McDermott & Bull
an executive search firm

Financial Institutions Practice Group Co-Chairs
Brandon Biegenzahn
biegenzahn@mbsearch.com
Rod McDermott
mcdermott@mbsearch.com

STATE OF THE MARKET IN 2017

2016 was quite a year on so many fronts…some wonderful, others difficult, and many unexpected, but we look into 2017 with optimism and excitement as our industry is poised for continued positive trends. And the optimism is substantiated – GDP growth looks likely; consumer spending and confidence are up; housing starts are expected to jump; and interest rates are set to rise. Moreover, community and regional banks have received a bump in perception. What was reinforced from the Wells Fargo scandal is that community and regional banks, with their focus on exemplary customer service, will always hold an important place in the American financial landscape.

Looking back on the State of the Market we prepared last year, we saw a number of trends continue, including a focus on revenue generation (both loan growth and fee income), and an increase in the value of overall compensation packages. 2016 also brought along new trends which were not at all surprising, but certainly seemed to us to stand out. Namely, the focus on technology in light of the fintech revolution. Our clients placed a huge emphasis on technological innovation in 2016, with even non-IT roles requiring a significant technological bent. Additionally, we are seeing credit unions as a big threat in the war for talent. 82% of the credit union searches we conducted this year were filled with bankers, while zero (yes, 0) were filled with credit union veterans. In addition to credit unions, and with a tie-in to the trend of technology, the fintech firms are seeking bankers as the lines between fintech and banks continue to blur. Looking forward, a focus on technology, and the raging war for talent remain as the prevalent trends in our outlook for 2017.

MARKET TRENDS

- ***Technology*** – The rise of the fintech industry has been well documented, with $20 billion invested last year. While fintech has its advantages (a single business line; and lack of regulation), cost-effective customer acquisition is still the industry's biggest hurdle – one which legacy financial institutions have overcome. But with the headwinds brought on by this fledgling industry, legacy financial institutions are taking proactive steps to address it. Nearly a quarter of our search engagements this year were within the IT function. Our clients are seeking ways to maintain a relevant and contemporary online and digital connection to their customer base. More than traditional IT roles focused on execution, strategy was at the forefront. Our clients sought true technologists to drive evolution within the industry and to assess the avenues for it – i.e., bringing the innovation in-house, partnering with technology intermediaries, or partnering directly with fintech to offer white-labeled offerings.

- ***Directors and Officers*** – The average age of community/regional bank directors is 72, and for CEOs it's 62. In looking at cyclical trends, we anticipate an economic downturn within the next 18 to 24 months and we don't see current directors and officers riding the wave back down. Instead, we see a strong likelihood that these leaders will pull the rip cord and move on. Banks need to do more than acknowledge the issue, and must dedicate the resources to not only building bench strength, but putting in place a transition plan. Given the gap in talent between current leadership and the next generation, we feel two years is the minimum tutelage period.

  - *Bank Boards (Expertise Trends and Diversity)* – Banks are now giving consideration to seeking out board members with functional experience the bank can benefit from – risk, operations, technology, et cetera. In some instances, this means looking outside the industry. Additionally, diversity should be a must-have requirement in order to bring dynamic friction to the boardroom spawned from the different vantage points sitting around the table. We are seeing our clients seeking out board members from different walks of life and from different generations.

- ***The Credit Function*** – Leadership roles within the credit function may be the most challenging to fill. This year we conducted searches for both Chief Credit Officers and Senior Credit Administrators, and collectively, these searches revealed a glaring gap in talent within the function. While there are of course exceptions, the majority of the best

Brandon Biegenzahn
biegenzahn@mbsearch.com

Rod McDermott
mcdermott@mbsearch.com

Chief Credit Officers are in the final chapter of their career and not looking to move to a new institution. As we assess credit administrators, we find very few with any significant credit authority. The majority are very strong technical underwriters, who have limited, if any, exposure to clients. Moreover, they lack the ability to evaluate loan portfolio mix and concentration. We surmise that following the recession, with the onslaught of regulatory oversight, banks simply stopped training credit officers and instead focused on cleaning up balance sheets with those already in place. While markets have improved and ships have been righted, banks have been slow to reengage in the development of the credit function causing a lack of credit administrators who are prepared to carry the top job.

- ***The War for Talent*** – As noted earlier, banks are battling for talent with competitors including credit unions and fintech firms. While credit unions have always been a part of the picture, credit unions themselves are now focused on bringing in significant banking talent. It may come as surprise, but credit unions are competing and beating the cash compensation offers of their bank competitors. Because credit unions cannot offer equity, they entice with cash compensation which often exceeds competing bank offers. While long term incentives are a huge attractor, cash remains king. And as to fintech, these firms are not looking to poach bank IT talent, instead they are looking to address their biggest issue – client acquisition – by hiring bankers who understand how to build client relationships. As fintech firms continue to expand their banking capabilities, banks will be their natural hunting ground.

These above-mentioned themes represent those most prevalent in our practice over the last 12 months. Admittedly, the “war for talent” and the “gap(s) in talent” which exist are good for our business as we provide a solution to our clients enabling them to cast a wide net for the right talent (a national reach, if necessary for the search, which garners 150+ candidates for each engagement). While my prior comment is self-serving, these trends also provide opportunity for our clients, and for the industry. The industry is riding positive trends, and the new administration appears to be friendly to banks giving even further lift. Now is the time to build your bank and prepare it for the next successful run. Strong technology will keep your offering relevant, and a diverse board will bring innovation. And with the right succession plan in place, community and regional banks will be able to continue to grow and build franchise value.

About the Firm and the Author

McDermott & Bull is a full-service executive search firm serving the Western region of the United States. The Firm’s Financial Institutions Practice Group partners with boards and senior leadership teams to align talent strategies with business strategies for banks, credit unions, fintech companies and investment advisory firms. Clientele include the likes of BNY Mellon, First Republic Bank, Silicon Valley Bank, Golden 1 Credit Union, First American Trust Company, Bank of Marin, Technology Credit Union, Western Federal Credit Union, Luther Burbank Savings, East West Bank, Bank of the Cascades, Washington Trust Bank, Exchange Bank and United Capital.

Brandon Biegenzahn is the President of McDermott & Bull, and he co-chairs the Firm’s Financial Institutions Practice Group. Brandon is a corporate attorney by trade having practiced with Sheppard, Mullin, Richter & Hampton, and Buchalter Nemer in their corporate finance and real estate finance departments, respectively. Brandon received his Bachelor of Arts from the University of Southern California and his Juris Doctorate from Penn State.