



Strategically Thinking About Banking

by [Steve Brown](#)

YouTube is modifying its strategy by announcing it will launch a new subscription-based service. The service launches next month and reportedly will offer users the ability to pay \$10 per month to listen to music and watch ad-free videos. More will likely be announced soon to clarify the details, but it is an interesting strategic shift to be sure.

In the banking world, the FDIC also seems to have modified its approach to directing how banks should continue to evolve strategic planning. In its Supervisory Insights report, the regulator begins by reiterating that bankers face a highly competitive and challenging operating environment, despite steady improvements in financial performance. It is these very challenges that have the FDIC focusing bankers on their strategic planning processes.

The first point the FDIC makes is that a bank's ability to generate sustainable earnings is primarily driven by the plans and strategies of bank management. More specifically, these plans and strategies must be managed within a framework of risk. The key, according to the FDIC, is that external financial trends influence earnings, but the course set by bank management is in the end the most important factor.

Next up, the FDIC reminds bankers to set targets for loan growth, asset liability management and funding strategies as a way to determine how much capital the bank will need. Once you have that, the goal is to then establish long and short term business objectives and adopt operating policies to achieve those objectives in a legal and sound manner.

A third area of suggested focus is for banks to begin the strategic planning process with a solid understanding of the current operating environment. This includes the bank's condition, risk exposure, business model, key opportunities and challenges. The idea is to take this knowledge to better plan initiatives that are consistent with your available resources and expertise.

A fourth component revolves around corporate governance. The FDIC indicates successful bank operations require sound decision-making by the bank's management and board. This process and factors are what make up effective corporate governance. That said, the FDIC goes on to say that corporate governance can be more or less formal, depending upon the size and complexity of the bank, so there is room here as well.

Beyond holding a proper amount of capital and the other factors outlined above, the FDIC suggests bankers take a close look at the expertise of staff and the earnings of the bank in relation to the institution's risk profile. Here, it is important to consider the institution's risk profile, current and future credit risk, asset-liability mismatches, and risk in the securities portfolio. Banks should also consider external risks like economic cycles, the potential risk impact and contingency plans. Risk assessment has to go beyond components of the bank and include adverse changes that could occur in the economy at large or in a bank's market area.

Competition is also important to consider in strategic planning. The FDIC specifically talks about competition and the pressure it has put on net interest margins, income and earnings. This is another important external risk that needs to be considered in the overall strategic plan.

The goal of the report it seems is that the FDIC hopes banks can achieve better sustained performance by understanding the implications of their risk profile. In short, banks with higher risk profiles should balance that elevated risk with more capital, larger reserves, more risk management expertise and greater income. For instance, a bank with low ROE and ROA compared to its peers, but which also carries high risk in its loan portfolio, is inherently at greater risk than a bank with the same earnings, capital and reserves but a lower risk

profile.

Strategic plans take time to execute and much goes into them up front and along the way. It remains to be seen how well the YouTube strategy will work, but in the meantime, community bankers would be well served to consider these and other factors when conducting strategic planning this year to try to stay ahead of the curve.

ECONOMY & RATES

Yesterday

Little market movement as yields only dropped 2bps. Investors continue to ponder when a rate hike will occur.

Rates As Of: 10/07/2015 07:23AM (PDT)

Treasury	Yields	MTD Chg	YTD Chg
3M	-0.01	0.00	0.00
6M	0.07	0.00	0.00
1Y	0.24	0.00	0.00
2Y	0.63	0.00	0.00
5Y	1.38	0.00	0.00
10Y	2.08	0.00	0.00
30Y	2.92	0.00	0.00
FF Market	FF Target	Fed Disc	
0.00	0.25	0.00	
Prime	Unemployment	Oil	
3.25	0.00	\$0	

[More Market Rates](#)

BANK NEWS

Going Biometric

Royal Bank of Canada said it has launched a new customer identity verification system called Secure Voice that uses voice biometrics to authenticate the person. The bank says it will fully phase in the service by next year.

Samsung Pay

Bankers should note that Samsung Pay officially launched in the US this past Monday. So far, Bank of America, Citi, American Express and US Bank are announced participants. Samsung Pay uses fingerprint biometrics for authentication like Apple Pay.

Bank Partner

Regions Bank has joined forces with lending start-up Foundation to offer an integrated small business lending solution. Small business owners can access Foundation's online loan application direction from Regions' website. The move comes as Regions seeks to build out options for customers, after the bank found about 20% of its small business customers in a recent survey said they were using online alternatives

Economic Downgrade

The IMF has downgraded its outlook for global growth in response to a slowdown in China and decline in commodity prices, among other factors. The IMF now projects global growth will be 3.1% this year vs. prior forecast of 3.3%.

Virtual Currency

The Fed reports the largest virtual currencies in circulation are: Bitcoin (\$2.85B), Ripple (\$441.4mm), Litecoin (\$43.2mm), PayCoin (\$37.8mm), and BitShares (\$24.2mm). FinCEN has designated all virtual currency exchanges and administrators as money transmitters.

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