to peer intermediaries.

Mobile Banking

comScore reports the top 10 busiest US banks (based on millions of unique visitors) using desktop or mobile banking in order (as a percent of this group in total) are: Bank of America (21%), JPMorgan Chase (19%), Wells Fargo (15%), Capital One (10%), American Express (10%), Citibank (8%), Discover (5%), HSBC (4%), US Bank (4%) and PNC (3%).

Capital Planning

Regulators indicate bank capital planning should be a dynamic and ongoing process that is forward-looking and incorporates changes in strategic focus, risk tolerance levels, business plans, operating environment and other factors that could materially affect capital adequacy. Now that you have the definition, think about how to incorporate this into your board packages for a periodic review to help stay on course.

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