Proposal for Enhancement of the Banking Program

College of Business & Public Administration

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Executive Summary

The banking program at the College of Business & Public Administration (CoBPA) provides an excellent education for our students and provides them with the tools they need for successful careers. We are not content to rest with this and seek to create a program that will set the standard for banking majors around the country. We believe this is best done through three elements, each of them a crucial part of the overall success of this endeavor:

1) An enhancement of the undergraduate curriculum. An enhanced undergraduate major will send students into the financial market better prepared and therefore better able to set both themselves and the College apart from other institutions. Such a program involves keeping our current base of courses and adding new electives and structure to the major to allow students to specialize based on their career plans. Section 1 below offers some ideas on the types of courses and structure changes needed for this.

2) The development of a banking research center devoted to issues in the national and global banking industry. The structure of financial institutions and their markets change constantly. A research center could attract top minds in the field to UND for presentations and other work, giving both the faculty and students exposure to the current research on banking, improving teaching and research, as well as bringing national prominence to the College.

3) An executive education program designed to educate bankers about current and future issues in banking and to arm them with the skills to aggressively find and solve those problems. Given the rapid pace of innovation in the financial world it can be a daunting task for bankers to keep abreast of the latest developments. Our executive education program would provide instruction on issues in regulation, financial markets, and bank strategy. More important though, it would give bankers a toolkit to use so they can analyze new problems and situations at their bank and then arrive at solutions.

We view each of these as an important piece of the banking program at UND and feel it would establish CoBPA as a national leader in banking education and research.

Undergraduate Curriculum Enhancements

Constructing the premier program in banking will be challenging. We need to consider the goals of our students and our ability to provide the type of instruction we feel is necessary. To be the national leader in banking education at an undergraduate institution requires going beyond the offerings at the many institutions accredited by the American Institute for Banking (AIB). To be the recognized leader in banking education we will need to offer topics typically found only in graduate programs in banking.

AIB accredited programs contain offerings with titles such as "Consumer Lending" and "Bank Marketing". From the available descriptions there would appear to be a few problems offering similar classes, or at least reasons for us to hesitate. "Consumer Lending" looks to be designed to teach the student how to be a loan officer. Certainly this is not a bad thing, but is it part of a premier curriculum? Loan officer jobs have become largely automated in many banks, requiring compliance with bank policy based on computer provided credit score information. Even more to the point is the issue of resources. It would strike us as a better use of student time, faculty time, and banker time to send a student out into a bank in a co-op/internship fashion to allow them to gain some of this experience as well as others. This has the added advantage of moving us towards the University's goal of every student gaining practical work experience for course credit.

Another problem comes in with a course like "Bank Marketing." While we have no issue with the title of the class, the description implies the bulk of the class focuses on basics marketing principles, something our students learn already from business school core curriculum. It would be better to offer a Bank Marketing class devoted to the issues particular to financial institutions of all sizes. The only places that offer classes of this sort are graduate banking programs, clearly moving us towards our goal of one of the pre-eminent programs in the nation.

While at some level the desires to create a nationally recognized program dictate curriculum issues, there is also a need to examine the goals of recent and current students. These goals are decidedly mixed. While there are some students who want to work in the large institutions typical of the nation's financial centers they face a competitive disadvantage due to the lack of familiarity many financial center institutions have with BPA students and curriculum. While the Lanterman Center will offer an opportunity for specialized curriculum development to overcome some of these problems once it is fully functional, an active networking campaign on the part of many will also be necessary. The recent trend of consolidation among these institutions complicates matters further for our students and others because the competition for the few remaining positions is that much more intense.

Perhaps more important is the fact that many students do not desire to go to financial center institutions. They express an interest in staying in North Dakota or Northwest Minnesota and working at "community" banks. Institutions in these areas are typically smaller institutions. Students targeting these banks require skills different than those going to financial center institutions to succeed; their abilities need to be more general, that is, across a wider array of issues.

Due to these issues it is our opinion that all majors should have a broad knowledge of banking issues and concepts to make them as employable as possible. In addition to the core curriculum in banking those students seeking employment in financial center institutions could then specialize in specific areas to increase their marketability, but still have sufficient background to find jobs outside their desired area if necessary. Those interested in smaller or more rural institutions could develop a basic set of skills in many areas and offer value to many different aspects of bank operation.

UND currently offers one course that sets our program apart from programs at other institutions, bank regulation (Economics 405). Bank regulation provides the students with introductions to both theoretical and practical issues in regulation and serves the needs of those banking students looking for a career at one of the regulatory agencies. Recent graduates obtained positions at the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC). Communication from a 2003 graduate indicated that she felt the class gave her an advantage in getting the job.

For UND to have a premier national curriculum, additional content is required in the major. The material covered in Principles of Banking (Economics 305) is of a basic and broad nature that meets the needs of students interested in all types of banking careers, from community to Citibank. We discussed the content of bank regulation above. But rather than stress specific current and future courses, which would be dictated by resource issues among others, we offer a recommendation on subject areas we should include in a curriculum discussion designed to give us the status of premier national program:

Credit Risk Analysis & Management
Internet Banking
Econometrics/Financial Econometrics
Issues in Community Banking
International Finance
Global Banking
Experiential Learning
Bank Marketing
Investment/Investment Banking
Bank Regulation
Money and Banking
Macroeconomics-Theory and Forecasting
Real Estate

We could list more topics but this list is sufficient to show that we have some covered already and other areas we need to address. Certainly a curriculum that included courses covering these issues, as well as others, would prepare majors to tackle not only current issues in the banking industry, but also to act as industry leaders identifying future trends and problems in the banking industry, and contributing to our reputation as a premier institution.

The faculty in Economics that teach banking classes are already taking steps to expand offerings in banking with two one hour classes offered next academic year: Internet Banking in Fall 2004 and Rural Credit Markets in Spring 2005. This approach was adopted with the hope of generating heightened interest in the banking major as well as providing the students with exposure to other issues in banking, albeit limited by the ability of faculty to teach overload hours.

Some implementation issues need to be addressed before undertaking an overhaul of the curriculum. Given the current structure of the banking major across two departments it does not seem advisable to create separate tracks within one major because it would be almost impossible to manage. There needs to be a core curriculum that all students take and then a sufficient offering of electives that allows students to specialize according to their career goals.

Banking Research Center

The Center for the Advancement of Banking & Financial Services (CABFS) will be an organization designed to encourage and disseminate academic and practitioner research to improve banking and financial services. As part of the College of Business & Public Administration (CoBPA) the Center will target not just a local or regional audience, but also a national one. CABFS has the potential to give CoBPA a national reputation in the realm of banking and financial services as there are not many organizations of this type around the country, though the last five years has seen more created.

CoBPA has already advanced the study of banking with their undergraduate banking major. Continuing that process with a Center designed to promote advanced research is a logical step. The education of the undergraduates will improve with their exposure to high quality research and researchers in banking and financial services. The same contact with researcher and research will help bankers across the region and across the country become more competitive.

Beyond these achievements CABFS can make a national name for itself by advising and participating in grant funded projects focused on banking and financial services. Some examples of these are the Community Development Financial Institutions (CDFI) Program which has a $100,000 grant to help develop Native American financial institutions. Another opportunity provides up to $2,500,000 to a CDFI. With North Dakota's focus on the issues of economic growth and development it is clear that an institution functioning in an advisory capacity could help the three CDFIs develop proposals for these types of opportunities. A final funding opportunity to note is from the National Endowment for Financial Education (NEFE) Grants Program. NEFE sponsors an investigation into why people as a last resort seek credit counseling and want the outcome of the project to be of value to credit counseling professionals. CABFS could help researchers interested in such a project obtain the funding from the external organizations like NEFE.

The following is a proposed mission statement for CABFS with three separate contribution areas.

Mission Statement

The Center's mission is to encourage and support the study of issues related to banking and financial services and through the dissemination of research, education of banking and financial service professionals, and public education improve the quality of banking and financial services both nationally and locally. The Center meets its mission through three separate categories of contributions:

Research: The Center will provide support for research on banking and financial services through a competitive grant-in-aid of research award, travel funds and sponsoring presentations. Projects related to all aspects of banking and financial research are considered from across the country but giving preference to projects addressing issues of importance to the Center's home region, the Great Plains. The Center will also provide support funds for travel to research and professional conferences related to banking and financial services. Finally, the Center will host presentations and disseminate research working papers on the topics of banking and financial services.

Education: The Center will sponsor and operate a summer banking program designed to provide a comprehensive treatment of issues faced in the current banking environment as well as allowing some elective specialties of importance to bankers from the Great Plains region.

The Center will attempt to educate the public on important issues in banking and financial services by publishing newsletters as well as through other reports and the regular news media.

Service: In addition to the newsletter mentioned already the Center will issue regular bulletins about regulatory changes and the economic and financial impacts caused. The Center will address further issues as desired/needed and look for other projects (grants, advisory roles, etc.) of value to the local area, the region and the nation as a whole. The Center will also sponsor banking roundtable discussions designed to bring the banking community together to encourage the free exchange of ideas on trends in the industry.

Graduate Education Program

The intent of most graduate programs focusing on bankers is to provide a rigorous training in fundamental aspects of banking business for motivated bank employees. The target student for other programs varies but most look for anyone interested in improving their skills and at the same time learning how certain key aspects affect the larger institution in terms of goals and performance. In practical terms this means that anyone interested in advancing their career, whether they are a relationship manager, loan officer or middle manager, can come to the program and find it benefits them. We suspect that we will want to have admissions criteria that include both experience in banking and undergraduate coursework.

Possibly the most well known of the programs already in existence is the Graduate School of Banking at the University of Wisconsin-Madison. Other programs are at institutions such as the University of Colorado and Louisiana State University. North Dakota has a program called the Dakota School of Banking (DSB) held at Jamestown College. The target audience for these programs varies, though the DSB says it targets first-level, mid-level management and supervisory personnel. We think we can offer a program superior to the DSB in both content and execution.

With an undergraduate program in Banking already in place, UND is a strong position to offer a graduate program in banking. The principal strength of these programs comes from the mix of academic and practitioner instruction. The major in Banking and Financial Economics means that UND has much of the academic infrastructure in place already, as well as other tools useful to such an endeavor, like the Lanterman Center.

Students would learn many different aspects of the banking business from basic and advanced performance analysis, to the credit risk management, regulatory issues, as well analyzing events in the macro- and regional economy to interpret the impact on their financial institution. In addition we can allow people to do some tailoring of their curriculum to take courses of particular importance to their institutions such as trends in agricultural credit markets, banking technology and security or community banking in the 21st century.

The overall program curriculum needs to be highly integrated to allow the students to master and progress quickly through the material. Obviously there is much to be determined regarding the structure of the courses and the time etc. We envision a program that requires two-consecutive weeks for at least two years. There would be 4 course slots per week with two hour sessions per course slot every weekday. There may be a need for Saturday classes too, or at least some form of activity, such as guest speakers. In addition, other programs require an intersession project between years, which may be something to adopt with ours.

Possible Courses and Descriptions

Year 1-Week 1

Marketing Financial Services

Bank Performance Analysis I

Economics of Banking, Money and Capital Markets

Small Business Banking Services

Year 1-Week 2

Assessing Credit Risk

Bank Performance Analysis II

Investments and Asset-Liability Management

1 elective slot

Year 2-Week 1

Managing Credit Risk

Bank Regulation

Strategic Management for Financial Institutions

Achieving Your Institution's Competitive Advantage

Year 2-Week 2

Bank Simulation Exercises (Double Course)

Two Elective Slots

Possible Electives:

Current Issues in Banking

International Finance/Banking

Hedging and Derivatives

Bank Technology & Security

Agricultural Credit Markets

Real Estate Markets & the Economy

Advanced Forecasting

Community Banking in the 21st Century

Course Descriptions

Marketing Financial Services

We would expect this to be a course for those whose primary job is not related to marketing. It should be an introduction to the concepts of marketing and the challenges that marketing presents, not necessarily solely focused on financial institutions. Bank managers not involved in marketing operations on a daily basis would benefit from seeing how the strategies of the marketing department impact all aspects of the organization.

Bank Performance Analysis I & II

The two week sequence first focuses on providing students with experience using the UBPR to evaluate their bank's performance as well as that of competitors. Students will also learn how to develop custom peer groups to evaluate bank performance and some strategies for improving bank performance based on UBPR information. The second week goes beyond the first by developing strategies for managing net interest margin, non-interest income and non interest expense. We also examine other performance models such as RAROC/RORAC, value at risk (VaR), and economic value added (EVA) analysis. The primary pedagogical techniques here would be lecture, case studies, and computer exercises.

Economics of Banking, Money and Capital Markets

This is designed to provide student with the ability to understand the impact on the bank of monetary and fiscal policy, interest rates and macroeconomic activity. Students will learn how to interpret economic indicators and function as area economists to find and analyze data important to operations. The students also learn how to inform bank strategy since the profitability of future bank activities, such as offering new services, may depend critically on developing situations.

Small Business Banking Services

The large numbers of small businesses in the region make this course a vital element in the program. Some small business owners will lack the ability to analyze their financial situation and arrive at the best product for their situation, the banker should be able to do this. Students get a crash course in the operating issues of small businesses and learn the problems they frequently encounter, all with an eye to making them better able to serve the potential client. The ability to provide assistance of this type should generate customer loyalty as well as generate word of mouth walk-in business. When a banker understands the forces generating the borrowing need on the part of a business the banker is better able to help their customer help themselves.

Assessing Credit Risk

This class centers on loan transactions and their impact on the bank's overall asset quality. The course covers both quantitative and qualitative analytical tools for determining business borrower's creditworthiness. If deemed creditworthy a borrower must be risk-rated and an appropriate loan structure established. As part of loan structuring, the session will discuss collateral, covenants, pricing, and documentation. Monitoring of the borrower should lead to early detection of opportunities for new business or deteriorating asset quality. Intended outcome of the session will be increased awareness of, or more comfort with, commercial credit analysis. Anticipated participants would be anyone not directly involved in credit management or experienced loan officers wishing to get a refresher.

Asset-Liability Management

Asset/Liability Management presents information related to the financial management of commercial banks, specifically the processes of acquiring and investing funds to maximize net interest income and the market value of the bank while controlling financial risks. The course content reflects the constant balancing effort between maximizing of profits and shareholder wealth and managing credit, liquidity, and market (interest rate) risk.

Managing Credit Risk

Comprehensive risk management requires that banks identify and measure risks in the portfolio, develop appropriate policies, procedures, systems and controls to manage risk and assure that they are working. Portfolio credit risk management is a tool to improve the predictability of portfolio credit quality and earnings that should translate into a higher stock price and enhanced shareholder value. Proactive credit risk management is also being used to build competitive advantage.

Bank Regulation

The current regulatory environment including potential future developments are explained in terms of practical impact on bank practices. Included in this would be the penalties for failure to comply with certain key regulations as well as the strategic approach banks need to take to be in compliance with regulations.

Strategic Management for Financial Institutions

Strategic Management focuses on contemporary and strategic topics relevant to bank management for institutions of all sizes. Importantly the course provides management with perspectives on the impact of their decisions/actions on the entire institution by relating the issues associated with management to the overall bank culture and to individual management accountability. The course focuses on overall concepts and challenges.

Institutional Competitive Advantage

In this course we provide strategies that all banks, or even smaller units such as branches or departments within a bank, can use to attain a strategic and sustainable competitive advantage. This should help them achieve superior profitability over the long-term in spite of challenges such as industry/environmental changes, competitor actions, or customer/market shifts. The four critical elements necessary for achieving a Sustainable Competitive Advantage (SCA), strategy development and adoption, innovation, leadership and systems, will be stressed.

Bank Simulation

Students adopt a leadership role as members of a senior executive management team of a commercial bank. We should focus on management of change and decision-making under uncertainty. Students weigh in on aspects such as asset and liability structure, liquidity, investments and funding, marketing, dividend policy, human resource management, mergers, and other issues. Communication and presentation skills are emphasized. The student is introduced to the dynamics of managing change and decision making under the pressure of time. This course allows the student to apply the skills learned in the overall course curriculum.