Flipping the Switch to Change the Dynamic

by Steve Brown

If you are like many community bankers out there who have been in the industry for awhile, you probably cut your teeth by working first for a large bank. They trained you, they may still be your primary bank for your personal accounts (don't shrink down in your chair as it is a dead giveaway to your colleagues) and you might even still have friends working there. Somewhere deep in your psyche, you might even still have some fondness for the memories you gained while working there. This all makes sense when you consider your history, but that it's also a blind spot. As we travel around the country, we often ask community bankers we visit why they would still maintain a relationship with banks that compete directly with them for customers and business. The answers we get are usually vague and steeped in historical references. Let's face it - people just don't like to change.

One reason can perhaps be found in psychological studies that show change is difficult for people because many tend to lean heavily on what they already know to make decisions about new things they are trying to understand, learn or apply. As humans, we all have a built-in bias inside our brains that leads most of us to proactively seek out evidence that supports our existing knowledge base and position. This is even true when the facts clearly point in another direction. Whether this is because of a general uneasiness about how they are going to replace something familiar, an inherent complacency or simply a subconscious concern that changing to something different or new will lead to less control, no one knows for sure. What we do know is that change is difficult for many people, even when it makes perfect sense to do so.

Our own unscientific study finds that as a result of this, it takes a very strong and driven person to step back and review things aggressively with an open mind. It is a process to challenge the status quo and to ask for facts to revisit products or services offered by competitors that you are still using and that have been in place for a long time. It is time to step back and do just that, however, because competitors are more sophisticated and most are proactively using technology (with deeper analytics) to better understand and target your customers and your business in order to put you out of business.

We identify these product and service providers as your "frenemies," though, because while their sales staff can be quite friendly, their deeper plan is to capture information on your bank, your customers, your processes, and ultimately to weaken your institution over time. To make matters worse, as the downturn and industry changes have impacted lending and other normal banking activities, it isn't just the very largest banks you have to worry about. These days, even some smaller, regional banks are showing up on the scene, using the very same strategy to try to get community banks to engage with them. Competition is brutal right now and community bank executives have a fiduciary responsibility to protect the franchise and the shareholders, but it is incumbent on the entire team to make sure that this is exactly what is happening. Competitors are just that and to call them anything else or continue to do business with them when other alternatives are available doesn't make sense any longer.

The time has come to shed some light on some of the underlying practices these competitors are using to take your customers as they quietly undermine your franchise. We urge all community bank

CEOs to step back and ask your team to pull together a comprehensive list of any business you do with any other bank. Then, if the name of the bank is one you compete with, simply find another provider and cut them off.

Given such extreme competition for customers, this has become a critical issue for community bankers. To help you understand even more, tomorrow we will give specific examples of some sophisticated ways frenemies are attacking community bankers and how you can flip the switch to respond.

BANK NEWS

Customers

A survey by John Hancock finds 67% of investors think now is a good time to invest or in their own home vs. 55% who said it was a good time to invest in socks and 18% who said bonds.

Muni BK

Economists at the Chicago Fed warn Detroit's bankruptcy has the potential to dramatically reshape the municipal market as it sets a number of far reaching precedents. They cited the treatment of pension and retiree health care obligations impact on bonded debt, the degree of protection afforded by state constitutions and the value of the unlimited tax pledges approved by the electorate as examples.

Risk Appetite

If you are trying to figure out how to express the amount of risk you are willing to take at your bank through a risk appetite analysis, institutions surveyed by Deloitte in its most recent Global risk management survey say they calculate acceptable loss limits (76%), have a system or risk limits (71%), use economic capital (69%) or use regulatory capital (69%). These can all be used by community bankers as well and should also be augmented with qualitative factors.

Industry Returns

Bloomberg reports US regional bank stocks posted total returns of 2.3% in 3Q vs. 5.2% for the S&P 500.