Valuable Reflections I – Sandy Berry

by Charles Wendel

This newsletter begins an occasional series of interviews with former bankers. Each interview will feature a senior banker's reflections on the changes that have and are occurring in banking and provide insights concerning actions that today's management should consider.

Our first interview is with Sandy Berry. I met Sandy when we were working at the same consulting firm. When there, he taught me a great deal about the small business space in which he is expert. More important, he is respected by virtually everyone I know who knows him. It may have to do with his Virginia heritage, but he is a true gentleman in the old and best sense of the word.

Sandy started his career in 1962 as a trainee with State Planters Bank/United Virginia Bank. Eventually he managed 20 branches and had consumer, small business and some commercial responsibility. In 1974 he joined Signet and during his close to 20 years there ran Corporate Marketing, branch banking for Virginia, DC, and Baltimore as well as commercial functions including middle market, large corporate, correspondent banking, commercial real estate, and asset-based lending.

He possessed deep and broad experience before we met in 1992 at what is now Oliver Wyman. He then operated his own consulting firm, became EVP for small business at Crestar before it was acquired by SunTrust and, finally, joined Teradata as an Industry Consultant. He retired in 2013.

Below is Sandy's response to a number of questions. With his approval, I have made a few comments as well, marked and in parentheses.

What are the major changes you have seen in banking over your career - 1962-2013 (51 years!)

1. The transition from Req Q and state usury laws controlling pricing to a more market-oriented environment.

2. Intensified competition causing banks to invest in marketing (most banks did not have marketing departments in the early 60s; they had "advertising and PR") and to begin to emphasize "selling." This sounds trite, but remember that many young business people joined banks because they did not want to be "salespersons."

3. The gradual change from a white male dominated to a more diversified staff. This process began in the middle 60s and still continues.

4. Rapid and significant growth in bank asset size propelled by:

- Geographic expansion enabled by change in state laws and national regulations
- Banks buying bank related businesses
- The eventual elimination of Glass-Steagall restrictions
- Bank consolidation. There are orders of magnitude fewer banks today than in 1961 when I entered the business. Some of this consolidation was driven by growth desires, some by bank failures, and some by the recent steep decline in the number of startups
- The vigorous drive for earnings growth to satisfy the seemingly insatiable appetite of Wall Street. (When banks were more locally oriented, their stock was more locally owned. With geographic and size expansion, their stock took on a more national flavor and brought banks under the heightened scrutiny of Wall Street).
- The development of the guiding principle from Milton Friedman that the singular goal of bank management was to create shareholder value.

5. The gradual acceptance of retail banking as a coequal business with commercial banking. The ascension of John Reed to the CEO position at Citi was the linchpin event. (*CBW: At some banks a caste system remains with commercial viewed as a higher order than retail and small business. The economics might suggest that a bank should highlight these areas, but commercial bankers often remain in the internal power positions.*)

6. The growth of consumer/retail banking and its huge profit impact on banking. The key impetus was the liquidity crunch in the late 60s that accelerated the process of eliminating Req Q, brought CDs to banks, and began to eliminate the bank-thrift differential.

7. The rocky up and down emergence of small business banking as a key growth and profit business. This emergence still is rocky and still up and down. In the three banks that I worked for, it was an established and accepted key business and made a lot of money. *(CBW: I think Sandy was lucky to work at these banks. Unfortunately, there are few banks that really embrace small business. They embrace PR around small business, but the PR and reality are often not in synch.)*

8. The development and then rapid growth of the bank credit card business. (I was a first-hand witness to this at Bank of Virginia. It was the second bank in the US to issue cards - Franklin National was the first but it later failed - and was one of the seven US banks to form MasterCard. Bank of Virginia Card later became Capital One.)

9. The realization that leadership skills were equally as important to the success of a bank as discipline skills in commercial, retail, investment banking, etc. It was surprising how hard some banks fought this notion. (*CBW: And still do?*)

10. The inability of most banks to sustain success. It seems that upside success always leads to excesses that eventually results in a crash. Some crashes were caused by or exacerbated by economic events, but banks were seldom prepared. Years ago, John Reed showed a chart where he added up all the capital the top X number of banks had amassed over several business upturns and then how much capital they had lost on the downside of the cycles; the net gain was miniscule.

11. The extraordinary growth in and complexity of bank regulations. It is often said that Congress never anticipates problems, it only reacts to circumstances. Recent bank regulations such as Dodd-Frank are Exhibit A for the validity of that comment. This aggressive trend in regulations has fueled a slow-down in bank growth, greater challenges in bank earnings, more consolidations due to the expense of regulation and the exit of many able leaders who simply don't want to deal with the government as a senior partner in the business. *(CBW: Yes, and banks have done a terrible job at defending themselves and explaining the essential value they provide to the community.)*

12. The growth of technology, information based decisioning, and artificial intelligence as a/the key driver of bank success, coupled with the ever-growing decline of the role of banker-customer relationships and close to the customer decision making. *(CBW: True. Too many bankers have become obsessed about technology, seeing it as an end rather than means to an end; the correct "end" should be a fuller and more satisfying customer experience.*)

In summary, my top 4:

1. Deregulation

2. The view of commercial banking as a growth business - and in my view this was a negative for the long-term viability of "commercial banking" as opposed to "investment banking."

3. The acceptance that banks are a business and need leadership with broad skills, vision and market acuity.

4. The growth of technology, information based decisioning and artificial intelligence as a/the key driver of bank success coupled with the ever-growing decline of the role of banker-customer relationships and close to the customer decision making.

Next time Sandy will focus on leadership and recommended actions for banks and bankers.