

2021 Predictions. Really? Part III

by Charles B. Wendel

In the last week we have continued to receive invites to webinars and ads for research reports all aimed at providing bankers with guidance about their world in 2021. One research firm offers seven distinct reports to its subscribers covering the following areas:

- Digital Banking Trends
- Small Business Trends
- Digital Lending Trends
- Payments Trends
- Wealth Management Trends
- Financial Fraud Trends
- Cybersecurity Trends

Since recent history has demonstrated the “nobody knows nothing,” we thought we’d offer our perspective on each of these areas and highlight related issues that banks need to consider.

Digital Banking Trends. This area is a no brainer. For many banks all things digital will be and should be priority number one. Why? Customers demand it and continued pressure on operating expenses justify the investment even for small banks. We agree with the view that others have offered that the pandemic has dramatically changed customer expectations. Many now expect direct on line access and have learned that phone calls and branch visits are unnecessary. Applying the best digital practices to streamlined processes has become a necessity rather than an option.

Issue: How do banks differentiate themselves in a digital operating environment? Many do not, allowing customers to, in effect, create their own banks.

Small Business Trends. Yogi Berra, the Hall of Fame Yankee catcher, once said, “It’s deja-vu all over again.” That’s how it may be with banks and the small business segment. Some banks have discovered the small business segment (again) as a result of PPP activities. Our bet is that small businesses will continue to be frustrated by most banks with more seeking out Fintechs and Credit Unions both for lending and business accounts.

Issue: Our experience is that it takes years to build a reputation with small businesses as a company to be relied upon (see Amex). It also requires significant investment in both internal and external digital technology. Few banks possess the focus and management commitment to follow this path, even if small businesses provide a sustainable and attractive opportunity.

Digital Lending. Of course this area will grow as borrowers and lenders become comfortable in this area. One problem for banks is that many Fintechs provide a better digital customer experience than banks. Unfortunately, some banks that lack the necessary bandwidth and focus continue to develop their own digital solutions rather than partnering. Even those that partner often create hurdles for the Fintech and limit its impact.

Issue: How to partner? How to break through the bank's bureaucracy, no matter the bank's size, to move with speed while ensuring adherence to internal requirements?

Payments Trends. Briefly: A HUGE and growing threat to the banking industry. This is where the FANG tech companies threaten the banking franchise.

Issue: The industry needs a coordinated approach to address competitive threats in this area. Right now the banking industry seems to be losing share and momentum.

Wealth Management. Boomers will continue with a traditional approach to wealth management, working with and paying advisors. But the bad news is that boomers are disappearing and will continue to do so (me included). More people of all ages are investing directly, many leveraging low cost fund companies. The generational shift away from traditional investment management seems irreversible.

Issue: Should banks continue to acquire investment management firms, or is this a good time to sell?

Financial Fraud and Cybersecurity Trends. Our only perspective here is as a customer. One bank regularly rejects my proposed credit card purchases and an hour later texts me about it. Merchants are so used to this, the situation is no longer embarrassing. But for that bank it has meant some meaningful volume going from them to Amex. In another instance Citibank stopped a regular payment I make by Zelle, citing fraud concerns. After 30 minute of my life spent on the phone, the situation was resolved. Given that this same transaction to the same entity had been made multiple times before, the bank wasted my time due to poor data analytics.

Issue: No doubt that banks need to protect themselves from evil-doers, who seem to be increasing in number and sophistication. But will increased hassling of the customer harm banks that are either overzealous in protecting themselves or apply data analytics that take them down the wrong path? Companies like Amex seem to have a better, less customer-off-putting approach.

Concluding point. With uncertainty defining the business environment for the foreseeable future, all the above comments could be off the mark. I recently read a commentary by Genesis Analysis in which they used the term "Smart Speed," indicating the need for management to continually assess its businesses, competitor activities, and shifting customer requirements while moving quickly both to anticipate and respond to market dynamics.

Flexibility and the ability to pivot have become key requirements of success.

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.

