STRATEGIC PLANNING: NEW VIEWS OF AN OLD PROCESS

By Cathy Ghiglieri

Strategic planning has always been an important function of the board of directors, but it takes on an even more critical role when under the regulatory microscope. The OCC announced that, for the remainder of 2016, it will continue to focus on strategic risk, as banks change their business models to adapt to innovative products and services.

The strategic planning process can take many forms, such as the traditional SWOT (strengths, weaknesses, opportunities and threats) analysis, but ultimately the board of directors has to decide where it wants the bank to go in the next five years and how it is going to get there. Regardless of the specific strategic planning process used, the board will have to analyze the internal and external factors that will impact the goals it is setting. The following are some factors to consider when developing a strategic plan:

Risk culture: The board should use the strategic plan to articulate the bank's risk culture to the staff. Is the board generally risk adverse or is it willing to take risks as long as they are monitored and controlled? Is the board willing to adopt innovative products and services, and if so, how will it ensure sound risk management practices are being implemented at the same time?

Enterprise Risk Management: Most banks should have started the process of quantifying risk across the entire bank. The results should be factored into the strategic planning process and should identify where excessive risk has been taken or where excessive risk could be taken because of lax controls. The board may decide to reduce the risk profile in certain areas after having the benefit of the results of the enterprise risk management review.

Capital: Basel III made significant changes to the capital rules as of January 1, 2015, which requires banks to hold more capital against their assets, including a phased-in capital conservation buffer of 2.5%. Banks must also track the Common Equity Tier 1 Capital (CET1), Tier 1 Capital, Total Capital and the Leverage ratios. Trust preferred securities are being phased out as capital, which may require new injections of capital. These new requirements should be factored into the strategic plan along with an analysis of capital sufficiency.

Succession planning: Many board members and executive management made a commitment to stay at the bank through the economic downturn and now are looking to retire. How will they be replaced? Management and board succession are particularly important in strategic planning.

Regulatory compliance: The cost of compliance with banking laws and regulations can affect a bank's profitability more than almost any other item. The following deserve particular attention in how they will affect the bank: (1) Fair Housing laws, including the Supreme Court opinion upholding the disparate impact theory of liability, and how the bank prices its loans, (2) Bank Secrecy Act compliance, and (3) TILA-RESPA Integrated Disclosure ("TRID") rule the impact to the its mortgage business.

Interest rate risk: Interest rates have been low for many years and will impact bank profitability when they begin to rise. Strategic planning should consider the impact rising interest rates would have on the bank's net interest margin and on overall profitability and what steps should be taken to combat this impact.

Data security and cyber terrorism: Community banks have increasingly become the targets of cyber terrorism, including everything from denial-of-service attacks, to business email compromise, to unauthorized wire transfers. Data security and the thwarting of cyber terrorism are timely topics for strategic planning.

Changing marketplace: Generation Y's or Millennials' dependence on mobile devices, internet products and social media are changing the way banks market their products to customers. The strategic plan should include an analysis of changes in the bank's delivery of services that will be needed in the next five years to satisfy this generation of consumers.

Strategic planning is critical to a bank's success, not only because the regulators are giving it continued scrutiny, but because it provides the board of directors with a means to set realistic goals based on a desire risk culture. Including the topics discussed above in strategic planning will help bring both the goals and the risk culture into sharp focus.

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