HUSCH BLACKWELL

Financial Services Roundtable
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BANKS TO MANAGE CHANGING OPPORTUNITIES AND CHALLENGES IN 2015

Banking leaders seem to be facing one challenge for every new opportunity. Changing regulations, evolving technology and even local market conditions create a unique set of issues to address when overseeing some of the largest financial institutions in St. Louis.

The law firm Husch Blackwell hosted a panel of area bank leaders to discuss some of the vital matters they will manage in the year ahead and the impact that these and other issues can have on a bank - from the size of an institution and its branch bank buildings to its most important activity, customer service. The recently held roundtable discussion was moderated by the St. Louis Business Journal.

Left to Right: John Kemper-President, Commerce Bank; Mike Hart-Midwest President, Regions Bank; Rick Bagy-President, Central Bank of St. Louis; Peter Benoist-President/CEO, Enterprise Bank; Joe Ambrose-Midwest Regional President, First Bank

SLBJ: How is increased regulation affecting the banking industry?

Joe Ambrose, First Bank: When I started out as an FDIC regulator in 1978, the regulations were just starting to pile on. The approach was to address some issue of the day with a new regulation. The perpetrators in the industries that overlapped with banking and caused the problem would go away, leaving the others with residual new regulations. Despite the fact they weren't responsible for the problem.

Peter Benoist, Enterprise Bank: We view the regulators as our business partners. They're moving from a regulatory approach to a prosecutorial approach. That puts the fear into bankers. So we try to stay ahead of the curve by telling them more than they want to know. If you need flexibility, you need a good relationship.

Ed Lieberman, Leader of Banking & Finance Group - Husch Blackwell Don't you think it has a benefit to the banks — that some of the other players who haven't been good players are now being forced to comply as a result of Dodd-Frank — that it has really leveled the playing field?

John Kemper, Commerce Bank: If you're looking for the silver lining, on balance there have been some positives. There's more capital in the banking system, a system that takes on the whole more prudent risks. That benefits everybody. And the playing field has been leveled, particularly with some of the non-bank actors.

Mike Hart, Regions Bank: We're not the first industry to be regulated or have regulatory challenges, and we won't be the last. We just need to take care of our customers and concentrate on getting a good return for our shareholders. It's caused us to be more innovative but it's also caused a cost structure change because we have added significant compliance and risk resources that do not directly interact with our customers. The one size fits all bias of Dodd-Frank is a problem. Most of us in the room are focused on traditional banking. This is why we're supportive of congressman Luetkemeyer's proposal to change definitions from asset size to activities based.

SLBJ: With the makeup of the new Congress, is Dodd-Frank going to be changed?

Rick Bagy, Central Bank of St. Louis: There's support on both sides of the aisle. But it's going to be a slow, patchwork process.

Hart: I think it has more to do with rule making than legislation. The Dodd-Frank Act was passed in 2008 and about half of the regulations still haven't been written.

SLBJ: What special opportunities and particular challenges do you see in the St. Louis market?

Ambrose: The challenge is that we're a slow growth economy not like Dallas or Phoenix or the coasts where there are new opportunities every day. We're competing for the same customers.

Kemper: The flip side of slow and steady is that we didn't hit the lows. That's a good place to be. As I look on the horizon, we have strength in financial services, life science and biosciences and the entire medical cluster. I'm encouraged by new businesses formation activity at Arch Grants, T-REX, BRDG Park and the enormous investment going into Cortex. All this bodes well for the long-term.

Benoist: What's driving some of that activity is a relatively low cost of living and our cultural amenities. When people come to St. Louis to understand us better, they're blown away. It's drawing talent into this market.

Bagy: But that's not translating yet into substantial job growth. Those startups have five guys and then we lose a factory that had 300 people.

Benoist: Another challenge is municipal fragmentation — city-county, the fact that we have 90-plus municipalities, which everybody agrees is inefficient.

Lieberman: We're not bankers, we're lawyers. We still see our clients and people attracted to St. Louis because of lifestyle. It's a good place to raise a family and build a business, so they see opportunities here and seize them.

Hart: We view St. Louis as a growth market. Jobs and consumers are the lifeblood of helping our communities grow.

SLBJ: What role is technology playing in banking?

Ambrose: It's certainly diminishing the need for bricks and mortar. In some ways, branches are almost just big billboards. My kids don't step inside of the bank.

Bagy: Our No. 1 branch for opening new accounts is our online branch.

Kemper: It always comes back to people and how they want to interact. When you have an issue, you want to talk to someone behind the technology. So the conundrum is that you have branch transactions going down three percent a year but you still have to staff for those moments of truth.

Lieberman: What about biometrics? The use of fingerprints, retina scans, voice recognition?

> **"And the playing field has been leveled, particularly with some of the non-bank actors."**

SLBJ: Is that what drove your decision to offer Apple Pay? Security?

Kemper: It's compelling in terms of the security but mostly we perceived a strong customer demand.

Benoist: We're not a consumer bank but if you go to things like treasury management technology, our clients want it 24/7 wherever they are. So we better deliver on that basis, exceeding their expectations, because the market is that competitive.

Hart: I don't see branches going away. Branches are key for our brand. I also think that problem resolution and more sophisticated sales will continue to come with a banker in a face-to-face interaction.

Kemper: We just opened a new branch at Vandeventer and Chouteau. It's our next generation. It's on less than one acre — the old branch was on five. When you come in there's a greeter who can direct you. There are many self-service options and a dedicated area for small business.

Lieberman: You want to be innovative but at the same time you want to instill confidence in the customers. You want them to feel comfortable that there are not going to be any security violations. Being innovative but protecting security can be a costly process.

Kemper: There's a tipping point somewhere. It's hard to be competitive on the technology side if you're too small. If you're too large, especially by virtue of a lot of mergers, you can be saddled with a lot of legacy systems. We try to think about the sweet spot, being somewhere in between, where you can be a nimble aggregator of technology.

SLBJ: What's next for the banking industry?

Benoist: Are we in the new normal with slow growth, long-term low rates? If that's the case, how do you adapt and adjust? The economy goes through cycles but the problem is that we didn't get the uptick this time. And the question is, will we ever?

Hart: We're going to be challenged as an industry because historically we've been protected from some of the non-bank competition. So we have to be viable because of our value proposition.

Ambrose: We work to give people service that they value and will pay a reasonable price to receive. We are committed to earning their loyalty. If Walmart wants to take the transactional risk, let them do it. Their customers want the cheapest way to do something, which may not be the best way, especially if something goes wrong.

Benoist: Within the industry, size is going to matter more. It's not so much "too big to fail" as it is "too small to survive." Banks are going to have to get much more focused on segments of the market, not trying to be all things to all people. You have to create value and you have to differentiate. If you can't do it, you won't survive.

Husch Blackwell LLP is proud to sponsor this professional roundtable event and would like to thank the St. Louis Business Journal and our participants for their contributions. At Husch Blackwell, teams of lawyers with a depth of experience within a particular industry work together, across practice specialties, to deliver comprehensive solutions to help our clients achieve their business goals. To learn more, please visit www.huschblackwell.com.