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## BANKING &amp; FINANCE

## A Trip Down a "Winding Road": A Recap of the 2016 Banking Outlook Conference

July 19, 2016



The Risk Analysis Unit of the Atlanta Fed's supervision and regulation division hosted its annual Banking Outlook Conference on February 25. The conference's theme was: "Caution: Winding Road Ahead" and focused on the risks and uncertainty faced by the industry. The keynote address considered the challenges posed by rapid developments in technology, which many bankers fear will erode their customer base and pose significant security risks. The agenda also included an economic overview, a review of conditions in commercial real estate, an accounting update and panel discussions featuring chief risk officers, regulators, and community bankers.

Cybersecurity was a recurring theme, as the audience and presenters agreed that the threat posed by service disruptions, identity theft and other criminal cyber activity is the greatest risk the industry faces. The conference agenda, speaker bios, and associated podcast can be found [here](#).

### Keynote Address: Future Freaks—Techs and Trends Transforming Banking

Lee Wetherington, Director of Strategic Insight, Jack Henry & Associates, Inc., provided an informative and entertaining look at financial technology and the challenges and opportunities it poses for banks, as well as a review of emerging risks in the field. The rapid development of financial technology (fintech) is transforming the financial services industry, from the most basic customer interactions to lending and payment activities. As the efficiency and reduced costs provided by fintech applications improve the customer experience, bankers face losing their relationship advantage.

The success of fintech firms is pushing banks to rethink customer retention strategies and reassess the way services are delivered. Wetherington explained that banks should embrace the enhanced customer experience technology can provide and implement advances to attract and retain business—an approach he labeled "Fintechgration." As banks move into partnerships with fintech firms and adopt new practices and product delivery approaches, they must carefully consider and mitigate potential risks. Additional information on fintech and the banking industry can be found [here](#).

### The economic outlook

Dave Altig, the Atlanta Fed's executive vice president and research director, presented an economic overview that touched on his views on the risks posed by Britain's then-possible and now-announced exit from the European Union and instability in the Chinese economy, as well as the state of the U.S. economy. Additional details are available [here](#).

## Commercial real estate

Sam Chandan, president and chief economist of Chandan Economics, addressed the outlook for commercial real estate in 2016–17, including cyclical trends, the effect of foreign investment on property values, the pace of multifamily lending and the impact of millennials in the market, changes in the retail sector as a result of online shopping, and the impact of regulation. He noted that increased sales volume and prices, along with the decreased delinquencies, has led to a growing enthusiasm in the marketplace, which can lead to an easing of standards. Price appreciation in some markets has been driven by increased foreign investment, which makes price discovery more difficult. In the multifamily sector, the debate over whether the United States is turning from a nation of homeowners into a nation of renters is affecting investment decisions and the pace and direction of lending. The ultimate outcome depends on the behavior of millennials.

The retail sector continues to adjust to consumers' preferences for online shopping. Looking ahead, the threat of nonbank competition in CRE sectors may increase as a result of differences in regulation. If lower compliance costs for nonbanks translate into less expensive loans, banks could lose valuable customers. The latest [ViewPoint Live!](#) in April 2016 focused on CRE trends as well.

## Accounting update

Joanne Wakim, chief accountant for the Federal Reserve Board, discussed supervisory activity in response to FASB's Current Expected Loss (CECL) proposal. Wakim explained the outreach efforts the Fed is undertaking to prepare banks for eventual implementation. She discussed a planned tailoring of supervisory expectations depending on an institution's size and complexity of operations.

## The role of the chief risk officer

Since the crisis, the role of the chief risk officer has evolved dramatically to become an integral part of the strategic process. Panelists Randy Bryan, chief risk officer of IBERIABANK; Javier Hernandez, chief risk officer of BBVA Compass; and Greg Olivier, chief risk officer of USAmeribank, provided an insider's view of the responsibilities and challenges at community, regional, and large banks. The development of an enterprise risk-management approach, the building of strong risk teams, and enhanced reporting to senior management and the board of directors have been critical to strengthening to role of the risk function and making it a strategic partner with other business lines.

## A view from the regulators

A panel featuring Mike Johnson, executive vice president of supervision and regulation for the Atlanta Fed, along with Kevin Hagler, commissioner of the Georgia Department of Banking and Finance, and Oscar Harvey, associate deputy comptroller of the Office of Comptroller of the Currency's Southern District, discussed the regulators' perspective. The group noted increased concern regarding underwriting, interest rate risk, consumer compliance, cybersecurity, succession planning, and strategic risk posed by offering expanded products and services.

## The community bank perspective

A regional perspective on the community banking outlook was provided by three southeastern community bankers: Hugh Dailey, president and chief executive officer of Community Bank & Trust of Florida (Ocala, Florida); Jim Edwards, chief executive officer of the United Bank Corporation (Griffin, Georgia); and Drake Mills, president and chief executive officer of Origin Bank (Ruston, Louisiana). The panel, which was arranged by the Graduate School of Banking at Louisiana State University, discussed the regulatory burden, Basel III, cybersecurity, and the prospects for merger and acquisition activity.

Planning is already underway for the 2017 Banking Outlook Conference, which will be held on February 23, 2017. Check back here for details.

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