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What's the Next Crisis?

By Robert E. Kafafian, President and CEO

I remember a speech given by **Jamie Dimon, Chairman and CEO of JP Morgan Chase,** at the New York Bankers Association Convention back in the fall of 2009. It was approximately a year after the real estate debacle which culminated in September 2008 and caused what we now know as the great recession.

Mr. Dimon recalled how his daughter, who was in college at that time, had asked him three questions, (1) Dad, aren't you scared and afraid, (2) will the country ever be the same, and (3) what can you, or anyone do about the then current situation?

His response was unexpected and telling. **He told his daughter that he was already worrying about and planning for the next crisis.** Isn't that interesting?

He went on to say that during his post college adult lifetime and throughout his career, he had witnessed many difficult and sometimes tragic events, that in most cases changed the direction of business and often the world as we knew it.

He began by talking about the **oil embargo back in the mid-1970s** when we impatiently waited on lines to get gas for our automobiles. I specifically remember this time, because it occurred while I was in college.

He then talked about **Federal Reserve Bank Chairman Paul Volker's taming inflation, which caused interest rates to rise to 20% in 1980.** I remember getting my first mortgage at a rate of 14.5%, and thinking I got a bargain. I certainly didn't mind the 12% CDs or Money Market accounts back then, and I would like to have one of those today.

He went on to speak about **the late 1980s and the savings and loan crisis and subsequent failure of over 1,000 banks.** This was the result of the changing of the ground rules as they related to goodwill. The dispute boiled down to an accounting incentive for goodwill that the government provided to thrifts in the early to mid-1980s to persuade them to acquire insolvent savings and loans. But unlike the traditional accounting designation of goodwill found in the billions of dollars on the books of most companies, government regulators came up with something they called "supervisory goodwill" to encourage healthy thrifts to take over failed institutions.

Under the government's plan, regulators estimated the difference between the value of a failed thrift's liabilities and its assets, creating illusory "supervisory goodwill." Healthy thrifts were told to place that amount as an asset on their balance sheets if they agreed to acquire the failed S&Ls. Regulators then told the thrifts they could have 40 years to amortize, or write off, the goodwill. However, in 1989, Congress passed a law requiring the thrifts to slash the amortization period to five years. Taking this much larger annual write-off lowered capital below regulatory minimums at many institutions that had acquired struggling thrifts. As a result, numerous thrifts suddenly found themselves teetering on the brink of insolvency and many failed.

Next came the **Commercial Real Estate crisis of the early 1990s** which proved costly for the financial and real estate development communities in North America. While several banks failed in the United States, the larger, diversified banks of Canada did not fail, but suffered through drastic reductions in credit and significant losses in loan portfolios. Meanwhile, the failure of global developers and one of the largest bankruptcies in the United States proved to be a case study for the riskiness of the industry and the degree to which the financial community once again failed to maintain sound underwriting.

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Shortly after came the **dot-com bubble** (also known as the **dot-com boom**, the **tech bubble**, and the **Internet bubble**) which was a stock market bubble caused by excessive speculation in Internet-related companies in the late 1990s, a period of massive growth in the use and adoption of the Internet. Between 1995 and its peak in March 2000, the Nasdaq Composite stock market index rose 400% only to fall 78% from its peak by October 2002, giving up all its gains during the bubble.

In the middle of the dot-com bubble, was **911 in September 2001.** Need I say any more about this event? And **lastly, the great recession and real estate debacle in 2008.**

Interesting that Mr. Dimon's response to his daughter was that he was already worrying about and planning for the next crisis. His reasoning was that approximately every five to ten years in his career there was another significant event, and that every one of these events was materially different than the previous one, or in fact, all of them collectively.

So then, the obvious question that came from the audience was, **what's next?**

When pressed for an answer, his response was a **cyber breach.** That seemed to make sense at the time, and certainly in the years that followed as we've dealt with and observed the likes of Target, Sony Pictures, T.J. Maxx, and Wawa to name a few. In fact, there have likely been over 300 major breaches in the past ten years.

However, I don't think anyone would have thought the next crisis would be a "Pandemic." And the important point is that once again, this significant event was completely different than any or all the previous events.

So, what's next? Well, **I don't really know,** but given history, I'd bet something is going to happen within, or around the next ten years. What's it going to be…your guess is as good as mine. **What's most important is that we're prepared.**

As **Bruce Condit of Alliance Capita**l stated in a recent article, *"Before a crisis strikes, business owners should think about how a disaster would impact employees, customers, business partners, the general public and their companies. A crisis can strike any company, anytime and anywhere. Advanced planning is the key to survival."*

The following seven steps might be helpful:

1. Have a plan
2. Identify a contact or spokesperson
3. Be honest and open
4. Keep employees informed
5. Communicate with customers and business partners
6. Update early and often, and
7. Don't forget social media

We may also find that the things we learn during a crisis might change the way we do things in the future. For instance, I recently spent an entire week doing strategic planning interviews for a client using Microsoft Teams. Guess what, it worked great, in the future we might choose to do all interviews this way.

In addition, while I have in the past used my iPhone to deposit a check, I'm wondering why I don't do this all the time. I'm also not using cash like I used to.

As financial institutions, we have a significant obligation to **employees, customers, communities, and shareholders. The decisions we make have implications that impact all these stakeholders. Be prepared and plan wisely.**

One other item. Right after 911, I had the opportunity to speak with the great writer Doris Kearns Goodwin. I believe she had just finished her book about Abraham Lincoln. I asked her if this was possibly the worst time in history. She had an interesting response. She said, "it only feels that way because we are in the middle of living through it."

She went on to say, "imagine how the world felt in the 1930s as Hitler began to dominate Europe. Today we have the benefit of knowing the ending, that Hitler failed, the war ended, and life moved on. Someday, we'll look at 911 the same way."

Someday, I hope we'll look at this Pandemic in the same way. All of us at The Kafafian Group hope all of you remain safe and healthy.