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Second Quarter 2014 Volume 6 Issue 2

TKG Perspective

Teaching & Speaking Engagements

SNL Financial
University of Virginia Darden School of Business
Charlottesville, VA **July 31**
Analyst Training in the Banking Sector

Maryland Bankers Association
The Maryland Banking School
University of Maryland Inn and Conference Center
College Park, MD **August 4**
Bank Financial Principles

Pennsylvania Bankers Association of Community Bankers Annual Convention
The Ritz Carlton
Amelia Island, FL **September 6**
M&A Update: Mapping the Decision to Buy, Sell, or Execute Your Plan

Financial Managers Society
East Coast Regional Conference
Hotel Hershey
Hershey, PA **September 29**
State of the Financial Industry

Conferences, Conventions & Other Events

New Jersey Bankers Association 2014 Annual Golf Networking Outing
Fiddler's Elbow Country Club
Bedminster, NJL **August 11**

Pennsylvania Bankers Association of Community Bankers Annual Convention
The Ritz Carlton
Amelia Island, FL **September 5**

New Jersey Bankers Association Annual Senior Management Conference
Stockton Seaview Hotel
Galloway, NJ **September 10**

Maine Bankers Association Annual Convention
Marriott Longwharf
Boston, MA **September 18**

New York Bankers Association
2014 Financial Services Forum
Waldorf Astoria
New York, NY **October 28**

Bankers: Let's Be Necessary

By: Jeffrey P. Marsico, Executive Vice President

Why did Willie Sutton, famous bank robber from the 1920's to 1950's, rob banks? "Because that's where the money is." By the way, Sutton denied the quote, but we can't deny it's true. Financial Institutions ("FI") remain the place to go for money, but not for long.

Why do FIs opt for the sideline in participating more fully in innovation? I have written and spoken about FIs myopic view of "bankable" clients. Like politics, economics can be very local. Deep into our slow chugging economic recovery, bankers are beginning to feel more comfortable lending, especially in economically vibrant pockets of the country.

But what about slower growing markets, or the next recession? Who will be the innovators that start companies that will charge our local economies forward? Are we finding them, encouraging them, and yes, financing them? Probably not, because they are early stage businesses, and therefore not "bankable."

Access to capital is a significant challenge for early stage businesses. Absent banks, non-traditional companies are filling the breach. Of note are peer to peer lenders such as Lending Club and Prosper, crowdfunders Kickstarter or Indiegogo, and merchant advance firms like Kabbage or OnDeck Capital. It is firms like these that are putting capital in the coffers of companies that will drive our local economies in the future. Will they turn to your FI when they become "bankable," or should you participate in financing the companies of the future?

I have a few television "indulgences" that my wife tolerates. One is ABC's Shark Tank. A panel of investors, including the Dallas Mavericks owner Mark Cuban, listen to pitches from budding entrepreneurs to win funding from the Sharks. Sometimes the Sharks don't like the idea, or the entrepreneur, and decline. Sometimes they want to invest, and compete with the other Sharks to be the investor of choice. Some companies walk away with a bucket of cash in exchange for relinquishing some ownership to the investing Shark.

What a concept! Why can't the local financial institution manage a local fund to inject capital into promising local ventures?

Because bankers generally don't like to be at the tip of the spear in product and service offerings, let alone be innovators in startup capital infusion. In many cases, it's far too risky to undertake a strategic direction that has been untested. The potential for failure is greater. So we opt for making incremental improvements to business as usual.

But in my opinion, business as usual is a riskier course. Better to innovate and go out swinging, then to remain mired in the past and go out with a whimper. If you are not happy with economic growth in your backyard, then maybe you should do something about it.

There are some leading edge bankers to use as your guidepost. Take Silicon Valley Bank in Santa Clara, California. Here is a bank that nurtures start-ups from the garage to global distribution (see picture from their investor presentation). Through their Accelerator Solutions, they package products, expertise, and connections into one business unit to improve the likelihood of start-up success. The company had a 2.35% ROA in 2013 fueled, in part, by gains on sales of equity stakes of its customers.

I understand SVB's location allows them to specialize in serving tech start-ups and venture capital firms, but innovation need not start in northern California. In fact, I would put to you that this region benefits tremendously by having nearby support systems that foster innovation. Your markets can too. And why can't it start with your FI?

Here are three things I think your FI can do to foster greater innovation in your markets that can drive economic prosperity and, therefore, your success for generations:

1. Develop specialized expertise within your FI to help entrepreneurs get their businesses off of the ground;

2. Create flexible product packages to make banking simple for early stage companies;

3. Find creative means to get capital in the hands of promising companies. This can be done through equity funding through a bank managed angel fund, partnerships with various VC firms and institutions such as nearby insurance companies, factoring firms, etc., or outright balance sheet lending, so long as you put a wall around the risk.

If I have got you to read this far, then you are open to the idea of charting a course for your FI that may be very different from where you are. I salute you for sticking with it, because some of your colleagues have already checked out of this newsletter for fear their head may explode.

For risk management purposes, I am not proposing loading your balance sheet with loans to early stage businesses that tend to have high failure rates. But your FI is a key actor and a participant in the drama that is your local economy. Do you want to drive the stage coach or the hearse? Should we continue to lament about our local economies or should we do something about it?

I recently spoke at a bankers' conference about the top ten strategic planning miscues. One of them was ignoring non-bank competitors, like the ones I mentioned above. But there are others such as Bluebird, a collaboration between American Express and Walmart that looks and acts like a checking account. When I asked the bankers in attendance what they thought of Bluebird, nobody heard of them.

This reminds me of the frog in a slow-boil pot analogy. We don't realize that non-bank competitors are taking business until we are cooked. It's as if ING Direct never happened, or we believed that none of our bank's clients had an Orange Account. I realize ING is/was a bank, but you get the picture. Customers and would-be customers need us less and less. Remember that Bill Gates recently stated, "banking is essential, banks are not."

If our bank's success is tied to the success of the local economy, does it make sense that we do something about it? If non-bank competitors are helping early stage businesses get off the ground while we wait by the phone for those businesses to become bankable, then we should not be surprised if the phone never rings. Particularly with the younger generation that may not see banks as necessary. So let's be necessary.