So Who Is Running Your Bank?

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2011 is emerging as another year of turmoil and uncertainty. Fatigue and burnout over financial, accounting and regulatory burdens still weigh on many financial institutions. Contributing to the angst are inconsistent interpretations and application of new accounting rules and regulatory pronouncements. Further, many banks are still experiencing credit risk challenges, an excessive buildup of cash, limited investment opportunity, lackluster loan demand and an overabundance of non-maturity deposits whose future retention is questionable.

Working actively with hundreds of organizations, our firm sees a broad spectrum of regulatory and strategic issues facing banks this year. In unwavering terms, times have changed and the consequences of not being prepared are too severe. Management teams and boards of directors must become comfortable answering tough questions from examiners with "I'll get back to you tomorrow." If they are sufficiently versed in the new regulatory guidance, they also should "push back" on recommendations that are truly not required.

Many community banks are investing valuable time and money trying to cover items identified in their last exams that are not required by regulatory guidance, but also have little, if any, utility. Most of those banks are inadequately prepared and, therefore, can do little to head off unfortunate outcomes.

Community banks that navigate these challenges do so through a combination of key initiatives:

- ongoing development of an ALCO discipline that has at its core a focused, proactive decision-making process backed by more robust modeling, supportable assumptions, “what-if” strategy simulation and stress-testing practices;
- a commitment to broadening the knowledge of the board though formal education and training programs;
- greater emphasis on documentation (policies, procedures and paperwork); and
- preparing for an upcoming exam by playing devil’s advocate and anticipating the “tough questions.”

For banks that don’t invest the time and money in these initiatives, more regulatory scrutiny is in their future. Instead, be proactive and show examiners that your bank’s ALCO and board have a firm understanding of the entire asset-liability management process; that the results are used in your bank’s strategy discussions; and that your bank is comfortable with its risk profile under stressed/extreme scenarios.

Can your community bank do this? If it can, then the answer to “who is running your bank?” is simple—you are.

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With over 25 years of experience in asset/liability management, Michael has provided technical and strategic consulting to a diverse group of financial institutions in the U.S. and abroad. Michael is also a frequent author and top rated speaker on a variety of balance sheet management topics.

During his tenure at DCG, Michael has served in various capacities, including Director of Financial Analytics. In addition, he is a technical resource for the ongoing development of many of DCG’s ALM-related products and services. Prior to joining DCG, Michael managed the ALM and strategic planning process for a regional bank in the northeast.

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