Avoiding Risk in Shared Services

by Steve Brown

Joining together to accomplish something can be a good thing, but it can also lead to unintended consequences. Consider a pediatrician's warning that group selfies are increasing head lice infestations between kids. That's right - taking a picture with friends can result in what experts are calling social media lice. Yuck! The good news for banks is that not only is there no evidence yet of any banking industry outbreak, but also that being social and coming into contact with each other can be quite beneficial (bet you didn't see that transition coming).

Even as individual community banks strive to make their own mark in this banking environment, they can also benefit from coming together with other banks and third parties to leverage their strengths and achieve great results.

Despite countless articles arguing that the only way for community banks to survive going forward is through significant consolidation, the Conference of State Bank Supervisors (CSBS) believes there is another option. The CSBS indicates a viable alternative to M&A for community banks could be for individual banks to join forces or perhaps work more closely with other companies through shared service arrangements.

We know quite a bit about this since PCBB is owned directly by community banks and all of our services are designed to do just that. The entire structure of a bankers' bank in fact is to create synergies and economies of scale, so if you have ideas where you think we might be able to help, we encourage you to send an email and let us know directly.

In the meantime, we delve back into our discussion today around shared services. Let's face it - every single community banker feels the elephant weight of regulations sitting on them these days. Literally thousands of pages of regulatory changes and requirements have been introduced in recent years, and community bankers are drowning. The key in any sharing arrangement we believe, revolves around a few major principles.

First, you have to decide what makes sense to share and what does not. For instance, sharing private information on customers is dicey, as can be certain arrangements when working with competitors. On the other hand, accessing skilled expertise to address specific regulations can be a good thing perhaps.

Another consideration is to determine exactly what you are trying to accomplish and assess the feasibility of doing so by sharing services or leveraging a company that does so. Articulating what you are trying to do and then matching that up against the offerings provided helps ensure you limit potential surprises from cropping up.

Next, begin this journey with something that would be a nice fit to such a structure but that won't negatively impact your brand either. That way, as you cut your teeth on such things you aren't risking too much, but you are hopefully seeing progress.

Fourth, understand that these structures will drive more standardization around processes and reporting. That can be a very good thing, but community bankers built to customize products and services to meet customer demands may struggle some with this. Here you just have to be prepared and accept that to get lower costs or more expertise that something may have to give a little.

Fifth, understand that when you share something with someone else you are by very nature going to be working together. Go in with an open mind and know that shared services can be as simple as outsourcing something you do in-house today, to sharing a process or service (perhaps even from some other geographic location entirely) in order to get more help or reduce your costs.

Finally, be aware that your bank should treat any shared service arrangement in the same way that they would any third party service provider relationship. You will need to consider the risks, look at financial strength of the entity or provider and closely consider any risks that could potentially result. Inadequate processes or systems could expose your bank to risks in the same way that any traditional third party service provider could, but the good news is that doing so is probably also not at the risk level of socially touching heads for a selfie.

BANK NEWS

M&A Activity

1) Independent Bank ($5.7B, TX) will acquire the parent company of Northstar Bank of Texas ($1.7B, TX) and Northstar Bank of Colorado ($609mm, CO) for about $434mm in cash (3%) and stock (97%). 2) Centennial Bank ($9.8B, AR) will acquire The Bank of Commerce ($196mm, FL) for $3.8mm in cash. 3) Two-bank holding company, Peoples Independent Bancshares, Inc. ($279mm, AL) will acquire Horizon Bank ($96.2mm, AL) for an undisclosed sum in cash. 4) ACNB Bank ($1.2B, PA) will acquire New Windsor State Bank ($311mm, MD) for about $33.3mm in cash (15%) and stock (85%).

Most Important

The Financial Stability Board (FSB) has released its annual list of globally systemically important banks subject to higher levels of capital buffers and are as follows: Bucket 4 (subject to additional 2.5% buffer): Citigroup, JPMorgan; Bucket 3 (2.0% buffer): Bank of America, BNP Paribas, Deutsche Bank, HSBC; and Bucket 2 (1.5% buffer): Barclays, Credit Suisse, Goldman Sachs, Industrial and Commercial Bank of China, Mitsubishi UFJ, Wells Fargo. Note that Bucket 1 (1.0% buffer) contains an additional 18 banks.

Longer Debt

A story in Barron's makes the case that the US should take advantage of historically low interest rates and issue 50 to 100Y bonds to use for infrastructure, economic stability and growth. We will all have to wait and see what the Trump administration does, but it is interesting to ponder.