

## Scratch that niche?

There's an interesting byplay in this issue involving the question of whether to specialize or be a generalist. That question has been kicking around banking for decades, with sometimes one, now the other view having ascendancy. In the aftermath of the financial crisis, specialization—or nichemanship—retreated, with traditional community banking enjoying a renaissance.

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The cover story (p. 34) profiles Steve Wilson, CEO of LCNB National Bank, a traditional (non-niche) community bank based in Lebanon, Ohio. In the ABA Community Banking department (p. 16), on the other hand, the latest installment of our Future of Community Banking series offers several examples of niche strategies.

What's interesting is that six years ago in this column we compared the views of a well-known bank stock analyst with the views of Steve Wilson. The analyst spoke of the "myth of diversification," saying that product and geographic diversification is protection from doing a poor job at what you already do. "The great banks," said the analyst, "are niche focused."

Hmm.

Several of those "great niche banks" have been sold. Others—Capital One, for instance—have diversified. That's not to say these companies weren't good investments then, or didn't have good strategies, but they're history now, or changed.

Wilson, on the other hand, has long resisted the idea of a niche strategy. He said in that earlier column that diversification helps to balance cyclical businesses, such as mortgage lending. Not only is LCNB still here, it's doing quite well, never having posted an ROA of less than a 1% in the last 18 years.

In interviewing Wilson for the cover story, he talked about how diversification also allows the bank to provide better service to its customers, by being able to meet more of their needs. For that reason the bank offers investment brokerage, a full range of insurance, and trust services. LCNB, in fact, became a poster child for the expanded powers granted under Gramm-Leach-Bliley by acquiring an insurance agency the day the 1999 law took effect. That move has had the additional benefit of offsetting shrinking margins.

Perhaps a bank's market, or its position in that market, is its true niche, not its line of business. With traditional banks, customers often value the company—and, more importantly, its people—more than they do its

products, although, as Wilson points out, a bank has to keep up with products and technology.

In some ways “niche versus diversified” oversimplifies the situation. Most banks probably have elements of both (including some in the Community Banking article).

Finally comes the thought that in banking, credit risk management is what makes or breaks the enterprise, whether you’re a credit card bank, a small business specialist, or a traditional bank with a range of services. Even if your portfolio is diversified and your service good, if you get caught up in a lending frenzy, it will all come to naught. •

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