

Banking and Innovation

by [Steve Brown](#)

Thomas Edison is one of the best-known inventors of all time. All told, he held 1,093 patents and his contributions to modern-day society include the phonograph, stock ticker, motion picture camera and a long-lasting, practical electric light bulb. Achieving success, however, wasn't always easy. For example, Edison tested thousands of materials to use

for the filament of his light bulb before happening upon the one that would finally prove successful.

When it comes to innovation and industry change, this serves as a critical lesson for community banks. Far too often banks remain tied to plain vanilla ways instead of exploring new ones and proactively embracing them.

Of course, banks have significant regulatory constraints, so opportunity channels are naturally limited, but as with Edison, sometimes you have to keep pushing to make change happen. Even within the regulatory framework, there is still ample room for creativity. The question is, are we using our noggins to harness this creativity, or are we maintaining the status quo simply because it's the most comfortable.

To innovate, it often pays to step outside your comfort level a bit and explore ways to make your bank more profitable and enterprising. Over eons, this is how many great and profitable ideas have ultimately been born.

Looking back, it's hard to believe that some 30Ys ago ATMs were just becoming part of mainstream banking. Today the global ATM footprint spans nearly 2.4MM machines and yields more than 6B transactions every year.

Further, consider the demise of so-called bankers' hours. What an innovation it was when banks started extending their hours and days to provide customers with greater flexibility. Today it's not uncommon to find banks open past 5pm and on weekends. Indeed, according to an ABA survey, close to 90% of banks have Saturday branch hours now and 7% have Sunday hours. On average, branches are open 45 hours per week according to the study. Of course, even when branches are closed, customers today still have access to an ATM or online.

These days, you often see banks setting up mini-branches in grocery stores. This used to be another novelty, but it proved to be a good contact point for customers and boosted opportunity for bankers. The convenient location and extended hours have made this innovation a big hit with customers. Now one bank (PNC) has taken this even further and started to show up with a "pop-up" branch that can be quickly assembled and disassembled in higher traffic areas. The jury on this one is still out, but it is interesting to be sure.

Finally, no discussion on innovation would be complete without throwing in online and mobile banking into the mix. Today, customers have fewer reasons than ever to visit a branch and banks are persistently reinventing themselves to appeal to customers wherever they may be. This is a fast changing area and a prime example of how banks need to continue to modernize to stay in front of customers.

Overall, one takeaway from Edison all bankers can leverage is to be creative as you remain unafraid to try different things because you never know how they might turn out. Consider Edison's idea of building houses purely of concrete. Despite high hopes, the concept was expensive to implement and never really took off. Yet, some good still came from his efforts, as Edison's cement-making company was picked to build Yankee Stadium in the Bronx, where the New York Yankees played until 2008.

The point is you never know where you're efforts will lead you. Consider that if Edison had given up when platinum and other metal filaments failed him, we might all still be sitting in the dark.

BANK NEWS

M&A

Vintage Bank Kansas (\$16mm, KS) will acquire larger The State Bank of Conway Springs (\$30mm, KS) for an undisclosed sum.

M&A

Capital One Financial will acquire multifamily underwriter and servicer Beech Street Capital (MD) for an undisclosed sum. Beech Street is the 6th largest issuer of multifamily loans in the US, originating \$4B last year and has 10 offices.

Consolidation

Bank of America said it plans to fold Merrill Lynch into its bank by the end of the year and dissolve the subsidiary in a move designed to reduce costs and simplify operations. It will still keep the brand, but the separate legal entity will be dissolved.

CoBank v. GoBank

CoBank (CO) has filed a notice with the Patent & Trademark Office opposing Green Dot's (\$389mm, UT) trademark application for its new mobile account called 'GoBank', saying the two brands are too similar and is likely to cause confusion in the market.

Exam Risk

When evaluating the risk in the loan portfolio, regulatory documents indicate regulators will review the bank's business or strategic plan to evaluate how implementing the plan may impact the quantity of credit risk. Regulators typically will consider growth goals; sources of new loans; growth outside current market area; new products and business lines; emphasis on high risk products or customers; concentrations of credit; risk limits; loss forecasts and other factors. Now that you know, you know how to prepare for your next exam.

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