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Viewpoint:
Crisis Offers Clean Slate to Do Banking Right

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Though there can be no denying a certain level of pain rippling across the global business landscape, it would be wise to counter the daily apocalyptic newsfeed with the realization that we are experiencing an overdue evolutionary shift in our socioeconomic value system that could benefit the banking system overall.

A review of historical consumer borrowing and spending behaviors returns a litany of frightening statistics. Household debt, spurred on by years of prosperity fed by declining inflation, low interest rates, and sharp increases in stock market and real estate values, became a runaway train.

Our nation's economic behavior has become like Ouroboros, the mythical tail-eating snake that represents a cycle so powerful it cannot be extinguished though it is destroying itself. Herein lies the great opportunity for our nation's banks.

The years after the Great Depression saw a massive increase in personal savings as a percentage of disposable personal income. The pain felt by citizens in the early 1930s led directly to seismic shifts in spending behavior. How do financial institutions successfully take advantage of the pain being felt during today's economic pruning?

To successfully rebuild confidence, profitability, and general financial well-being, consumers and financial institutions alike must embrace our current economic situation as a blessing in disguise and return to observing basic financial tenets that have been largely ignored for decades.

Three major strategic areas deserve the focus and effort of banks — community, regional, and global alike.

First, take this time to embrace and lead the charge on forcing an overdue shift in savings-to-debt ratios. Though risk and debt are major levers for income, very few would argue today against consistent growth in deposits and savings as a baseline for healthy growth in the foreseeable future.

Banks must take advantage of the current financial malaise to offer products and services to people whose attitudes to, and basic need for, growth in deposits and personal savings will arguably be the strongest since the Great Depression.

Though this emphasis admittedly is simplistic, banks would be wise to spend a significant amount on driving deposit growth, savings, and the consequent net interest income. This basic tenet of banking is less risky than debt, and while it is also less profitable, there is little choice.

Though competition for deposits will initially prove difficult as high rates limit earnings, the profits derived from the current debt culture are unsustainable; artificial; and, at their worst, the catalyst for destruction of our consumer economic foundation.

Have the highs and lows experienced in the last two decades and the recent low, which has destroyed century-old institutions, caused enough psychological damage to move the needle back to a more conservative banking structure in which reasonable profitability based on traditional banking metrics is the norm?

The answer may be "yes." Personal savings rates are on the verge of rising for the first time in decades. In order to prevent further cyclical damage, banks must work with consumers to reset a more realistic savings-to-debt ratio, then sustain the pattern for a period. They should avoid the temptation to fall back into seeking higher profits from unstable products.

Second, Wall Street's expectations also must be adjusted because current quarterly growth parameters set unrealistic and harmful goals. Those brave enough to have addressed these issues two years ago faced a shareholder rebellion. Who would be the first to announce a major decline in profitability due to a flight from unstable products in a time when most institutions were announcing big earnings?

Realistic shareholder attitudes about earnings growth will help ease the pressure to rely on exotic, roller-coaster financial vehicles that stimulate these predatory financial cycles. Banks must lead by example, reverting back to the mentality of investing in assets and activities that possess sound financial foundations versus those predicated on volatile risk.

Give investors coming out of this cycle the benefit of the doubt — they may be more open to, and thankful for, the honest aspiration to conservative growth; with a unified corporate and consumer front, Wall Street will follow.

Third, relationships forged in times of duress last long and prove strong; banks would be wise to sow their fields with these seeds.

Banks must take advantage of this flex point in the American consumer psyche. Establishing a conservative economic baseline, akin to giving consumers a financial foundation built upon deposits and savings, will allow them to construct a responsible debt structure.

The consequence would be a fiscally sound consumer able to more successfully afford and repay debt; for banks it would be credit products that return higher margins. Consumers with substantial deposits on the balance sheet help constitute a properly weighted loan portfolio, which in turn corrects the balance sheet.

This is the positive potential outcome of today's economic pain — the growth and cultivation of a loyal customer base whose debt is actually worth the paper it is written on.

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