Inertia is Not a Strategy

by Charles b. Wendel

For many years the inertia factor has protected banks. Once people open an account and begin to use it, linking various automatic deposits and payments to it, they simply don't want to switch to another bank. Most view the change process as a huge hassle and may believe that, after the pain of moving an account is over, their experience with the new bank won't be all that much different from the old bank. Why bother to switch? The PPP loan experience answered that question for some small businesses.

A recent *Wall Street Journal* article titled, **"**When Their PPP Loans Didn't Come Through, These Businesses Broke Up With Their Banks**,"** states "Some owners are moving their money permanently to smaller banks that were able to deliver their PPP funds." The article mentioned Capital One, Wells Fargo and J.P. Morgan Chase as banks that, for whatever reason, failed some customers at a critical time. It is only fair to note the high number of loans completed by the banks castigated in the article. Capital One, Wells, and Chase made 14,000, 185,000, and 274,000 PPP loans, respectively, dramatically more than most other banks.

While banks with less than $10B in assets hold only 14% of total industry assets, when combined with specialty lenders they approved "52% of the loans and 44% of the program's dollars, according to the Small Business Administration." As reported in the *WSJ*, a survey of small businesses revealed that "about 28% received their loan from a lender with whom they had no prior relationship or a bank that wasn't their primary one" and "about 44% of those borrowers said they would move at least some of their accounts and loans to the bank that came through for them during PPP." This suggests lots more movement out of some mostly big banks than they usually experience.

The article offers a big message both for bankers who are pursuing all things digital as well as the vendors and consultants who present digital as the banking equivalent of the Holy Grail. Banks should adopt digital capabilities, but customer comments confirm FIC research that shows service and relationships beat out technology. One business owner who moved her account to a community bank from Capital One noted that her new bank lacked seamless integration with Quickbooks. Another owner, moving out of Chase, praised its online banking and mobile apps.

Why move then? The less technologically-able banks gave them loans and personal attention, in one case even a hand written note from the bank's President. Follow through and service matter more than high tech, particularly in a crisis. As one small business exec said: "Bottom line is I needed you and I got no response." One banker said that PPP was "the gift that kept giving," as he took more accounts from bigger players. A regional banker told me of a customer who said he had called his Wells Fargo banker, but "he was AWOL." One WSJ comment summed it up: "Why would I work with a bank that was so unhelpful to me at the moment I needed it?"

I see too many banks believing that digital will help them to eliminate the people who differentiate their bank with customers. Digital can make line bankers smarter and better able to help more customers; digital may result in eliminating more mediocre bankers, but digital does not replace good bankers. That should be obvious to all, but maybe not.

The *WSJ* article seems to present big banks as bad guys and small banks as good guys. That's too simple. We know $50B and $150B banks that did a great job during PPP and have heard from friends about small banks in idyllic communities in New England that their bankers were clueless about the PPP program and provided no help to them.

The big banks that failed customers were strangled in their internal bureaucracies and silos; smaller banks that failed their customers were clueless and will likely disappear. The banks that performed for their customers had leaders with a "clear the decks" mentality to ensure that the PPP initiative received the priority and speed it deserved. Both those big banks that performed and the smaller banks that outpaced the giants have an opportunity to gain more market share and build success upon success…while moving on the digital front as well, both for reasons of cost and customer experience.

FIC works with clients on these and related issues, leveraging virtual technology. Continued uncertaint means financial institutions need to focus on their future performance and growth as they manage current portfolios and changing customer expectations.