

Race Forward In Banking

by [Steve Brown](#)

The 98th Running of the Indianapolis 500 will take place this May as 33 of the world's fastest drivers navigate the oval path to earn a spot on the Borg-Warner Trophy. One lap in the 500-mile race equals 2.5 miles and the track has four distinct turns. Each turn is banked at exactly 9 degrees, 12 minutes. If you're starting to feel a little dizzy as you try to wrap your head around all of this, consider this fun fact too: the record for the fastest official lap ever turned during the month of May belongs to Arie Luyendyk who, on May 12, 1996 during qualifying, clocked 237.498 mph. Luyendyk actually drove even faster two days earlier during practice hitting a record setting 239.260 mph, but practice laps aren't official so his lower time is the one on the books.

Thinking about the Indy 500 brings to mind the well-known phrase "staying ahead of the curve." It's apropos in banking as well, where we always need to be mindful of what the competition is doing and be prepared to drive swiftly as developments occur.

This thought sped into our minds as we read about some recent initiatives American Express is making to target the underbanked. By way of background, a number of community banks have in recent years given up offering and developing products for the underbanked due in part to a more complex regulatory environment and lower profitability. However, the underbanked still make up a sizeable portion of the population at about 70mm Americans (underserved by traditional financial services), according to a 2011 FDIC study. More startling, perhaps, is that nearly 50% of all U.S. households said they wouldn't be able to come up with \$2K in case of an emergency, according to a 2013 Brookings report.

Enter American Express speeding forward trying to tap into this group of potential customers. For the past few years the company has been expanding its services to financially underserved consumers. From the Bluebird checking and debit alternative offered in connection with Walmart to its Serve reloadable prepaid account Amex has been taking steps to "promote financial inclusion in the U.S."

For starters, the financial services company has produced a documentary film in partnership with award-winning filmmaker Davis Guggenheim. The film, expected to debut this summer, follows the financial struggles of a handful of Americans.

The company's venture arm is also going to be making more of an effort to fund startups working on solutions that will benefit the underbanked. Moreover, American Express is establishing a Financial Innovation Lab to bring together researchers, counselors for the underserved and technologists to help test and validate solutions to problems related to savings and credit building. The company has said the research that comes out of this initiative will be made public.

We don't think community banks need to go out tomorrow and start targeting the underbanked unless it makes sense for your business model. We understand that for some banks there may be legitimate economic reasons not to make a power play like Amex here and for others it might make more sense. The key though is to keep a constant eye on the trends of competitors and the road ahead, as you look around every turn to determine the best path to take. Done right, there is a lot of

room for winners in banking, but to reach the winners circle you need to be focused as you race forward around every curve.

BANK NEWS

M&A

First National Bank of Southern California (\$141mm, CA) will acquire First Mountain Bank (\$134mm, CA) for about \$14.1mm in cash.

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The Bryn Mawr Trust Co. (\$2.0B, PA) will acquire Continental Bank (\$658mm, PA) for about \$109mm in cash and stock.

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First American Bank (\$3.4B, IL) will acquire Bank of Coral Gables (\$103mm, FL) for an undisclosed sum.

Strange Situation

One reason longer maturity Treasury yields are low could be due to supply and demand. Bloomberg reports Treasuries due in 10Ys or more now account for only 5% of the total market for U.S. debt (excluding Treasuries held by the Fed) yet demand from foreign and domestic investors remains very strong.

Small Business

The BLS reports that since 2007, the U.S. has lost 1.4mm self-employed businesses or about 9% of the total outstanding at that time.

New Cyber Approach

The Wall Street Journal quotes Symantec software executives saying antivirus is dead and no longer effective in keeping hackers out of systems. As such, the company said it is now focused on finding hackers once they get into key systems and then minimizing the damage. There are so many hacking attempts, Symantec estimates antivirus now only catches about 45% of cyber attacks.

Directors

A survey by the American Association of Bank Directors finds the FDIC has sued or authorized suits of former directors of about 27% of the banks that failed during the crisis.

Painful

A survey by George Mason University finds 65% of community banks surveyed said Dodd Frank was more burdensome than BSA. Meanwhile, 83% said annual compliance costs had increased by more than 5%, about 8% said costs had risen < 5% and 3% reported no change in costs.

Checking Accounts

A Google Consumer Survey finds 38% of consumers said they do not write checks anymore, 26% said they do so several times per month, 21% said a few times per year and 16% said once per month.

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