2021: Week Two

by Charles B. Wendel

For many of us the comment accompanying this column says it all. Having survived 2020 with its lockdowns, search for toilet paper, and, even worse, an election, we looked forward to the turning of the page on the past year. Before December 31 many of you may also have received cartoons from friends telling 2020 what it could do to itself. You get the idea. But here we are.

Despite rising covid numbers in a number of states, there is reason to believe that within months the vaccine will be widely available. Some states, like Florida where I live, seem to be approaching the other end of the curve and, increasingly, see the light at the end of the tunnel, unfortunately, a phrase used too often during the Vietnam era to raise false hopes. This time the hopes appear to be real. Hope so.

What does that means for banks? In the short term, continued uncertainty reigns, but the future is becoming a bit clearer:

- Bank offices in many cities house maybe 10-20% of usual occupants. I know bank floors where one lonely banker works alone all day, perhaps having gone there to get away from domestic noise? Many banks will decrease their HQ space or move out of high rent areas. For example, both Goldman and JP Morgan may be considering moving some units to Miami. Welcome!
- At the same time the recent trend to cram more bankers into less space has ended, maybe forever. Good. Few things are sadder than an SVP losing an office and being relegated to a cube next to a non-SVP. Horrors!
- And many employees don't want to come back full time; more managers are Ok with that. In many instances productivity has improved with at-home work. At some banks, not being there, subject to meeting-after-meeting with too many non-value adding participants attending, has reduced wasted time; more can be done here.
- Branch traffic is down for many banks and may never return to previous levels as the use of digital banking has finally reached its tipping point. Banks need to eliminate some branches, reduce the size of probably all branches, and repurpose them for an increasing digital savvy customer. "This Too Shall *Not* Pass." I have not heard anyone say, "I look forward to the good old days when I could spend more time in a branch."
- Many downtowns seem deserted as people avoid crowds and service companies, like restaurants, stay closed or offer partial service. Why be downtown when little is there and the hassle is high? New York and other great cities will not disappear, but they will be different. How? TBD.
- As a result, many banks have extended or deferred payments on their commercial real estate loans with the expectation of a turnaround, but while that turnaround may occur, its timing has been pushed back. The degree of suffering for banks is also TBD. Fortunately, low interest rates and an economy that shows signs of strength is in their favor.
- Zoom, or its equivalent, has become the normal method of communication with more users "staging" their homes for a professional look. A brief digression: finally, after hundreds of Zoom calls, this weekend someone's partially clad girlfriend appeared behind a speaker asking her boyfriend a question. None of the attendees made a comment.

- One fear is that too many banks will go the cost reduction/homogenization route in the hope of lowering operating expenses while maintaining revenue. The digital tsunami offers as much danger to banks as it does opportunity. The opportunity is clear: lower cost to serve, improved customer service, meeting customer demands, etc. Costs can be reduced.

  The danger of homogenization results from a lack of balance between digital and personal attention. Little difference exists between the digital experience offered by Bank A and Bank B; the differences that do exist are shrinking, not increasing as banks rely on a handful of IT providers selling similar capabilities to multiple banks. People, the thoughtful Branch Manager, the proactive Relationship Manager, the courteous phone-based customer service rep who tracks down the solution to a problem, create loyalty and that is more difficult to achieve than ever before, given the options available and the increasing sophistication of customers.

  Failure to balance the digital and person experiences may destroy revenue streams. Few digital vendors highlight that reality, wanting to make a sale. Now.
- Fintechs have now come to the forefront, working with banks in multiple areas as well as providing tough competition. It is fair to expect more acquisitions of Fintechs by banks, only some of which will be successfully melted into a bank bureaucracy.

These days, a select group of senior management had better be meeting regularly to try to read the tea leaves, set direction, and, as necessary, change that direction. Flexibility and the ability to pivot are critical in an operating environment in which to use my favorite quote, “nobody knows nothing.”

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.