Reality Check

by Charles Wendel

Sometimes it is valuable to rethink basic assumptions and hopes to consider the reality of working within a bank or credit union.

Example: Small Business. The small business segment offers exceptional economic value to banks. We work with one small business-focused bank whose customers provide deposits that exceed loans by 5X. That allows the bank to build other credit intensive businesses with actual funding costs at close to zero percent. Banks can also benefit from CRA related credits from this group. It seems undeniable that, run properly, the small business segment provides sustainable benefits to a bank.

Reality: Despite the positive economics (and my decades long preaching on this topic) most banks will never "get" small business. They move it around organizationally and often put too much focus on lending. Given the high costs entailed in lending, banks with a lending orientation are going down the wrong path with this group.

The So What: The banks that do "get" small business can and will use their success with that segment to fuel success with other business lines. Many will work with third-parties to provide loans while reaping the benefit of deposits and other non-credit areas.

Example: Small Business Turnover. I have written frequently about the high level of turnover in the senior ranks of small business groups. In some banks this segment appears to operate as a way station to a larger job rather than a career position. At one bank, a senior exec even circulated my recent newsletter on this topic and asked what the bank could do to stop this personnel churn.

Reality: Just a few months later, that same senior banker left the bank. The fact is that turnover needs to be considered as the norm rather than the exception in this space. This happens for multiple reasons: bankers who succeed with this segment are often sought out to bring their magic to other areas; other areas of a bank, viewed as more important to top management, also bring with it greater prestige and compensation; and, sometimes people leave for other reasons.

The So What: Small business groups will continue to turnover, so management needs to ensure they have the bench strength that will allow initiatives to proceed rather than stall out.

Example: Productivity. Software innovations like salesforce.com among others improve communications and can help to increase wallet share growth across the bank. Technology also increases banker productivity and allows an RM to produce more revenue.

Reality: At most banks RM productivity is subpar and performance varies dramatically. Every time we analyze an RM group we find that well less than 50% of their time is spent in customer-facing activities. Despite the availability of many technology tools, in many cases productivity has declined in part because of the regulatory and compliance burdens.

Further, many RMs continue to design their own jobs, focusing on the activities they prefer rather than those that might benefit the end customer or shareholders. Too many RMs see themselves as artists rather than craftsmen. This is not the RMs fault as in many cases management has not provided them with sufficient guidance or built a support time they can rely on.

The So What: Banks need to resolve organizational issues to impact RM productivity and performance. Management should determine what it wants the role and responsibilities of RMs to be, the type of support staff they need, and the degree to which a team approach can foster better performance. Then comes the hard part. Management needs to execute day-after-day against the individual and team job descriptions.

Example: Fintechs. Some prognosticators have suggested that Fintechs will overwhelm the banking industry, leaving the industry in its dust.

Reality: To a large degree, banks are in the driver's seat in competing against Fintechs. Factors include their high number of customers, the bank's deposit and funding advantage, and customer comfort levels with banks. While some attractive business may drift away from banks or never come to a bank (for example, parts of the millennial segment), the loss is currently at the rate of a steady trickle not a tsunami.

The So Whats: Banks have some limited time to determine how to work with the many Fintechs who want to establish a relationship with them. Banks also have to understand that Fintechs, in some form, are part of the long-term environment and that they offer great capabilities that a bank can and must leverage.

Example: Processes*.* I just read a LinkedIn blog titled "Solving Cross-Line Referrals Once and for All" discussing a process for internal referrals and cross sell.

Reality: Nothing in a bank happens "once and for all." The players change, priorities change, and technology changes. Banks need to create a culture of testing and pivoting rather than "once and for all." But the reality is that few will do so. Even the type of approach recommended above for RMs will need to be revived and refocused after its adoption.

The So What: Banks need to be flexible and examine themselves without defensiveness. Only a handful of banks possess the self-confidence to do so. Too many delude themselves rather than appear to highlight a negative or challenge.

In sum, a sharp dose of reality is often painful but can result in finding approaches and solutions that resolve rather than avoid critical areas that merit a frank assessment and practical response.