



Investor Communications In The Dodd-Frank Era

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Today's presentation can be
viewed at

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Today's Agenda

Dodd-Frank Issues

- Overview
- Key Issues
- Communication Tips
- Q & A

Current Market Issues

- Opportunities & Challenges
- Effective IR Communications
- Q & A



Dodd-Frank Issues



Overview

- Initial focus on increased regulatory burden and compliance costs
- Overlooked is the misinformation that could spread among stakeholders
- Increased level of disclosure = greater scrutiny by shareholders, activists, media and other potentially adversarial groups



Overview

- The *perception* of stakeholders is key
- The media will tell the story as they see fit
- Banks must control their own message
 - Translate how complex legislation will impact stakeholders – in simple and clear language
 - Make a strong case for your positions on key issues





Key Issues



Key Issues

- Executive Compensation
- Whistleblower Provision
- Compliance Costs





Executive Compensation



Executive Compensation

- Must show relationship between compensation and financial performance
- Articulate how executives have fared re: performance goals
 - Keep it simple and short
 - Regularly communicate milestones



Executive Compensation

- Specify executives' value to the company
 - Reduced NPAs / Improved credit quality
 - Diversified lending portfolio
 - Positive shareholder returns
 - Expanded market share
- Show management's interest is tied to shareholders' interest



Executive Compensation

- Shareholder “say on pay”
 - Non-binding vote on executive compensation held every 1-3 years
- Need to explain executive compensation in relation to these new rules
 - Communicate principles that guide policy



Executive Compensation

- Contact largest investors to gauge feelings
- Don't look defensive
- Give roadmap for next 2-3 years
- Highlight good pay practices



Executive Compensation

- Continue to engage shareholders between votes to show accountability & transparency
- Promote past changes to exec. compensation programs that had shareholder input
- Show compensation programs in line with banks of similar size



Whistleblower Provision



Whistleblower Provision

- Individuals entitled to 10-30% of financial penalty over \$1 million
- Could create a cottage industry of whistleblowers
- Could encourage employees to bypass internal compliance systems
- SEC received 334 whistleblower tips within seven weeks of law enactment



Whistleblower Provision

- Build a robust employee communications program – led by CEO
- Foster a culture of transparency/openness
- Communicate corporate integrity:
 - Ethical behavior
 - Company standards
 - Sales practices
 - Use of company technology, etc.



Whistleblower Provision

- Remind employees of internal reporting mechanisms
- Increased communications and open door policies can reduce unwarranted whistleblower risk
- Get out in front of issues before they become damaging



Whistleblower Provision

- Develop key messages to communicate externally
- Ensure Board and management are made aware of potential issues in real time
- Recognize that governance is now part of corporate reputation management



Compliance Costs



Compliance Costs

- Costs of compliance for investors - impact on earnings and shareholder ROI
- Potential impact on capital and liquidity requirements, leverage limits, etc.
- Give shareholders a road map on the potential impact of the regulations



Compliance Costs

- Costs of regulatory compliance being passed on to customers = new fees and reduced services
 - BofA debit card fee debacle
- Perception = customers will be paying more in the future for the same services they have today



Compliance Costs

- Tell customers how fees can be avoided
 - Maintaining certain minimum balances
 - Choosing specific account options that best match the way they bank
- Be up front about any changes in fee structure
 - Do not hide it in the small print



Communication Tips



Communication Tips

- Consider how individual constituent groups may be impacted
- Deliver targeted communications to each group
 - Allay fears
 - Promote the benefits of the Act



Communication Tips

- Put procedures in place to respond quickly to shareholder concerns
- Reach out to top shareholders to identify concerns
- Ensure management and Board know key messages on hot button issues
- Provide communications training



Communication Tips

- Turn regulatory reform from a negative into a positive
- Banks required to provide greater detail on credit quality = provide greater transparency
 - Create dashboard graphics that synthesize details into easy-to-understand overviews
 - Better educate investors/differentiate your bank





Communication Tips



Communication Tips

- Publicize changes in FDIC coverage - \$250,000 per depositor & extended coverage of noninterest bearing transaction accounts
 - Increased safety and soundness for depositors
- Target small businesses with provision allowing interest on checking accounts



Communication Tips

- All stakeholders are now focused on governance matters
- Communicate beyond the proxy - use variety of communication outlets
- Develop synchronized communications across groups
 - Requires ongoing coordination among CFO, IR, legal, corp. comm. and HR



Summary



Summary

- Increased shareholder power from say on pay, proxy access, etc.
- Effective communications with largest and active shareholders is vital



Summary

- Impact of Dodd-Frank is unknown
- Ongoing communication of guiding principles will help navigate changing landscape
- Need to adjust overall perspective



Summary

“For decades bankers have been blaming regulations for red tape and the complexities of doing business. The idea that customers didn't agree never occurred to me. For bankers, compliance has a negative connotation as a necessary evil, which rubs off on the staff's communications with customers. Perhaps "compliance" should become a key element in the delivery of quality service. If the public thinks government is good and banks are bad, then bankers should be ashamed.” – Veteran Community Bank CEO



Make lemonade out of lemons



Questions & Answers



Banking IR In The Current Market



Current Environment

- Mistrust and suspicion among investors & customers of banks in general

“Next time I look for a banking partner, I’m going to ask to see *their* books.”



Opportunities & Challenges

- The market is looking for winners & losers
- Banks must differentiate themselves from one another
 - Safety & soundness
 - Stability
 - Overall risk
 - Products & services
 - Investment potential
 - Performance





Effective IR Communications



Effective IR Communications

Hallmarks:

- Strategic messaging
- Transparency
- Reaching out to all constituencies
- Consistent, ongoing communications



Strategic Messaging

- Why should I invest in your company?
 - Versus other banks
 - Versus other investment opportunities
- Create awareness & establish positioning
- Ongoing brand support & reassurance



Strategic Messaging

Financials

- Give broad perspective/road map
 - Internal & external factors driving results
- Place company's performance in context
 - Goals
 - Strategy
 - Environment
- Display confidence in company's future



Transparency

- Be upfront & honest about challenges
- Deal with bad news early and honestly
- Fully inform investors of trouble spots and plans to manage through difficulties
- Reassure investors that the bank is in no danger of collapse / positioned to thrive



Transparency

- Demonstrate that management:
 - Has experience to manage through current market
 - Has a strategic plan for dealing with challenges (give details)
 - Is diligently executing that plan (milestones)



What *Not* To Do

■ ■ ■ Bancshares Announces Credit and Communications Initiatives

Bank Also Announces Resignation of CEO and Director

ELLIJAY, Ga.— ■ ■ ■ Bancshares, Inc., announced several initiatives today designed to better support its lending and customer service teams, and to help more quickly resolve challenges related to special assets.

- *(6 more paragraphs describing credit & communications before a terse, two-sentence statement that the CEO resigned for “personal reasons.”)*



Reach All Constituencies

- Board of Directors
- Investors
- Employees
- Customers
- Community



Ongoing Communications

- Plan well
 - Evaluate all communication vehicles
 - Set up system to generate news items
- Develop an ongoing timeline
 - Don't leave gaps in communications
- Execute consistently
 - Put someone in charge of managing effort



Ongoing Communications

- Letter from the CEO
- Quarterly earnings release & call
- Quarterly report
- Quarterly newsletter
- Op-Ed column in local papers
- Statement stuffers
- Social media



Ongoing Communications

What to say?

- Milestones achieved
 - Reduced costs/improved capital by X%
- Bank news
 - New hires, new products, new IT system
- Community activities & sponsorships



Ongoing Communications

- Key messages should be consistent in each and every communication
- DO NOT leave investors room to speculate about the bank's progress and prospects
- Communications is now a normal cost of doing business



Social Media

- Define objectives
 - Who do you want to target
 - What are the costs (time and capital)
 - What is expected
 - ROI
- Determine costs
 - Largest cost is employee time to properly operate an ongoing social media program



Social Media

- Compliance
 - Compliance staff needs to be part of social media planning and execution
 - Social media falls under the same rules as print, radio and television advertising
 - Conduct a compliance risk assessment
 - Establish policies and procedures



Social Media

- Deliver compelling content on ongoing basis
- Track performance of social media efforts
 - Develop a benchmark
 - Quantifiable metrics – e.g., Google Analytics
 - Choose specific tools that match the media platforms and goals of the program



Effective IR Guidelines

- Organize a Disclosure Policy Committee and authorized spokespeople
- Have a crisis communications plan in place
- Integrate/coordinate IR with PR, marketing and employee communications



Effective IR Guidelines

- Deal with bad news early and honestly
- Fully inform investors of trouble spots and plans to manage through difficulties
- Continuously update investors on issues such as adequate funding, sufficient liquidity and access to capital, etc.



Effective IR Guidelines

- Communicate that management has navigated through rough times before
- Reassure customers that deposits are safe – explain FDIC insurance
- Speak to the long-term – give broad perspective of up & down cycles



Final Thoughts

- Today's environment puts a premium on differentiation
- Effective IR communications more important than ever





*There is no such thing as too
much communication*





Questions & Answers

The Experts in Financial Communications & Strategy

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