Coronavirus: Getting Back to Business

by Charles Wendel

The past month has seen banks move from working to keep branches open and providing employees with hand sanitizers to what for many was a spectacular effort to meet the time and technology needs of the still growing PPP program. Many bankers have pulled together across organizational and cultural silos to an extent not seen before. They took advantage of the adage, “Never let a good crisis go to waste” and moved faster and more effectively than usual.

Of course the crisis is not over and it is unlikely we will ever go back to past banking, or maybe even social, practices. No one, and that includes you and me, knows how all this will shake out for the banking industry, but there are many open issues that banks need to analyze, think about, and plan for. My colleague, Doug Ferguson, writes about the need for scenario planning in the essay attached below. Scenario planning should not be considered an option, and Doug provides practical insights on how management can proceed.

Few banks pursue meaningful scenario planning, preferring to get a senior group together irregularly and without a disciplined focus or follow up. I have seen too many situations in which the most assertive, not the most senior or the most knowledgeable, voice wins in an argument.

Top management needs to consider the strong possibility that nothing in banking is going back to the way it way before coronavirus. Nothing. There are multiple open issues that banks need to address and develop “flexible” approaches for, flexibility being important because we cannot know where these changes are heading. Each bank should be developing a list of key issues for itself and then determining how to “solve” them.

Areas to consider include:

The branch will change. Social distancing likely means no more in-branch coffee shops or concerts after work to draw people in. Branches may become transaction points based as customer needs, and those needs will likely drop due to the increased capabilities of and customer preference for digital banking. And, many of the RMs and other staff will not be there anyway.

Distributed employees are here to stay, and banks need to redesign themselves with that new reality in mind. Banks and Credit Unions have learned that the bank can operate with employees working from home. This has implications for building costs, space requirements, and privacy and security issues.

Zoom, not video conferencing. Oftentimes, I have walked by crowded bank conference rooms with people watching a video screen. That should be over. More meetings can be at one’s desk and the quality of those meetings should improve with fewer “extra” attendees who contribute nothing and by following an agenda that leads to better productivity. Most banks waste significant time in badly run meetings.

Honesty and self-assessment. Bankers often delude themselves, as do we all. I have heard bankers say, “We are a digital bank.” No, you’re not. Or, “we’ve made great progress in digital.” No, you haven’t. This crisis should result in a frank assessment of a bank’s digital and IT gaps and, this time, a real commitment to invest in the IT and people changes required.

Loans to more industries need to be reassessed. Of course bank credit groups are looking at major exposures, but something bigger may be happening.

In NY and other urban areas, the Taxi Medallion business was decimated by the rise of Uber and other ride sharing schemes. That industry focus once was a great idea, then, not. Consider some other lending areas, in particular, commercial real estate (CRE). The need for CRE will decline as more teleworking occurs. The interest in shared spaces, like We Work, will drop for multiple reasons. If your bank depends on CRE, as many do, what should you be doing now both to protect your portfolio and reposition for the future? If banks lack cash flow lending skills, they may be sunk.

Compliance, Legal, HR have to become part of the solution. Lots of people within a bank have the ability to raise their hands and object to an initiative. Many have the mindset of the FDA that puts up hurdle over hurdle before a drug receives approval, even if that drug can save lives.

> “Oh, we can’t have employees at home. There are security issues, and how can we make sure they are working?”
> “Oh, we can’t work with a Fintech because they might not be as sensitive as we are to our customers.”
> “Oh, we can’t eliminate branches. It will send a bad message.”
> “Oh, we could make the PPP loan that way, but we should underwrite each one individually.”

The list seems endless and many of the concerns raised have some merit, but these support areas have to take the lead not just in raising barriers but in resolving concerns as quickly as possible, maybe with a minimally viable approach and not one with belt and suspenders.

Top management needs to push back on objections and demand solutions, or get new people.

Remember Reengineering?? It’s back! The phrase was popularized by a 1993 book. It means looking at your processes with a white board approach. Banks should take a zero-based approach to everything they do.

Sell or Change. I spoke with an experienced colleague who said he thought several hundred banks would disappear as a result of the coronavirus event. I think the number will be higher, as bankers look at reduced earnings, business lines that were once reliable becoming suspect, the need for ongoing technology investment, the demand to engage with and manage employees differently than in the past, the requirement to rethink or reengineer the bank, etc.

All that offers an exciting opportunity but demands a lot from management and its Board. Many will use this as an opportunity to wave the white flag, a smart move versus misleading yourself abut what you and the bank can accomplish.

Decades ago, fellow associates at McKinsey would whine about having to work in financial services, viewing it as boring. At this point bankers might welcome some boredom, but that's unlikely to occur.