Maybe Nothing Changes

by Charles B. Wendel

At first I thought the pandemic would result in positive changes in banking, BIG changes that ultimately would benefit line bankers, the customer, and the overall industry. But, based upon conversations in the last few weeks with many bankers, long-term changes may turn out to be less fundamental and more cosmetic. If that's the case, it's unfortunate for the industry and its customers.

During the height of the crisis, banks acted quickly, made decisions faster than most have in years, if not decades, and worked together across business silos and support units to get things done. Many banks streamlined internal approval processes to sign on Fintech partners for IT support. As a result, the business press printed multiple stories about regional and community banks stepping up, putting in extraordinary hours (for bankers), and quickly putting in the infrastructure required to keep many branches open, keep employees safe, allow for home-based work with minimal disruption, and get PPP loans into the hands of needy small businesses, in some cases new customers for the bank.

Despite media reports about a new "surge" (maybe occurring because of increased testing), the banking world is starting to return to a more "normal" environment, albeit one with squeezed net interest margins, concerns over loan portfolio quality, and the need for capital investments to bring more digital capabilities into both the back and front offices. Some tough times are ahead for hundreds, if not thousands, of banks.

If banks could bottle what they should have learned from their management of the crisis, banking would change in many fundamental ways:

Emphasis on quick, agile decision making, where finding a solution takes precedence over raising objections. Banks have too many staff whose job seems to require killing innovation and adding more steps to a process, focusing on proving their value in part by complicating decision processes.

Banks silos would break down. Internal silos did disappear break during the crisis.

A "one bank" approach would thrive. Consultants frequently observe a bank environment in which fiefdoms are established and defended. That somewhat disappeared during the crisis.

More remote employees would be encouraged, potentially opening up career opportunities to more women with young children, the disabled, and anyone else who finds it difficult or impossible commuting to an office for 9-5 job.

Bankers would be able to spend more time with customers and less time in offices as redesigned processes and the use of digital IT reduce time required for administration.

Branch costs would decline as fewer branches are needed and those that remain reduce size and hours to be quick transaction and appointment banking centers.

Banks would place greater focus on small businesses. This segment continues to need banks and many (not all) lenders served these customers well with PPP loans. One bank we know said that they were going to double down on small business post-PPP, but another said they hesitated to participate in another PPP round because of all the work involved.

The customer would become the priority again. Yes, all banks say the customer is important to them, but more customers don't buy it. Ask those customers whose banks either did not offer PPP loans or provided little help in getting one. The banks that performed well have a great opportunity to feature customers and prospects telling of the value they provided. Digital IT should help to provide better service but, guess what, many customers still want to talk with someone they trust, whether in a branch, by phone, or Zoom.

Some changes listed above will likely occur:

- ✓ Remote employment will become more standard, in part because of expectations around distancing. Banks will allow greater flexibility in worker hours and location to avoid adding CRE costs.

- ✓ Branches will close. Appointment banking will increase.

- ✓ More internal and external communications will switch to Zoom. Naively, I thought Zoom meetings would be more efficient and productive than in-person meetings, but now I am not so sure. I am hearing that many bad meeting habits have moved online, including late starts, distracting conversations, and no firm agenda and next steps.

But a more fundamental rethink of banking process, the internal organization, and how the bank interacts with and serves the customer? I don't think so.

1. It is the same management team now than before the crisis. Many believe or want to believe that "This Too Shall Pass" and, other than some tweaks, they can go back to past practices.

2. "Support" groups like Legal, Compliance, Buildings and Grounds, HR are all asserting themselves as banks try to get back to business while avoiding liability lawsuits. Their ability to roadblock has returned.

3. Few banks are using the current environment to exploit competitive opportunities to focus on building new businesses or improving the origination process.

4. Digital is being promoted as the Holy Grail by eager vendors and some banks are rightly focusing on strengthening their digital back and front offices. But, for customers, one bank's digital offer quickly becomes undistinguishable from others. Customers continue to prize connection with bank people who can help solve problems and make their lives easier. Digital should make line staff more important, not less.

What should banks and credit unions do?

1. Determine the key positive lessons they learned in recent months.
2. Agree on what approaches/learnings they should make permanent.
3. Determine the practical constraints in making those changes.
4. Quantify the costs and revenues involved.

5. Set two-three change priorities.
6. Select a senior person to institutionalize those changes.
7. Agree on time frame and action plan.
8. Just do it. But, most won't, increasing the gap between the average and the top performer, resulting in more industry consolidation.

Using Zoom and Microsoft Teams, we have been working with clients on these and related issues. Despite uncertainty and in fact <u>*because*</u> *of it, all FIs need to focus on the future as they manage current portfolios and changing customer expectations.*