American Banker: Between the Lines
by Charles B. Wendel

When considered together, three headlines in February 2nd's *American Banker Daily Briefing* tell a story that bankers need to assess and act on.

Headline 1: "Expenses expected to keep weighing down bank profits"

Headline 2: A few stories later: "KeyCorp hires new chief diversity, equity, and inclusion officer"

Headline 3: The final story of the day: "Fintechs merge to combine consumer, business loan tech for banks"

Expenses. The story begins: "Rising expenses put a damper on earnings growth during the fourth quarter, as banks paid higher salaries and spent more on both marketing and technology, in a trend that's expected to continue in 2022."

In short, costs tied to support areas, not to the hiring of revenue producing banks is rising. Some of the message here is similar to a 2017 Forbes story about the rising cost of a college education: "Administrative spending comprised just 26% of total educational spending by American colleges in 1980-1981, while instructional spending comprised 41%. Three decades later, the two categories were almost even: administrative spending made up 24% of schools' total expenditures, while instructional spending made up 29%."

College expenses have been rising due to admin costs, not an investment in teachers. Internal bureaucracy wins over academic rigor. At banks, the bureaucracy is outgrowing line bankers. Maybe that is to be expected…or maybe not.

Diversity, equity, and inclusion. The article mentions a senior bank hire and states that person "will bring energy, experience, and innovation that will advance our long-standing commitment to diversity and inclusion in our workplace, our workforce, and our marketplace."

Those are fine goals, but what is the dollar cost of this new internal group? What is its ROI? That is not an unfair question. If the bank's goals are accomplished, the ROI should be significant related to employee attraction and retention as well as customer growth and revenue areas. Unfortunately, we do not know of any banks that have done this analysis, but a sustainable effort in this area may require it. Otherwise, it could be a "fad initiative" subject to abandonment in a few years.

Fintech growth. The third story discusses the acquisition of a small business technology provider by a Fintech primarily focusing on consumer businesses. "Chicago-based Amount, a spinoff of the fintech lender Avant, helps banks such as Barclays, Regions Financial and TD

Bank digitize account opening, loan originations, credit card applications and more for consumers, as well as offer buy now/pay later financing. It acquired Linear Financial Technologies, in Reston, Virginia, for a purchase price of $175 million in cash and stock, the companies announced Tuesday. Linear supports banks such as Citizens Financial, Fifth Third Bancorp and Huntington Bancshares in digitally originating, onboarding and servicing small-business loans."

A link exists between the first two stories and the third one. Expenses are high now (story one) while expenses will continue to grow as more support and compliance initiatives require increased non-revenue producing staff (story two).

Leveraging Fintechs in various areas (revenue and support) provides a potential path for managing down costs while boosting revenues. The acquisition described, as well as others, simplifies the partnering process for banks by allowing a bank to go through one due diligence process for multiple products/services rather than repeating the same excruciating process multiple times. Banks need to proactively evaluate opportunities such as this merger provides, rather than just bemoaning the headwinds facing the industry.

One other item. I heard a podcast this week with a well-known bank security analyst and investor. As expected, he was very positive about the banking industry. But to my surprise he was never asked about or mentioned Fintechs or third-party partnerships. It was as if they did not exist.

Banks do face an uphill battle against expenses and bureaucracy. Fintechs, along with a bank management that questions new expenses and pushes back against them, will be critical to success.