

## **Internal Experts: Innovation Killers?**

by Charles Wendel

The economic crisis of ten years ago caused banks to become internally focused. Understandably, in many instances banks were more concerned about survival and regulatory requirements than enhancing the customer experience. The economic crisis also played a major part in elevating the role of support staff versus line personnel.

No longer were lenders able to call the shots concerning their clients (like in the good old days when I was a banker). Rigorous and sometimes Byzantine independent checks were put into place to avoid past bad lending practices, particularly related to CRE and residential mortgages.

And, staff groups took over the power vacuum at many banks.

Credit, risk management, compliance, and others filled a “credibility void” for which consumer and commercial lenders were largely responsible. For example, during the crisis we consulted to a bank involved in an FDIC-assisted purchase of a CRE-dependent lender. When we reviewed the failed bank’s loans the extent of simply stupid lending practices quickly became evident. “Lenders gone wild” usually surfaced as a key issue when we worked on similar transactions. Failed banks often featured the credit staff playing a subservient role to revenue (and incentive comp) focused bankers.

But, while “bad” lenders deserved to be constrained and curtailed, restrictions have hit the entire industry, including banks with pristine credit portfolios and consistent returns. “They treat us like crooks,” is how a senior exec at a top-performing bank described his bank’s relationship with one regulator. While some regulatory relief appears to be on the way, relief also needs to come from internal groups that should give more sway to the bank’s revenue generators.

As often happens, the pendulum that swings back and forth from favoring internal sales-related staff to credit staff and back again has now swung too far away from sales and towards sales killing activities. Some examples:

*Compliance experts.* Senior management needs to put a leash on its compliance areas. Of course what they do is essential to the operating integrity of a bank and its ability to keep often-rabid regulators happy. But today it seems that “compliance gone wild” has replaced “lenders gone wild” as an issue.

Sadly, compliance may provide a more certain career path for a banker than most other areas, and I have overheard young bankers talk about their career opportunities in compliance. But, do banks want their best and brightest focused on compliance? One step could involve rotating at least part of compliance staff into

line positions and vice versa. Right now there is too much tension between the ever growing compliance infrastructure and the line.

*IT experts.* Becoming digital is not an option but a necessity for banks wishing to survive. Many factors drive this digital focus, most notably, intensifying customer demands. At the same time the complexity of IT and the proliferation of IT related buzzwords continue. But, the buzzwords and catch phrases usually highlight areas in which banks need to focus. Not just “agility” related to IT development but institutional agility will become increasingly important as banks face greater competition from fast-moving and less regulation constrained players.

I have seen banks in which the IT group acts as a leader for reticent business heads slow to adopt new approaches and many others in which IT is a barrier to moving forward to improve the customer experience. A bit like compliance, IT can involve a mysterious acronym-filled world for senior managers trying to balance multiple pressures. But, the best banks lever IT as a business partner rather than seeing it as a business impediment. Senior managers simply become more actively engaged in this area, refuse to be intimidated by IT, and find business-friendly staff replacements, if necessary.

*Product experts.* Internal product management specialists can create product offers without ensuring that their internal customers (line management ) believe the end customers want the new offer. Product people are expert at product development but need to become better at vetting their activities with the line. In turn the line needs to proactively diagnose customer needs rather than push products given to them for sale.

*Subject area experts.* Unfortunately, line officers themselves can also kill innovation.. Bankers with years of expertise in certain specialty lending areas can create significant barriers to change. These men (and so far they always have been men) know their lending area backwards and forwards. What they do not know or pay sufficient attention to are the systemic changes that may be happening related to their specific lending areas.

I was recently speaking with a banker, a specialty lender. I mentioned a well-publicized and successful digital lender who was operating in the same space as my “analog-focused” lender. The digital player has shown it was a true disruptor and assessing it could provide some lessons for the traditional lender. But, the bank lender had never heard of that company and really was not very interested in learning about them; instead, what he cared about was other traditional players. Bankers need to broaden their understanding of their competitors and “steal” ideas from them selectively. Line bankers themselves can be innovation killers.

**One answer: Push back!** Bankers are almost notoriously polite with one another, but sometimes they need to push back and not accept what their experts are telling them:

- Is Compliance providing the MVS (minimally viable solution) or an approach that requires belts, suspenders, and duck tape with all its complexity and cost?
- Is IT actively working with third parties or reticently working with third parties? How is IT making it easier for third-party partners to work with the bank?
- Do your bankers survey and understand the “new” lenders who today may be taking minimal share but are also be transforming the way customers think about their lending needs?
- Is the Credit area “fighting the last war” and, thereby, constraining the bank from serving its customers?

And, by the way, how is each line and support group working to improve the customer experience? After all, they are the ultimate revenue generators.