

Breaking the Deep State and Saving Your Bank by Charles Wendel

As outlined in two earlier FIC [newsletters](#), the Deep State within banks (in short, bureaucrats, inflexible rule setters, innovation killers,) slows decision making, increases operating costs, marginalizes the quality of many decisions made, saps intellectual energy, erodes morale, and demotivates employees.

Yet, the Deep State members (no ID cards required) dominate in many, if not most banks. Why? Certainly, the rise of the regulators and internal compliance staff has fed this growth. And, as one reader commented, the rules-based nature of banking leans toward more approval steps and speed losing out to thoroughness. But, something more than that has happened.

For whatever reason, many bankers have simply lost their spark. They accept low value “rules” and continued calls on their time. They “go along to get along,” an unspoken motto for many salary men and women. Fortunately, I was a banker when the RM was, if not king or queen, well respected for their revenue-generating abilities and their links to the customer. They represented their banks with some pride and self-assurance, believing that their opinions and analysis carried weight.

Now, too many bankers seem to look over their shoulder at internal sheriffs. More than once I have recounted the tale of a successful senior banker I know well. When I said to him that he seemed paranoid about compliance and regulators, without hesitation he replied, “I am!”

Of course a need exists for process and for rules; the last downturn proved that. But, the few banks I know that have avoided a Deep State follow the same rules and regulations. How do they do so without a huge, suffocating infrastructure?

- The culture of these banks treats the bankers as adults, men and women who are professional and know their jobs.
- They hire experienced people who have proven themselves elsewhere.
- They pay for long-term success, making it economically attractive for an employee to take a long-term view for themselves and the bank.
- Management actively “protects” the banker from too many distractions. At some banks, the bankers receive multiple requests for the same or similar info from different internal groups. These banks’ support groups do not coordinate or seem to care that they are taking the banker away from the customer.
- A great customer experience is more than a marketing phrase at these banks, it is the force driving the bank’s actions.
- Committees and study groups are kept to a minimum. Instead, a small group of leaders looks at the available data and makes a decision.

How can you change a group that has developed a Deep State mentality? Obviously, it would be best if top management signed on to lead this effort. However, they are

often the reason that the Deep State developed in the first place. I remember one CEO who asked for information that was not easily available; he expressed his “disappointment” about that in no uncertain terms. After that, the group he had vented at built an infrastructure to address that question in the future, a question he never asked again. Who knows, that infrastructure may still be there, years after his retirement.

Business and support line leaders are best positioned to recognize change opportunities and, working together, press for them. However, most of the examples I know of involve a new manager taking over an established group. In one case a business line leader saw that his credit and operations support areas (not reporting to him) provided poor service to his bankers and their customers. He pushed against the prevailing tide to get appropriate personnel and process changes made. In another instance a support group had long been left alone to “do its own thing” with little line involvement. A more line-sensitive manager came in and changed past practices, with the goal of making the marketing phrase “great customer experience” a reality.

In these cases, leadership from the people whose businesses were most directly impacted by the Deep State took the reins and pushed successfully for change. Baring this type of action in a bank, the Deep State will remain in control.