

Studying The Language Of Banking To Simplify!

by [Steve Brown](#)

Languages are interesting in the different ways they treat plural nouns. For instance, Latin-based languages like Spanish or French pluralize articles as well as nouns. For example "la chica" becomes "las chicas" or in French, "la fille" becomes "les filles". English seems easier at first where "the girl" becomes "the girls" and there is no need to worry about articles. English gets weird though when you consider the lowly goose, moose or house though. Several geese are called geese, but several moose are not meese and while a mouse becomes mice, a house does not become hice. Finally, as allergies abound in our office, there has been demand for Kleenex. It seems logical the plural would follow the example of "index" and "indices", so please send more Kleenices.

Speaking of groups of things in banking, we heard an interview recently with a bank in Canada that has gone through a major strategic initiative to reduce pluralities in the bank. This bank, while large by U.S. community bank standards, primarily serves smaller towns in the state of Alberta. Its focus, like most community banks is providing core banking services and their business objectives are clear - have customers' love and respect, be a great place to work and be a leader in their markets.

Over many years, this bank had adopted new products, some by developing them internally and others through interfaces with outside vendors. Many internal processes also came from outsourced solutions. Like most institutions, the bank had used a defensive strategy to address changes in the industry and the result was pretty haphazard in the end. Most banks are conservative by nature and have an incremental culture, so this makes sense. This means that rather than re-designing processes from the ground up, with the flexibility to implement future changes, many banks may bolt something onto an old process that fixes an issue for now. This particular bank went through and found that it had 1,200 different applications so its model had become unworkable.

To solve the issue, they brought in an outside facilitator to guide the bank through the process. From start to finish it took 4Ys. Choosing the right consultant was important, but just as important was getting real buy-in from management. The entire culture within the bank had to change and everyone had to be on board. There were ongoing consolidations, such as the loan underwriting process (the point of application to approval was combined with all documentation and everyone was involved). All staff in the bank had an overriding objective of looking for efficiencies and if any new process was brought on, it needed to replace at least two (and preferably more) older ones.

Throughout the 4Y journey, the bank worked very hard to make changes unnoticeable to customers except in the case of improvements. They acknowledge it was tough work for the staff, but in the end, the bank went from 1,200 different applications to 10 interconnected processes. The work is never done, of course, because the industry continues to change. After the changes though, this particular bank found that its model had become far more flexible and it could adapt to changes of almost any kind more quickly - including new customer products and regulations.

Your bank may not have as many unique processes that need to be consolidated, but most banks have a lot of complexities born of a similar history. To improve, think about ways your bank can make its processes more relevant and efficient, because agility is critical in this ever-changing industry.

BANK NEWS

M&A

Seven bank holding company Simmons First National Corp. (\$4.4B, AR) will acquire First State Bank (\$1.9B, TN) for about \$234.4mm.

6Y Change <\$1B

While we were looking at banks <\$1B to see what had changed significantly from 2007 to 2013 for an earlier analysis we ran in the BID, we also found the following changers to this group of banks over this period of time interesting: number of institutions (-21%); total employees (-20%); assets (-6%); securities (+17%); loans (-16%); loan loss allowance (+11%); interest bearing deposits (-7%); other borrowed funds (-47%); total bank equity capital (-7%); perpetual preferred stock (+433%); common stock (-16%); noncurrent loans (+20%); long term assets 5+ years (+60%); volatile liabilities (-70%) and FHLB Advances (-46%).

Regulatory

The CFPB has issued a proposal that would allow banks to post privacy notices online rather than have to deliver them to customers by paper, as long as they do not share customer data in a way that would trigger the opt out provision under annual privacy notices (changes to online disclosures would still have to be mailed separately, but could be done in monthly billing statements).

Biz Competition

The latest Biz2Credit report finds banks with assets \$10B+ approved 19.4% of small business loans in April, the highest level recorded in 3Ys. While still much higher at a 51.1% approval rate, banks with assets < \$10B nonetheless saw loan applications decline 5bps in April, as competition from big banks jumped.

Apartment Vacancy

Reis Inc. reports at the end of 2013 the apartment vacancy rate (analysis of 50 top markets) was 4.1% or about 28% below the average rate since 1980 (5.7%).

Office Vacancy

Reis Inc. reports at the end of 2013 the office vacancy rate (analysis of 50 top markets) was 16.7% or about 12% above the average rate since 1980 (14.9%).

Small Biz

The latest quarterly Experian/Moody's Analytics Small Business Credit Index finds small business credit balances fell 1.2% in Q1 vs. Q4.

Copyright 2018 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.