PAYCHEX THRIVE
A BUSINESS PODCAST

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For Businesses, is a Bigger Bank Better?

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Announcer:
Welcome to Paychex THRIVE, a Business Podcast where, you will hear timely insights to help you navigate marketplace dynamics and propel your business forward. Here's your host, Gene Marks.

Gene Marks:
Hey everybody, it's Gene Marks and welcome back to another episode of the Paychex THRIVE Podcast. Thank you so much for listening or watching us. And we're excited to have Sayee Srinivasan. Sayee, thank you so much for joining us on this episode. We will have the ability to talk for about 20 minutes or so, just about what's going on in the banking industry because, Sayee, you're the Chief Economist and Head of Research at the American Bankers Association. That is correct. Let's first of all talk a little bit about the American Bankers Association. Tell us a little bit about the association and how long you have been there.

Sayee Srinivasan:
Yeah, thanks, Gene. Thanks for having me on the show and I couldn't have picked a better time to do it. There's never a good time. Happy to be here. The ABA, the American Bank Association, it's a trade association but... it's a trade association for all the banks in the United States. We've been around for over a hundred years. It's one of the oldest trade associations. And we have over 3,000 plus members. There are about 4,700 banks in the United States. I could go beyond that, but I rounded it off at 4,700. Most people think of four or five of the largest banks if you're living in the big metro areas. But there are lots and lots of banks.

Sayee Srinivasan:
Banks of all sizes from the largest G-Sibs, global, systemically important banks to regional mid-size banks to a long number of what I call smaller banks, community banks, working with branches all around the country... every nook and cranny of the country. We are a trade association. We work closely with the banks on policy issues, data analysis, advocacy, training, and education. We had some interesting incidents in the market earlier in March. We were all working through the day and through the night helping our members and folks from a regulatory side, from the hillside, educating them about what's happening and stuff like that.

Gene Marks:
Good. We're going to get to that. We are going to get that for sure because I know that's what our listeners of yours are interested in. You're Chief Economist and Head of Research. What role do you play there with the ABA? What do you do?

Sayee Srinivasan:
Good question. In terms of background, you asked me, I've been with the ABA for just under two years. Before I came here I was working for the federal government at the Commodity Future Trading Commission, working on big bank issues, also ag market issues. If you ask me about light cattle and corn futures and hog bellies, I could have given you long lectures on those markets. They're really meaningful ones.

Sayee Srinivasan:
I was Chief Economist there, did a lot of policy work, regulatory rulemaking. But I always had this eye on the world of banking for a simple reason. Growing up my dad... I grew up in Mumbai, it used to be called Bombay then. My dad had his own factory, a small workshop with a couple of employees. And I don't know if you know things like milling machines and laths and machine tools type stuff. And he used to run it for 20 plus years. From high school onwards through college I did all the banking for him.

Sayee Srinivasan:
I don't think my dad ever stepped into any of the banks unless to sign any paperwork. But, yours truly was the one who handled all of it. So, I had this good appreciation for banking. As I said I really want to get back to the world of banking and this opportunity owned up. As Chief Economist, I wear multiple hats. One is being a resource to our bankers and our members, especially the smaller banks who can't afford to have their own chief economist, keep a track on what's happening in the economy. Explain what's happening in terms of what the Federals are doing, GDP, unemployment, soft landing, hard landing and all that stuff.

Sayee Srinivasan:
And then the second part of it is everything to do with the wonderful world of banking in terms of getting good handle on data. There's a lot of data that's available and it really matters. I always ask people, I want to know what's in the numerator, what's in the denominator. If you can't explain why those two should be going together, that sort of stuff. And then third part is just in terms of helping inform folks of the membership and others about rules, regulations on a whole slew of issues. In some sense, banking is hundreds of years old, but if you're here today you have the sense of interviewing the startup type industry. A lot of fundamental new questions are being raised. It's an awesome time to be here.

Gene Marks:
It's funny that you say that. I do a lot of writing and speaking on the topic of the economy, Sayee. And there's so many metrics that are out there that economists try to use to gauge whether or not... like you said, "Are we going a recession?" "Is that a soft landing?" "Is it a hard lighting?" "Will we be growing or will we won't?" And I've always leaned on organizations that provide actual data. For example, if I'm looking for what's going on in the world of unemployment and labor, I know Paychex... This is a Paychex podcast, but they put out data every month that's based on their customers, their employees, and how salary ranges are going, what compensation is going, that's actual data. And you mentioned about the importance of banking and how I rely really heavily on the banking.

Gene Marks:
We're recording this, right now, it's near the end of April. I looked very, very hard every quarter at the banking industry's release the date. Don't you agree, with the banking industry, particularly the big banks because they're the big public ones that share their data... I listen to them closely, because to me they are

the core of what's going on in the economy and if I start hearing delinquencies are going up or there's more loan reserves or our profits are going... or they're seeing more concern and their small business customers or their overall business customers, that perks my ear up more so than any government issued data. I don't know if... Do you feel the same way?

Sayee Srinivasan:
Put your nail on a very interesting issue, which is the big banks. And we have this challenge... If you look at the United States, it's a large country with what we economists call a very deep and diverse hinterland. Well so the big banks, and this goes to even a lot of the macroeconomic data, they're national averages. They represent broad trends. And it's true if unemployment is jumping up on average wherever you are, you're also going to see unemployment go up. But it also hides a lot of in what do you call interesting micro trends that are happening. Especially we're talking about small businesses. For small businesses... I don't care if I'm located in Wichita, Kansas in a particular zip code, all I care about is the foot traffic that's happening around my store. Who cares what's happening... I do care. But what's happening at a national level and among money center banks, it's instructive but could for various reasons I might still be in a boom town but I'm getting a lot of activity.

Sayee Srinivasan :
I speak to bankers all the time. We have bankers from around the country who we interact with. And the one thing which amazes me is how their stories and what they are seeing could be slightly at variance from what the macro numbers, you see the headline numbers, and if you talk to policy makers and interact with them, they see them struggling with them. Because they see these macro trends, the headlines, and the question there... they have two questions if I may. One is, what's the story driving those numbers? And then looking forward, the data is typically backward looking. They all want to know what's going to be happening in the next few months. And for that you need to go and speak to the bankers again, the credit officers and so on and so forth. People can give you a more holistic thing. That's a challenge that we are facing even today in terms of, "Yup, those things matter." At the same time, I need to worry about what's happening at a local level because most of the jobs are created at those levels.

Gene Marks:
Great answer. Okay, so you had said earlier there there's 4,700 banks in this country. Just last month, Silicon Valley Bank collapsed, other banks have shown some weakness as well, Signature Financial, Republic, there's been... all that. I've like lots of business owners saying, "Oh my god, should we be worried about our bank?" And, "Should we be migrating to a larger bank?" I'm going to ask you those questions. Should we be worried about our banks? That's one. And should I be migrating my money to a larger bank if I'm banking at a smaller or a community bank? I think I know what your answers are going to be, but let's start with the first one. Should I be worried?

Sayee Srinivasan:
They are both the right questions to ask. On the safety of a banking system... and it's not because I'm working for the ABA and this is what I think but that is not the case. You listen to others who have better access to data. You named a few banks and I think it's broadly accepted, I think everybody gets it, that they are idiosyncratic cases. In any industry when there's a shock that happens, there are some who survive and do well and the weak ones get cleaned up. And there were some big issues with those banks, with the way they were managed and so on so forth. Every one is different. Once you take them out of the picture or even with them in the picture, it's very clear and you see that in the data and the quarterly results that have been coming out about banks of all sizes.

Sayee Srinivasan:
The banking system is in good shape. Individual banks are in good shape. The banking system is really strong. And then to that, you have your follow up question as to, "If I have a bank account with a smaller bank, should I be moving to a larger bank?" I shouldn't be in the business of telling people what they should be doing but I like to think in terms of what are the questions, what are the considerations? And in no particular order it's... if you think about it, smaller banks, many of them are also small businesses. There is a very good banker friend of mine, they're all my friends, but this one is particularly a really [inaudible 00:11:53]. The bank is about 90 years old and last summer they opened a second branch, after 90 years. You can think about it, if you're banking with that bank, the person really understands what a small business needs.

Sayee Srinivasan:
And it's not just about where you keep your money, where you're getting your credit also. You need all sorts of services and you need to look at it holistically. You might say, "Okay, I'm going to move my money from the smaller bank to this large big box bank which might have a branch where I am or not." But then you should be thinking about what are the other services I need and who's going to be around to service it. That's one thing. Banking is all about relationships.

Sayee Srinivasan:
The other question which somebody else told me was, "How well do I know my bank?" It's a relationship thing. I need to know my banker really well. It's all about asymmetric information and who can solve their problem better. You need to be talking to your banker if you have concerns before you do anything, visit your banker, call him or her and talk to them and figure out what's happening.

Sayee Srinivasan:
Because people are changing the way they're doing things. And it's all about risk management. You're trying to manage your risk at the same time the bank is looking at it and the bankers are also proactively reaching to customers. If they haven't reached out to you, reach out to them and have a conversation with them.

Sayee Srinivasan:
And the third thing, and I'll stop with this, is there's a reason why you opened an account of the bank and started putting your money, started a relationship in there. Has anything changed? The incidents that you spoke about in the context of those two banks, what was it about those two banks has caused a change in your relationship with the bank or the needs that you need? Do you have any new needs that this bank has not been able to meet? If that's the case, then you should have one another conversation.

Sayee Srinivasan:
I think it's a good question to ask and people should be visiting with the banks and talking to them and also step back and think about it from a more holistic perspective as to what are my other needs and ignore a question just of moving among money. And from a data perspective, we don't have it yet, it's all coming together. But as in my conversations with the bankers, there is once again... this is the thing when the headline number talks about, "Hey, people are moving to larger banks." If you go the micro level and speak to bankers, we're not seeing that.

Gene Marks:
You had mentioned before about calling your banker and talking to them... and again I have lots of clients that deal with that bank with... I'm a CPA by the way. We advise a lot of clients and they bank with independent banks, community banks, they're very happy with them. But they got a little shook up when they saw what was going on with Silicon Valley Bank. Let me ask you to go into their shoes. Say you are running a small business, just like your dad did, you see what's going on with Silicon Valley, you said you should call your banker, what specific questions would you be asking your bank? What would you ask as an economist and experience the banking industry that would make you walk away from a phone call saying like, "Okay, I feel more comfortable."

Sayee Srinivasan:
One very safe piece of exercise you could do is there are a lot of stories written about the various financial ratios of Silicon Valley Bank and Signature Bank. The loan to deposit ratio and insured, uninsured deposits and stuff like that. And if you have a friendly CPA, lock that CPA in and say, "Okay, this is what I have in terms of these two banks." And you can get the financials of your bank. And just put them side by side and say, "Are these banks in the same business?" If you just put them side by side, you realize that you're talking about... it's not an apples to apples comparison at all at that point. You're comparing two banks, but the financial profiles are very different. And then your question is, "Okay," as I said earlier, "Yes I'm concerned my awareness of risk is higher that any bank could potentially have a run." But then you should step back and say, okay, what is the likelihood this bank is in a very different business. It's financials are very different. And then go and have a conversation with the bank.

Gene Marks:
The larger banks that are publicly held are required to disclose financial information. Are smaller banks also require... I don't know the answer. Are they under regulatory requirements to also disclose that similar information? And so if we were to ask... if I was to ask my banker, "What is your loans to default ratio," would they be able... should they be able to answer that question for me and would they be able to show me that information?

Sayee Srinivasan:
We have a tailored regulatory system in the country. The bigger the bank you are subject to more rules and regulations and so on and so forth. That goes without saying. But across the board all banks do regulatory reporting. I think if you go beyond I think a billion dollars or something, the number of data items that line items you report is going to fall. But the vital statistics that you're talking about, it's all available in the public domain. And if you don't have it, your friendly banker is going to be able to provide it for you. If the banker says, "I don't want to give it to you," then you should have an interesting conversation. But we see all the data, we slice and dice all the data that's available and all the vital statistics that you're talking about without having to hire a very expensive CPA, you should be able to do that amount.

Gene Marks:
Fair enough. You had mentioned before, you guys do see the data... and you had mentioned earlier this conversation, you've been running around a lot given what's happened in the industry to respond, does the... and again if I'm not sure how much of this you can answer or not, but hopefully you can. Does the ABA provide data for the public so that they can... as a trade organization for the industry so that business owners can look at the ABA's data as to the state retail associations do this, manufacture associations do this. Do you also make public data available that I could look at to see the overall state of the industry?

Sayee Srinivasan:
Unfortunately or fortunately we don't. And that's something which after I joined I'm looking to change it. But the interesting thing is the data is available from the regulatory agencies. You go to the FDIC or the Fed, you have the FFIEC.gov website where you can pull up the name of your bank's details. It's all available in the public domain. And if you've seen one bank's balance sheet, the other bank's balance sheet is structured the same. The end of the structure the same. A lot of it is available in the public domain.

Gene Marks:
Great. All right. No, that's super helpful. More questions for you. Treasury Secretary Yellen has been going back and forth and creating a little bit of confusion, at least among my clients as to what actually is covered and what is not. Since the beginning of time we're all used to the FDIC, they covered $250,000 of deposits at an institution. And then she publicly said, "No, the government will cover it all." And then people are like, "What does that mean?" And, "How can you do that?" What should I be advising my clients or what should a business owner be thinking? Should they be sticking to that $250,000 FDIC coverage number or could do they now feel safer letting their deposits go beyond that because the government's going to step in and cover it if god forbid there was a default.

Sayee Srinivasan:
Good question. And the huge amount of debate that's happening, there are all sorts of differences of view and opinion that's happening. Fortunately for us, the regulatory agencies have made some pretty strong commitments to look at all of this stuff. There's going to be at least three different reports that will be due early May. One from the Fed looking at the regulatory approach that it took to Silicon Valley Bank. We need to do a root cause analysis as to what happened and stuff like that. Because we thought the diagnosis... if I go and change just the deposit insurance fund calculations when it's not going to be helping stop the next Silicon Valley Bank. You need to do reduced cost analysis. FDIC has got... one of the report that will come out where they have to make a special assessment in terms of how much they need to cover, collect addition for the banks to recover the expected losses from two of those banks.

Sayee Srinivasan:
And then they are also going to be looking at modernizing the deposit insurance fund. There's some interesting ideas in there, but you need to weigh the cost and benefits. From my perspective as an economist, I will wait to see the analysis being done. And then a few things in my mind, there's no free lunch, somebody is going to be paying for it and if your banker is paying for it, the cost in some shape or form will come to me. There are complex issues. There are trade-offs that need to happen and the last time we really had a discussion on trade-offs in the context of the deposit insurance was 15 years ago. And now it's time to have that conversation. And then there's a third variable in terms of technology and the speed of movement and so on and so forth.

Sayee Srinivasan:
This is what other that's happening in terms of policy, but the behavior is already changing. Clients have been more for asking the questions that you have been asking and the industry also is looking at... it is aware of the risks, the banks, the banking system, and they are changing the policies and procedures in terms of how do they manage these types of shocks. I think the overall system is getting smarter about it. That's the only way to deal with the risk. You learn from your experiences and you keep getting smarter. I don't know where we will land in terms of deposit insurance modernization, but I'm very clear that no knee-jerk reactions in the heat of the moment because you're going to regret that. Because the issues are complex, the trade-offs are complex.

Gene Marks:
That is a great answer. And it dovetails into what we tell our clients, which is basically, "Stick with what you've been doing." "There's obviously a lot of talking and work that's been going on right now and until something concrete changes in the way the government is going to be handling those excess deposits, we should be sticking with the $250,000 insurance rule for the time being." That really helps a lot.

Gene Marks:
Couple more questions and I'll let you go. Even great, this is fascinating information. The banking industry does get competition now, a growing competition, from non-banks. Apple just started offering interest bearing savings accounts to consumers and Walmart is going into digital banking as well. And some other companies are doing the same. Merchant banking advances from PayPal and QuickBooks and Square. How does that impact the banking banking industry, Sayee? Is this a threat to you guys? Do you welcome it because it's in some ways these companies are taking on the burden maybe of smaller businesses that might not necessarily really get the best relationship from a bank. And I'm just curious to your thoughts about these non-bank awesome entities.

Sayee Srinivasan:
Awesome question. The pet peeve that every banker will have is about whether these non-bank entities are the subject to the same regulatory structure requirement as banks. That's always a big issue. If you are offering a same service, you should be subject to the same regulations. That's there and put that aside for a while because that's a longer conversation. But to your broader question, banks have been competing with non-bank for the longest time. They partner with these new entrants. Because anytime they offer these services... when Apple has about a partnership with Goldman Sachs. They partner with them on certain issues, they looked at them for the technology and the design that they do. And if I'm a smaller bank partnering with a fintech type entity will give me the reach and scale, which on me on their own will never be able to do it.

Sayee Srinivasan:
If you say 4,700 banks, there are like 10,000 different views on it and how they're actually using it. And ABA has conferences every year and there will be these trade shows and lots of fintechs are in there and you see bankers talking to them. And not every fintech or non-bank out there is actually... There are more providing services to banks than directly to the customers. Because many of these guys don't want to be in the business of directly facing the customers. They prefer to go through the banks because the banks understand. It's competition, it's collaboration, it's cooperation and you can add a few more C's out there. I guess it makes our life really interesting. But just to come back to my first point, I think what everybody agrees on is the importance of having strong regulations. Same service, same regulation.

Gene Marks:
Final question. We're obviously in a much higher interest rate environment this year. The fed funds rate, which is the rate the fed charges banks to borrow money from it, it was a 0.25% a year ago and now it's like 5%. An enormous jump. Three part question to interest rates. How do you see this higher interest rate environment affecting existing businesses, startup businesses and the banking industry as a whole throughout 2023? I'm curious as to your thoughts.

Sayee Srinivasan:
Sure. Great questions. As you pointed out at the beginning of the question, over the past 12 months, the Fed raised policy rates by 475 points, close to five hundred points.

Gene Marks:
Twenty times.

Sayee Srinivasan:
Unprecedented. [inaudible 00:27:13] meeting after such as [inaudible 00:27:15] meetings where roads are going up by 75 basis point every time, unprecedented. But what that means is it's not just the level but the speed at which. You take any bank or any businessman, what they would like is certainty. If rates are going to be within a range, they can deal with it. Whether it's 20%, I'm just making up a number, whether it's 3%, 6%, whatever. The problem comes when it starts from somewhere close to zero and gets ratcheted up to five or six percent over short interval time. Then the playbook is off and you need to do this way. But if you think about where we are today and the noises, if you look at what the market is expecting in terms of the next step for MC meeting, it's betting that we under another 25 basis point high and after that there'll be a pause.

Sayee Srinivasan:
What that means is all these rate changes that we are expecting from a policy perspective is behind us already. Now it's a question of adjusting. But still what it means from a small business perspective, depending on what loan products, what sort of credit arrangements you might have had. If you were a fixed rate, which was a three year fixed rate or four year fixed rate loan, that's going to get repriced sometime soon and you're going to see the price drop. What it means is... And the bankers are already doing and you should be doing the same, which is, talk to your banker and start having this conversation, "I'm going to have a reset that's going to happen, a repricing on my line in six months or a year, what's going to happen?" If you proactively manage and have those conversations, you're in a good place.

Sayee Srinivasan:
From the perspective of existing customers, banks are competing. The strong competition among the banks, they know customers have choices so they have. In terms of smaller business and new businesses... that's the other question you have. It's a good question because... and this is when I go back to my business strategy professor from way back when in my business school who used to tell us, "In great markets, overall markets, you'll see businesses failing and in really shitty markets you'll see people doing really well." Similarly, when things are going bad, if you have have the funding available, the system is still a lot of liquidity. There's still... you see a lot of money being raised and so on and so forth. The US economy is still doing well.

Sayee Srinivasan:
We work with the large bank chief economist and this thing called Economic Advisory Committee and every six months they put forecast. Nobody is talking about a recession. If you ask them when will we see a recession in the US, nobody's betting that there'll be a recession in 2023. They're all talking about, "If a hard landing would happen, it's going be sometime in the future. Meaning there is still a lot of vitality in this country. There are strong growth trends. And given that the rates are already reached where they are and so on and so forth, if you think you're going to be making decent margins, then go ahead and do it.

Sayee Srinivasan:
The business of taking risk, calculated risk, but this is at a macro level, there are still... The GDP will be growing depending on where you are in the country, there are strong demographic trends that are happening that there might be opportunities. It all depends on where you're situated, your personal situation in terms of funding and business model and so on and so forth.

Gene Marks:
I appreciate you spending the time with us and your insights are really, really valuable. It is going to be a very interesting year for the banking industry and you certainly do not have to worry about job security in 2023 because you're going to be very much needed. Thanks for your time and I appreciate it very much.

Sayee Srinivasan:
Happy anytime and happy to be here and chat with you.

Gene Marks:
Do you have a topic or a guest that you would like to hear on THRIVE? Please let us know. Visit payx.me/thrivetopics and send us your ideas or matters of interest. Also, if your business is looking to simplify your HR, payroll, benefits, or insurance services, see how Paychex can help. Visit the resource hub at paychex.com/worx. That's W-O-R-X. Paychex can help manage those complexities while you focus on all the ways you want your business to thrive. I'm your host, Gene Marks and thanks for joining us. Till next time, take care.

Speaker 1:
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