Is Banking in an Existential Crisis?

Thomas Back
Director
“Banking is essential, but banks are not.”

-Bill Gates

1994
What is banking?

BORROW at lower rates

LEND/INVEST at higher rates

Allocate Capital

Financial Institution
What is banking?

Financial Institutions

- Banks
- Credit Unions
- Money Managers
- Private Equity
- Venture Capital
What is banking?

BORROW at lower rates

LEND/INVEST at higher rates
Motion

Friction
Image source: Science Buddies.org
Friction is the difference between the way things are and the way they should be.
Do companies deliver a superior customer experience?

80% Perception

8% Reality

SOURCE: Bain and Company
Don't focus solely on banking
Consumers are increasingly cross referencing their experiences
Can you stand up to the comparative experiences?
“We see our customers as invited guests to a party, and we are the hosts. It's our job every day to make every important aspect of the customer experience a little bit better.”

-Jeff Bezos, Amazon
Workforce composition in the U.S.

2010

- Boomers: 45%
- Xers: 15%
- Millennials: 30%
- Traditionalists: 10%

2020 (est.)

- Boomers: 21%
- Xers: 16%
- Millennials: 51%
- Traditionalists: 2%
- NextGen: 10%

Source: https://www.wipfli.com/insights/articles/fi-fs-the-next-generation--emerging-leaders
Using Data to Take the Right Kind of Risk

COSO Model

- Insufficient Risk-Taking
- Optimal Risk-Taking
- Excessive Risk-Taking

Expected Enterprise Value

Risk Level

“Sweet Spot”

Source: Committee of Sponsoring Organizations – “Risk Management in Practice”
Using Data to Take the Right Kind of Risk

COSO Model

Expected Enterprise Value

Risk Level

Insufficient Risk-Taking

Optimal Risk-Taking

Excessive Risk-Taking

“Sweet Spot”

Source: Committee of Sponsoring Organizations – “Risk Management in Practice”
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COSO Model

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“Sweet Spot”

Source: Committee of Sponsoring Organizations – “Risk Management in Practice”
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COSO Model

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Expected Enterprise Value

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“Sweet Spot”

Source: Committee of Sponsoring Organizations – “Risk Management in Practice”
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Incorporating the PT SCORE Model

Risk Level
- Insufficient Risk-Taking
- Optimal Risk-Taking
- Excessive Risk-Taking

Expected Enterprise Value
- VERY LOW
- LOW
- MODERATE
- ELEVATED
- HIGH

Source: Conference of Sponsoring Organizations, Performance Trust
Using Data to Take the Right Kind of Risk

Source: FDIC
Using Data to Take the Right Kind of Risk

2006 Pre-tax Net Income to Tier 1 Capital

2008 Pre-tax Net Income to Tier 1 Capital

Source: FDIC
Using Data to Take the Right Kind of Risk

Source: FDIC
Using Data to Take the Right Kind of Risk

Median PT SCORE™ by State OT—2004 Q4

Source: Performance Trust
Using Data to Take the Right Kind of Risk

Median PT SCORE™ by State OT—2005 Q4

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Median PT SCORE™ by State OT—2010 Q4

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Median PT SCORE™ by State OT—2011 Q4
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Median PT SCORE™ by State OT—2012 Q4

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Median PT SCORE™ by State OT—2013 Q4

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Median PT SCORE™ by State OT—2014 Q4

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Median PT SCORE™ by State OT—2015 Q4

Source: Performance Trust
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Median PT SCORE™ by State OT—2016 Q4
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Median PT SCORE™ by State OT—2017 Q4

Source: Performance Trust
“No FDIC insured institution failed during the quarter, extending the record-setting streak of no failures to nine quarters.

As a further sign of industry health, the number of institutions on the FDIC’s “Problem List declined from 50 to 47.”

Source: FDIC
Using Data to Take the Right Kind of Risk

Source: FDIC
Using Data to Take the Right Kind of Risk

Problem Banks vs. High Risk PT Score™

Source: FDIC
Using Data to Take the Right Kind of Risk

Problem Banks vs. High Risk PT Score™

Source: FDIC

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[Diagram showing the comparison between Problem Banks vs. High Risk PT Score™ from 2014 to 2018.]

Source: FDIC
“The future of banking seems to be as a participant in the ecosystem of lifestyle technological solutions rather than as a standalone banking relationship…

“The problem is, it's hard to imagine what exactly that will look like and how it will change the banking business model.”
RESULTS $f_n$ (STRATEGY, MANAGEMENT, & LUCK)
CEO

- Loan
- Credit
- Finance

IT

- Ops
- HR
- Marketing
“For long you live and high you fly
But only if you ride the tide”

“And balanced on the biggest wave
You race towards an early grave”
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