Diversification To Boost Knowledge

by Steve Brown

Diversity of expertise doesn't always lead to better results. For instance, it is unlikely that you would want the gardener that tends the bank's plants to join your ALCO committee. It is also unlikely that despite certain skills in other areas, you also probably wouldn't want your high school coach to attend such meetings or a doctor in charge of the psychiatric ward of a mental hospital (although this one might help with some of the management team personality quirks, as well as interpreting byzantine regulatory rules, so we might reconsider).

Another organization that could use some diversification of experience right now urgently is the FOMC. Recent resignations and a slow Congressional process have left 4 of 7 seats vacant and the latest announcement could push the total down to only 3 members. That hasn't happened before in the Fed's history. We don't need any issues when the economy is just recovering so we sincerely hope Congress gets its act together soon.

Perhaps it is also time for the FOMC to consider filling one of those seats with a community banker in order to get that additional perspective. Certainly one could argue that the community banking share of financial industry assets is relatively small at only 14% or so, or that the work of the group is more global in nature, but we beg to differ. Given the focus on managing TBTF banks and a dual mandate of maximizing employment and controlling inflation, we would argue community banks are exactly the place to go for answers.

To back it up with some other statistics, consider that community banks provide almost 50% of loans to small businesses and farms. These businesses (with < 50 workers) employ some 48mm Americans. That is critical to our economy. Further, community banks serve different markets and especially in rural areas and smaller towns, may be the only banking option. The FDIC reports that 37% of counties in the U.S. (1,200 of 3,238) would have limited access to banking services without the presence of community banks. That is a lot of people.

The FOMC has a defined role and it also previously had two governors with retail banking experience, but the makeup today leans towards academics. This includes economists and representation from the investment banking, private equity and legal fields. Consider that the Federal Reserve Act itself even calls for governors from diverse backgrounds.

Yes, we think it is time to offer a chair to a community banker. It will help the group better understand the impact of regulation and actions on community banks (and in turn small businesses) and better balance discussions perhaps. As community bankers know firsthand, the credit crisis issues caused by the largest banks have had an untold negative impact further downstream as well as regulatory agencies have jumped in with policies that seem written without concern about what is going on in the trenches.

Large banks already have a competitive advantage in complying with regulations given huge internal legal and compliance teams community banks just cannot afford. Given that the Fed's role in banking has expanded significantly since the financial crisis, we think it only makes sense that a part of governance would include membership with experience in the vital community banking sector.

BANK NEWS

Debt Increase

The New York Fed reports household debt in Q1 increased for the 3rd straight quarter, led by higher mortgage debt (and small increases in student and auto loan debt).

Biz Launch

A survey by outplacement firm Challenger Gray & Christmas finds 5.5% of managers and executives that lost their jobs started a business, up 31% from 2012.

Human Resources

The Society for Human Resource Management reports U.S. companies had a median 1.54 human resource professionals for every 100 employees vs. 1.24 in 2009.

Young Affluent

Perhaps still stinging from the Great Recession, a UBS study finds people in their early to mid 30's with at least $100k to invest keep 42% of their money in cash.

GDP Projection

Deloitte projects the economy will grow 2.8% this year.

Temporary Employment

The Bureau of Labor Statistics reports the temporary staffing industry reached 2.8mm in Mar or about 2% of the overall workforce, the highest level in 14Ys.

Marketing

Bankers may want to alert their business customers that analysis by predictive analytics company Custora finds search engines account for 40% of orders and email accounts for 16%.

Marketing

Experts suggest newer companies should set a marketing budget of up to 20% of gross revenue, while more established ones should target around 5%.

Email Power

Research by the Direct Marketing Association and Constant Contact finds for every $1 spent on email marketing to existing customers, businesses generate about $40 in sales.

Email Weakness

Studies find less than 20% of people who receive emails actually click to read them, but about 40% will read emails if they relate to a specific transaction.

Mobile

Pew Research finds 90% of U.S. adults have a cell phone now and 58% have a smartphone.