



Bank Size, Compliance Costs and Compliance Performance in Community Banking

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Our Goal

- Use a unique data set from the 2015 CSBS survey to describe and measure compliance costs.
- Make inferences about relative regulatory burden by comparing compliance costs at small, mid-sized and large community banks.



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Our Contribution

- Quantify cumulative compliance costs using a large sample of banks—costs that are not captured on call reports.
- Measure inputs (compliance costs) and link them to outputs (management and consumer compliance ratings).



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Our Sample

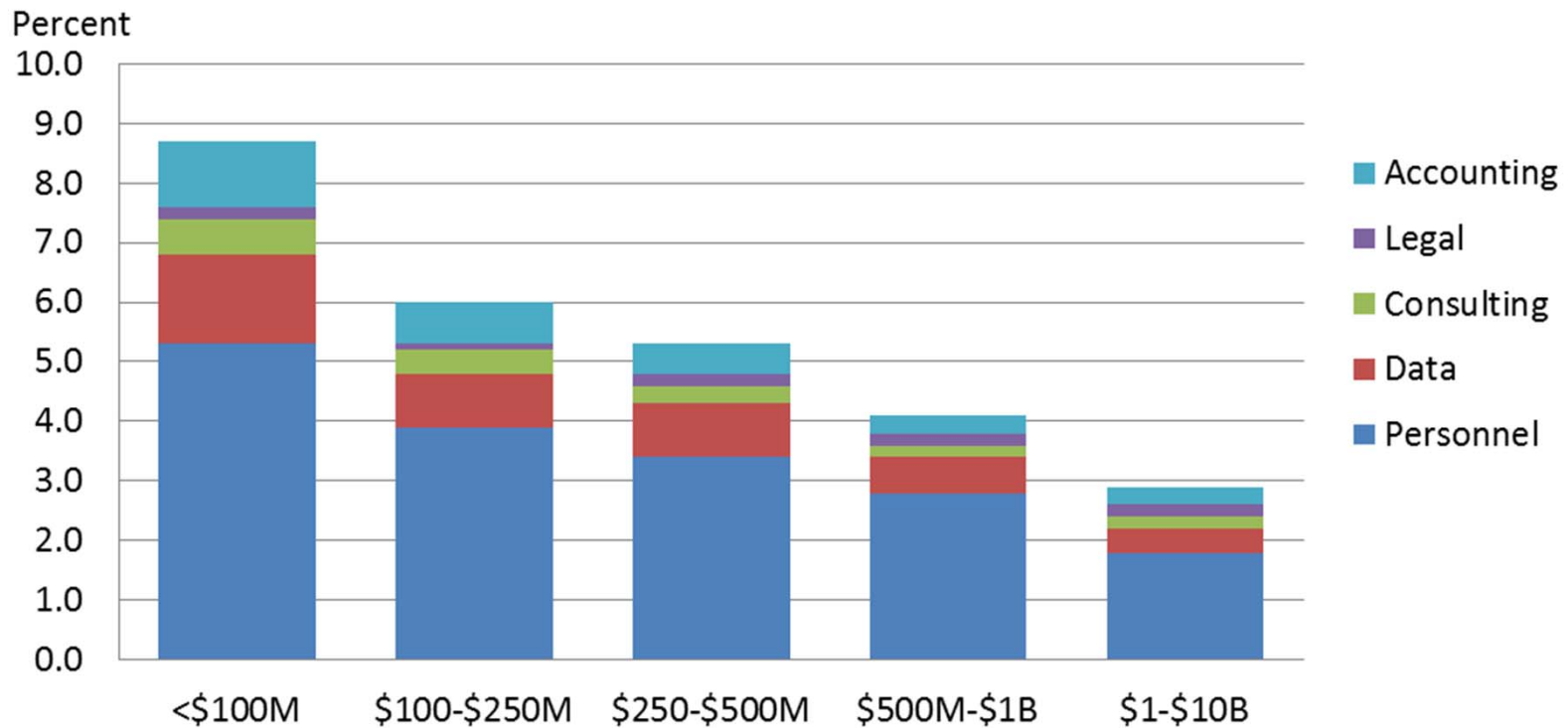
- 470 banks with assets of less than \$10 billion
- Amounts (\$) spent in 2014:
 - Legal (6.0%)
 - Consulting and advising (6.4%)
 - Accounting and auditing (9.7%)
 - Data processing (12.6%)
 - Personnel (65.2%)





Mean Compliance Expenses/Noninterest Expenses (2014)

CSBS Surveyed Banks



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Compliance Costs vs. Performance

- Two proxies for performance:
 - “M” in CAMELS rating
 - Consumer regulation compliance rating



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Compliance Expenses and Management Rating (2014)

	<\$100M	\$100- \$250M	\$250- \$500M	\$500M-\$1B	\$1-\$10B
No. Highest-rated Banks	22	44	42	15	16
Compliance/Nonint Exp (%)	6.80%	5.90%	5.10%	4.50%	3.00%
No. Other Banks	91	110	79	30	20
Compliance/Nonint Exp (%)	9.10%	5.90%	5.40%	4.00%	2.70%
Ratio	24%	40%	53%	50%	80%





Compliance Expenses and Consumer Compliance Rating (2014)

	<\$100M	\$100-\$250M	\$250-\$500M	\$500M-\$1B	\$1-\$10B
No. Highest-rated Banks	22	54	40	15	10
Compliance/Nonint Exp (%)	7.40%	6.10%	6.10%	3.40%	3.20%
No. Other Banks	90	100	81	30	26
Compliance/Nonint Exp (%)	9.00%	5.70%	4.80%	4.50%	2.70%
Ratio	22%	48%	48%	50%	44%





Key Findings

- Compliance costs increase, but at a decreasing rate, with bank size.
- Results are consistent with existence of economies of scale in satisfying regulatory requirements.
- Higher compliance costs not necessarily and uniformly associated with better performance.



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Future Directions

- Use 2016 CSBS survey data to compare costs across time.
- Consider adding additional variables to the survey to further disaggregate costs or answer new questions.
- Suggestions?



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