Coronavirus Part II: Five Things Banks Should Be Doing Now
by Charles B. Wendel

Last week I wrote that as of last Sunday afternoon, the 8th, I could find no bank websites with any mention of how they were addressing the impact of the virus on their customers. That started to change on Monday and has continued since all of last week with banks, hotel companies, the New York Mets, and others sending emails. It has been a hell of a week, hasn't it?

On last Monday afternoon I received a well-written Citibank communiqué that could be a model for other banks. It discussed their recognition of the situation and how they were preparing to help with fee waivers on service fees and CD withdrawals, credit line increases, collection forbearance, etc. I just received a follow-up written message in yesterday's mail. It read well if a but vague, but forgive me if, currently being a Citibank customer and previously a Citibank employee, I have some skepticism about the bank being able to move in one unified direction without silos and internal politics interfering. Hope they have changed.

There are at minimum five areas each bank and credit union should focus on right now:

1.Your employees. I would usually put customers first, but the degree of panic and concern is such that banks need to make sure their employees have confidence in their management and that management is demonstrating that they will help their employees in any way possible. Once employees are more "relaxed" they will be better able to focus on the customer. If a bank has not already its employees with the ability to work at home and interact with customers remotely, it is likely too late to do so.

Employees need to know their salaries are coming even if they cannot go into work. As a consultant I have found that banks are often too paternalistic, but paternalism is appropriate right now. Banks should underscore that they will cover all health care not covered by the government. Employees with loans or mortgages with the bank should be offered a reduced or zero rate for a period of time. HR knows better than me the type of issues employees are facing.

And, by the way, better make sure your systems stay up for both employees and customers. Bonuses right now for IT people might be $ well spent.

2.Your customers. Unlike the Great Recession, this is not a financial crisis, at least not yet. During those years the media featured a story almost every day about the "bad" actions a bank took involving one of its customers. This time, banks should not allow that to happen. Proactive reaching out should be the norm; if business bankers have not communicated with ALL of their customers right now, why not?

Bankers need to determine their customers' concerns and needs and respond like the relationship bankers they say they are. Otherwise, one outcome of this event will be increased share going to specialty lenders and Fintechs. The list of actions they should consider includes mortgage payment deferment, low-hassle short-term personal and business loans, lower fees, etc.

3. Your balance sheet. Thank you regulators for forcing the industry to be well capitalized. Imagine where we would be if banks were not "overcapitalized" right now. Plus with low rates funding costs will drop further helping your borrowers. That's the good news. But, the capital may de depleted with loan losses and deposits, while cheap, may be reduced as account holders use them for various needs. Some banks will find that issues in these areas push them toward sale.

4. Your income stream. With low rates NIM may be further tightened. Loses are likely to increase as some borrowers fail or need forbearance. Many banks have been muddling alone with subpar returns than may be permanent. As banks come out of this mess, where are their major growth opportunities? Are they the same as before the coronavirus?

5. Your M&A focus. Many smaller banks will struggle over the next months, particularly those that never diversified out of commercial real estate. Time for them to sell. Banks with a stronger revenue stream and a deeper management pool have a great opportunity to pick up banks at what should be much cheaper prices than just a few weeks ago.

During the Great Recession we built a business working with banks related to their FDIC Shared Loss Agreements. Today, we are far away from a scenario like that. Instead, some bank management should simply raise their white flag and hand the bank over to a competitor that has the bandwidth, patience, and talent pool to go on.

6. Your processes. Banks have too many people in bureaucratic, non-revenue producing roles. You know this; admit it. I see them hanging out in various staff areas as well as in line areas, underperforming but kept around as if they are pets. Time to deal with this, finally.

And way too many bankers attend way too many internal meetings offering way too little substance. That's why many meeting rooms need to be so large. When this crisis ends, top management should use this disaster as an opportunity to redesign how decisions are made (faster is the answer) and who is involved in the decision process (fewer people than today). Banks have the opportunity to become more efficient and reduce operating expenses as they re-gear up their operations.

Long-term, this Black Swan event really can be a positive for many banks, if they use it to change. Do I believe that will happen, even though it is a great opportunity for banks to rethink old processes that slow down decisions and kill innovation and creativity?

Do you?

And, now, please wash your hand