Crab Time

by Steve Brown

This week, we are reporting to you from San Francisco at our annual Executive Management Conference, Shaping the Future of Banking. We always like to start out with a solid overview of the economy and industry as well as touching on a few issues that bankers are facing so we can help our attendees solve them by the end of the event. We knew the points we wanted to discuss, but admitted it was a lot of points for the bankers to remember.

As we contemplated ways to make this important information easy to retain for attendees, we got lucky and noticed something interesting as we walked around San Francisco one night - the sign at the entry to the Fisherman's Wharf has a pink and orange crab in the center of the logo.

That's when it hit us: the current and future environment for banks could be described by the acronym CRAB TIME that could better help our attendees retain this wealth of information. Here's how it goes: Competition, Regulation, Asset growth, Business model, Technology, Interest rates, Margin, Earnings.

Competition not only comes from big banks and other community banks, but also from non-bank operators like PayPal and others. A seismic shift of digital delivery is overtaking traditional branch banking and bankers are moving to meet it. In fact, it is estimated that 35% of banks' market share could be in play over the next 6Ys as a result, according to Gartner. Still further along these same lines, did you know that Bank of America estimates branch traffic is falling at a rate of about 11% per year? It also finds 14mm customers are using mobile and about 8% of all of its checks per quarter come by remote capture. The most important take-away on competition is to protect your best and most profitable clients as if the survival of your bank depends on it to keep the competition at bay.

Regulation continues to be expensive and troublesome for banks, but seems to generally be stabilizing as a concern. Asset growth is problematic for most banks. Banks 1 - 10B are growing slowly and the data shows banks under 1B are just hanging on with asset growth mostly flat. Meanwhile, NIM has been contracting for 10Ys and 70% of banks are suffering from shrinking margins. When it comes to your business model remember that one major advantage of being a community bank is that your business is more agile and can react to changes in the industry faster than the largest banks. Use this advantage to help you keep up with, if not surpass, the competition.

The primary point with technology is to develop and implement products fast enough to meet customer expectations. Banks should have a 5Y plan for technology just like the bank has a 5Y strategic plan. You may not know the exact trends, new devices or interface specifics that far into the future, but you can be sure the organization has an idea of how the bank will approach adding new technology.

"I" is for interest rates and Fed watchers are doing their best to predict where rates are going and when. The average Fed Funds since 1980 is 5.25% and while it is unlikely rates will reach those levels any time soon, it is likely that they will begin moving up soon. Controlling funding costs will be important in improving margins, as competition will continue to apply pressure to asset yields.

Mergers and acquisitions are of interest to many banks, as about 3% to 4% of banks each year consolidate due to mergers or acquisitions.

E is for earnings, so relentlessly focus on improving the bank's competitive positioning. Start by assigning someone in senior management to manage all product pricing strategies to boost performance. This is because studies find a 1% price increase is 300% more effective than a 1% cost reduction in boosting profitability. Have a full-time function dedicated to pricing driven by senior management to improve in this area.

Know that our acronym CRAB TIME was well received by the bankers attending our conference and we hope everyone can use it to help better remember crucial areas of focus and challenge right now. Stay tuned for more helpful hints (and hopefully more cheezy acronyms too!) in tomorrow's BID.

BANK NEWS

Women Biz Owners

Research by the National Association of Women Business Owners finds 89% are optimistic about business prospects this year but 90% worry about the economy, 80% worry about business taxes and 71% are concerned about the cost and accessibility of health insurance. As for the next 6 months - 90% say they are concerned about capturing new customers and 81% are worried about retaining existing ones.

Delaying Retirement

The Census Bureau reports 16% of people aged 65 and older were still in the labor force in 2010 vs. only 12% in 1990.

Small Biz

The National Federation of Independent Business (NFIB) reports small business owner optimism increased slightly in Mar.

More Borrowing

The latest Fed data finds consumer borrowing increased by $16.5B in Feb, as consumers borrowed more to buy cars and pay for college education.

Less MBS

Inside Mortgage Finance reports new single family mortgage backed securities from FNMA and FHLMC have declined to a 14Y low in Q1, as originations continued to decline.

Account Change

A study by Pew Charitable Trusts finds 70% of banks in 2014 had a mandatory binding arbitration clause in their checking account disclaimers vs. 58% in 2013.