Watch Out Where You Are Going

by Steve Brown

There is a city in China which is experimenting with a two-lane sidewalk. One lane is for people paying attention to their surroundings normally as they walk, and the other lane is for people looking at their smartphones. The official in charge of the downtown area where the experiment is taking place noted that those using their phones while walking were distracted to the point that they were colliding with other people. The two lane sidewalk seems like a great idea, but in practice it was found that those using their cell phones were too absorbed to notice the markings on the pavement and abide by the lanes.

There are times when the complexity of our lives absorbs our attention to the point that it causes us to ignore details that we thought were covered, but that in the end if neglected could cause danger to ourselves and others. As all financial institutions grapple with profitability, some larger institutions are reassessing the profitability of their correspondent and fixed income units. To that end, some have elected to discontinue services with little notice, leaving customers frantically looking for alternatives. While typically banks have multiple approved fixed income providers, if one of the providers discontinuing its service not only provides fixed income alternatives to the bank but also its ALM measurement, those banks can find themselves scrambling to find an alternative provider for their bond purchases and for a mandated regulatory risk management process (rate risk measurement) as well.

For these banks that are impacted by such unexpected disruptions of service, care should be given as to how to transition to either an alternative provider or to an internal process. Given the heightened focus by the regulatory community on vendor management and due diligence, care should be used in determining a replacement provider, as many providers exist with effectively no regulatory oversight and/or who have limited financial resources to devote to the ever increasing regulatory expectations. More specifically, when assessing a new vendor, the due diligence process should cover numerous factors, including the vendor's ability to function in the case of adverse conditions, continuity plans in case key staff leaves the company, data security and IT capability. The vendor should also be assessed for its financial stability. As a quick method to determine viability, one question to gauge vendor strength is to ask if your bank would consider the vendor to have enough financial capability that your bank would lend it money.

Additionally, regulators are looking carefully at model governance, specifically in the area of key modeling assumptions and their impact on risk measurements. Model assumptions like deposit beta, deposit decay and prepayments have been on the radar screen for some time and detailed analysis of these assumptions is now pretty much a requirement versus being a recommended practice in prior years. Regulators are now looking for banks to use bank-specific experience in risk measurements, as well as implement common assumptions across multiple risk analytics (rate, liquidity and credit).

As with the two lane test in China, community banks here in the U.S. don't want to find themselves walking down the distracted lane of the regulatory sidewalk. Whether you are a bank that has been left in the void by a fair-weather large bank correspondent, or a bank looking to elevate your risk measurements (rate risk, liquidity analysis, stress testing or capital planning); PCBB offers services that can help. Give us a call to see how.

BANK NEWS

M&A

Grand Rapids State Bank ($225mm, MN) will acquire Crow River State Bank ($84mm, MN) for an undisclosed sum.

M&A

Investor group Park Cities Financial Group (TX) will acquire Town North Bank ($593mm, TX) for an undisclosed sum. Park Cities has been looking for a TX bank to buy since last year and is led by billionaire Darwin Deason.

Ring Busted

The New York State Attorney General has charged five people, including three tellers at multiple banks, with identity theft, fraud and grand larceny. The tellers reportedly stole personal information from customers, created fraudulent documents and then used the information to take money from their accounts. The ring operated for 4Ys and took a reported $850,000.

Less-In-Branch Use

The CEO of Bancography says demand for in-branch teller transactions has declined 35% to as much as 50% at banks over the past 5Ys.

Online Fixed Income

Research by Greenwich finds 80% of investors now buy at least some of their bonds electronically vs. 47% in 2009.

Job Cuts

Citing an ongoing slowdown in the business, Bank of America said it plans to eliminate jobs in its fixed income and equities groups.

Financial Advice

Research by BNY Mellon and undergraduates from Oxford University finds about 52% of Millennials said they would ask their parents for financial advice vs. 24% who would ask a bank. Meanwhile, less than 1% said they wanted financial service providers to connect with them through social media.

Malware Risk

PC World reports malware known as Tiny Banker or Tinba has been customized to target banks. The malware is injected into HTML fields of websites, appears with the bank's logo and look/feel and asks online banking users for more information that is then exploited. Bankers should beware of this risk and take actions to mitigate.

Tight NIM

As of Q2, the FDIC reports NIM for banks over $50B declined to a very low 2.8%.