**2021 Predictions. Really? Part II**
by Charles B. Wendel

In response to the number of 2021 predictions we are receiving by email and Internet, most of which are thinly disguised marketing materials, last week we started to provide our own. All of us are operating in a world unlike what we have known previously with businesses shut down and holidays cancelled. No UFO landings so far this year, but we still have a few weeks left. Even with all this uncertainly, FI execs need to make some educated guesses about 2021 and beyond.

*Work style:* Last week we wrote that work style changes are permanent or at least "permanent" until most workers believe the virus is gone. With each passing week more workers and employers become comfortable with working from home. Their lifestyle has improved for many, productivity may have improved, and hours and dollars related to commuting have been saved. Yes, it is likely that most workers will return to the office, but our bet is that virtually all workers (except some groups like traders and operations) will work part of their week from home. Economics and employee pressure point that way.

*Space*: Offices may also change in ways it is difficult for us to imagine today. For sure, more outdoor meetings will occur on office plazas and terraces when possible. Office employees will push back at the current trend to shrink personal space, feeding the growth of more remote work. Every office redesign we have seen in recent years crams more people into less space, marketing the change as a way to enhance internal communications but senior management buying into it for a cost reduction impact.

I have read some comments that concern over covid will create a boom for commercial real estate with offices expanding in size to address social distancing needs, but that's unlikely given the economic environment facing banks. Hygienically prepared "hot desks" shared by more than one employee seem more likely.

*2021 Banking Environment*: Recent quarterly numbers show reduced ROA and NII. Lower NII will persist and remain a challenge for banks for the foreseeable future. Lower NII means earnings challenges and the need for banks to do more with less dollars and fewer branches and employees. Many banks are burdened with top heavy bureaucracies that low NII cannot support. That is why banks always go to the cost well first when faced with earnings issues as they are now.

What is the potential impact?

1.Branch reduction and redesign. No surprise here. The number of branches has been declining in recent years and the trend will accelerate. More than a decade ago we worked with some banks that were trying to create a new branch concept in which, after entering a branch, customers went to a terminal, selected their need, and then spoke by phone with an expert in that area. On line banks allow for that now and more (most?) customers have become comfortable with online only relationships. Covid and bandwidth changes everything.

Branches will not all disappear but their size and scope of focus will change significantly as branch-based interactions decline. More than a decade ago we had a client who wanted to create a physical location that could serve as the branch for multiple banks sharing a common space. That idea went nowhere as bankers maintained the need to provide customers with a unique space that served as a sales office. That former client's idea is no longer far-fetched for banks that want to provide access in areas in which the economics no longer work.

Our point is that the customer's need for physical locations has changed, what the customer is willing to do outside the branch has increased dramatically, and branch economics may continue to deteriorate. Those circumstances create and an area ripe for experimentation and piloting of various ideas. Don't believe any consultant or IT firm that says they have *the answer* to this problem; there may be no one answer but multiple approaches depending upon the circumstances.

2.Faster decision making. Agile decision making may have been the buzzword of 2019 (resiliency is the buzzword of 2020), but renaming a slow process agile did not make it so. Banks have allowed slow decision making to cripple their ability to respond to market changes. Worse, in some cases the great success of their PPP initiatives failed to lead to the bank transforming itself for the longer term. Instead many banks returned to the comfort of their cumbersome decision process.

The best definition of agile that we've seen states that it involves not a one-time event like PPP but "it's about continually seeking better ways of achieving organizational goals." It requires a mindset change more than a process change. Management faces a challenge in this area. How to change a corporate mindset, alter an established and oftentimes successful culture so that internal barriers give way to a sense of urgency aimed at addressing customer and competitive issues.

We'll continue our list of predictions and comments next time.

*FIC works with clients on these and related issues. Continued uncertainty requires organizational flexibility as financial institutions focus on future performance and growth while managing current portfolios and changing customer expectations.*