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## 2011 Banking Industry Issues and Initiatives

By Kara Anderson  
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McLagan's latest Flash Survey focused on current banking issues and initiatives as the industry continues to face financial and regulatory challenges. We surveyed which topics are weighing most heavily on banks in the early part of 2011. Survey participants were asked to score a broad range of concerns, from financial and credit quality to cultural and leadership issues. We also asked participants to report on 2011 initiatives to address those concerns.

**Total participants** – 53 individuals participated in our Banking Industry Issues and Initiatives Flash Survey in February and March 2011. Public and private banks throughout the country were represented, with assets ranging from under \$250 million (7 banks) to over \$5 billion (6 banks), with a median asset size of \$750 million.

### EXECUTIVE SUMMARY

With the release of both the Sound Incentive Compensation Policies (SICP) and the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) following our 2010 Flash Survey, it is no surprise that Regulatory Compliance took the lead as the top area of concern. Managing asset quality is the next topic on the minds of participants and was the top concern a year ago.

Among the planned 2011 initiatives, asset quality was clearly the most referenced. Other initiatives repeated at more organizations were: expansion, compensation planning, and capital management.

### Top Scoring Issues

- **Average scores – possible range from 1 to 6:**
  - Regulatory compliance – 4.57
  - Managing asset quality – 4.31
  - Capital management – 4.00
  - Expense management – 4.00
  - Managing operational risk – 4.00
  - New customer acquisition – 3.91
  - Customer retention – 3.91
  - Employee motivation and morale – 3.91

### Top Scoring Initiatives – Planned for 2011

- **Prevalence of initiative reported – out of 137 responses:**
  - Asset Quality – 13.9%
  - Expansion – 8.8%
  - Compensation Planning – 7.3%
  - Capital Management – 7.3%
  - Profitability/Other Financial Management – 6.6%
  - Customer Acquisition & Retention Strategies – 6.6%

### Scoring variations among bank demographics

There were a few noticeable variations in some responses related to type of bank. Average scores are reported on a scale from 1 to 6, with 1 being “no concern” and 6 being “extremely worrisome”.

- **Ownership Differences:**

- Private banks were more concerned than public banks in the areas of:
  - New customer acquisition (Private = 4.3; Public = 3.3)
  - Asset Growth (Private = 3.8; Public = 2.9)
  - Costs of executive compensation (Private = 3.4; Public = 2.4)

- **Asset Size Differences:**

- Smaller banks were more concerned than larger banks in the areas of:
  - Expense management (<\$250M = 4.6; >\$1B = 3.7)
  - Retain effective leadership (<\$500M = 4.2; >\$1B = 3.3)
  - Ability of CEO to meet current and future challenges (<\$500M = 3.8; >\$1B = 2.6)

- **TARP Bank Differences:**

- While TARP repayment was a concern to TARP banks (average score of 4.6 out of 6), it surprisingly ranked only 7<sup>th</sup> in overall concern; “asset growth” scored the highest.
- Banks currently participating in TARP overall indicated higher levels of concern in all categories surveyed.
  - The lowest category rated was “relationship between board & management” (2.8) and the next lowest was the “ability of CEO to meet current and future challenges” (3.4)

Fig. 1 Industry Issues Averages

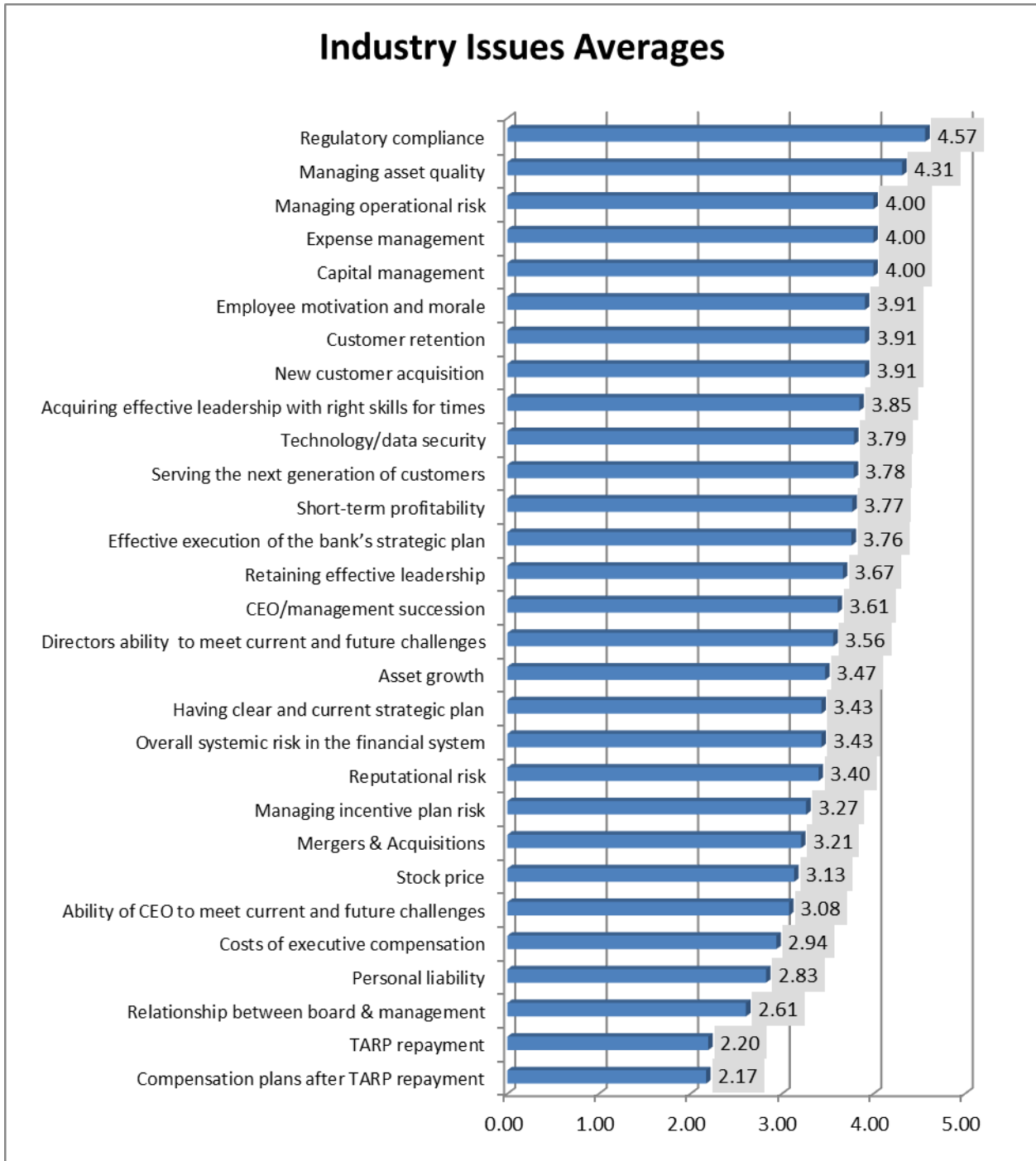
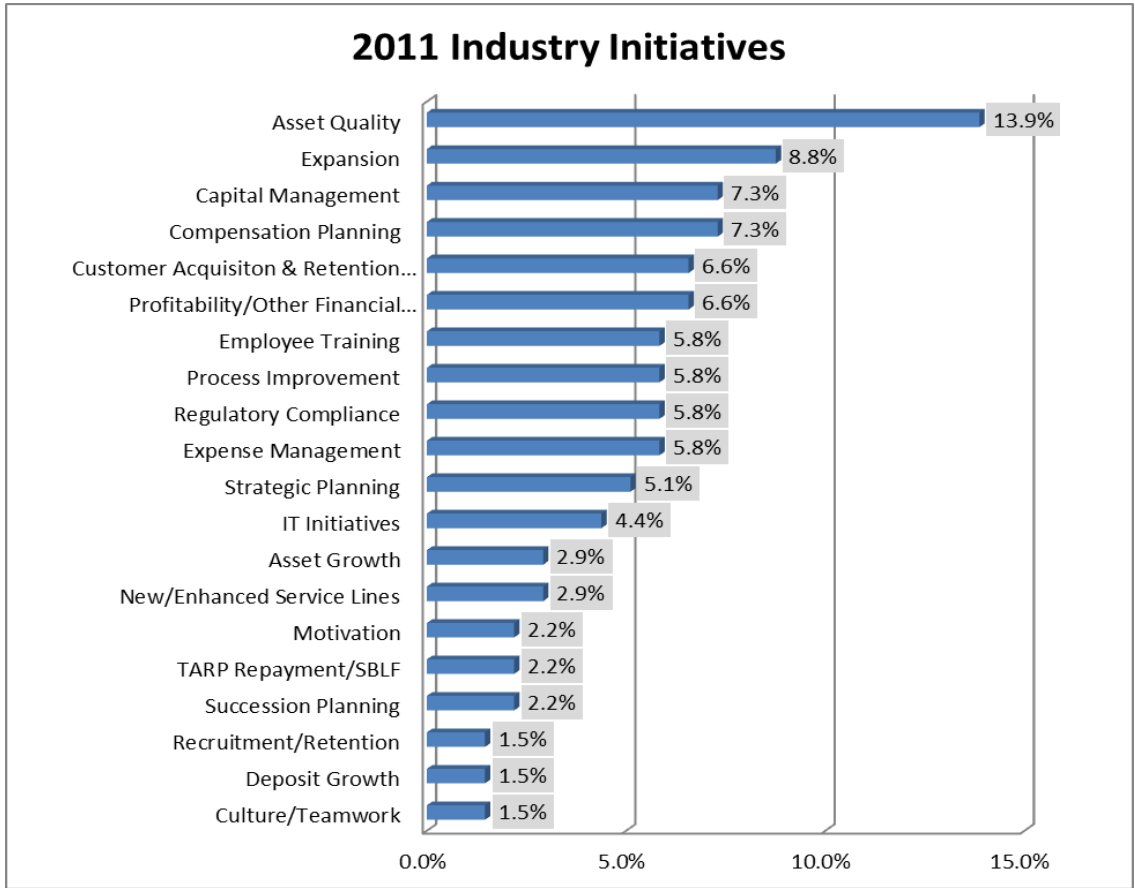


Fig. 2 Industry Initiatives Prevalence



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