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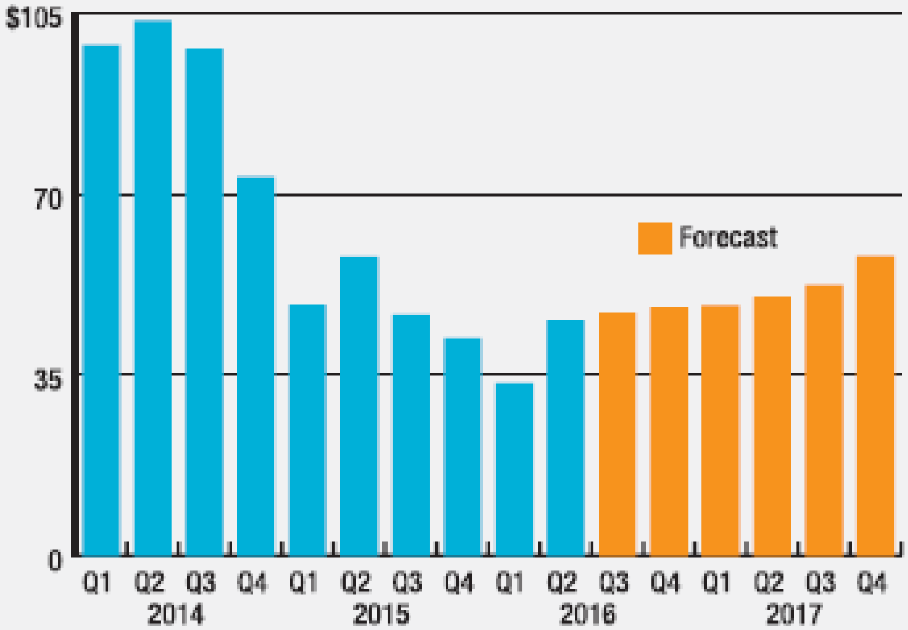
Slow-Motion Recovery

The price of a barrel of oil* has improved this year but is expected to tread water until the second half of 2017 and remain well below its 2014 levels

See story on page 7



*West Texas Intermediate Crude

Source: U.S. Energy Information Administration

dailybriefing

1 Has CRA Reform Missed Its Moment?

In a political season teeming with tension around income inequality, racial economic disparities and animus toward the banking industry, reforming the Community Reinvestment Act, instead of being a cornerstone of the debate, has been almost entirely absent from it. **Page 2**

2 Dangerous Haze: Banking Is Not Yet Going to Pot

The intersection of marijuana and banking has enough it's-legal-but-it-isn't ambiguity to make it a problem for everyone involved – marijuana-related businesses, the government, banks and society at large – and the sense of urgency around finding a solution is growing. **Page 3**

3 Warning: Energy Crisis Could Have A Long Tail

The Federal Deposit Insurance Corp. is raising concerns about potential spillover effects from depressed oil prices even as banks had sounded more optimistic. Tougher capital requirements for energy lenders could be on the horizon. (See chart above.) **Page 7**

4 Which Identity Proof Works Best?

TouchID, facial recognition, behavior patterns, knowledge-based authentication, SMS codes – the means of authenticating continue to proliferate. The smart minds in security have yet to settle on one which is the most effective. **Page 8**

5 Digital Asset Recruits Execs From RBS, JPMorgan, B of A

Digital Asset Holdings has hired a former RBS executive to be its chief financial officer. The hire was one of several new recruits the New York blockchain startup announced. **Page 9**

6 CFPB: Foreclosure Relief Shouldn't End When HAMP Does

The Consumer Financial Protection Bureau joined other regulators in calling for sustainable foreclosure relief when the Home Affordable Modification Program expires at the end of the year. **Page 11**

7 Regulators Push Back Living Wills Deadline For Regional Banks

Regulators announced that they are giving large banks that have assets of less than $100 billion an additional year to file their living wills. **Page 11**

8 State Banking Groups Urge Senators to Pass Reg Relief

State bank associations threw their support behind a regulatory relief bill in hopes the legislation can gain traction in the Senate. The bill introduced in July by Sen. Mike Rounds, R-S.D., would require federal financial regulators to consider a bank's business model when implementing new regulations and guidance. **Page 11**

9 First Hawaiian Plans $558 Million Initial Public Offering

First Hawaiian Bank in Honolulu expects to raise up to $558 million in an initial public offering after its parent company, BNP Paribas Group, decided to spin off the unit rather than sell it. **Page 12**

10 Bank Branches Don't Die, They Evolve

Kenneth H. Thomas of Community Development Fund Advisors says that what was true in the late 1700s, the 1970s and the 1980s is still true today: Bank customers want to interact with real-life people when managing finances. **Page 12**

BANKTHINK

INFORMED OPINION

Bank Branches Don't Die, They Evolve

By Kenneth H. Thomas

I did a double take at a recent BankThink commentary titled "Branch of the Future Will Still Be a Branch," which argued that the high-touch approach of in-person banking will still have a place in the industry's technological makeover.

The reason this caught my interest is that the argument seems very familiar. I came to a nearly identical conclusion nearly 30 years ago, in a piece for American Banker's 150th-anniversary edition, titled "Delivery System of the Future Exists Today." Ten years before that, in 1977, I wrote another piece concluding that a "cashless or checkless society does not mean a branchless society."

In the mid-1970s the banking industry was going through a major change in delivery systems with the first ATMs and point-of-sale terminals emerging. The acronym of the day was not BSA or CRA but EFTS – for Electronic Funds Transfer Systems – more simply EFT.

At the time, I was living in Philadelphia, which back then was celebrating the nation's bicentennial. My home was a few blocks from the location of America's first modern-type commercial bank, the Bank of North America, which was chartered in 1781 by the Continental Congress.

What was true in the late 1700s, the 1970s and 1980s is still true today. What made banks in Philadelphia successful in 1976 and nearly 200 years earlier was simply the personal service they provided their customers. Yes, banking is a money business, but it is first and foremost a people business. People, whether at the retail or business level, want and deserve to personally interact with other people when it involves their finances.

Technology allows people to communicate with other people in banks and transfer funds, first through ATMs and now through wireless systems, but all of this then and now lacks the critical personal touch. Whether it is the handshake, eye-to-eye contact or just the instant vibe you get from meeting someone in person, there is no technology that can totally duplicate this experience. Real bankers are found in branches, not on videos, Skype or smartphones.

Many techies believe there is no trade-off between "high-touch" and "high-tech." They say technology will replace just about everything we do through more traditional means. This may work in other industries, but not in banking.

Fintech experts will argue that branches are banking dinosaurs, citing surveys showing that the majority of certain banking transactions are done via online and mobile banking. But they fail to point out that the main reason customers open a bank account at a particular bank in the first place is convenience of location. Not virtual Pokémon Go locations on a smartphone but real branches.

Customers may not visit a branch regularly or much at all, but the fact that it is there if they need to deal with a real person is what counts. That is why smart bankers continue to believe in branches but continually change their appearance, design, offerings, hours and, yes, technology to meet customer needs.

The trade-off between high-touch versus high-tech is just that: a trade-off. It is not a binary either/or decision. The smartest bankers in the 1970s integrated ATMs in their existing delivery system not only with in-lobby, outside walk-up units, and dedicated ATM drive-up lanes, but also with free-standing machines. Technological advances later allowed the deployment of not only video ATMs but more recently cardless ATMs activated by customers' smartphones.

Just as the branchless society envisioned by so many in the 1970s never became a reality, this is also true with the cashless and checkless society models. Why? Simply because many people, not just our seniors, want to have the option of seeing and touching what they have worked and saved for rather than worrying about a problem with a digital or other noncash medium of exchange. Also, cash is king to much of our unbanked population.

The bottom line with smart banking – yesterday, today or tomorrow – is to give customers the critical freedom of choice to bank how, when and where they want. Different banks will have different delivery system strategies because they have different customers with different needs. Each bank will have to find the right point on the high-touch vs. high-tech spectrum to profitably meet their customer needs. This means that what will be the right strategy for one bank will not be the case for another.

What I wrote 30 years will likely be just as relevant 20 years from now when American Banker celebrates its bicentennial:

"The delivery system of the future exists today in the form of the brick-and-mortar system of thousands of financial institutions. The traditional branch will continue to evolve in terms of becoming more automated; more sales oriented with an increased array of products; more innovative in terms of type and locational placement; and even more fee generating with branch-sharing arrangements and new pricing strategies. And branch networks will continue to be reconfigured through closings, sales, purchases, switches, relocations, downsizings, and openings to reflect changing demand and supply conditions. This means that the delivery system of the future will be a product of evolution rather than revolution."

Kenneth H. Thomas, president of Miami-based Community Development Fund Advisors LLC, was a lecturer in finance at the University of Pennsylvania's Wharton School for over 40 years.