

Should Your Bank Pursue Professionals?

by Charles Wendel and Ned Miller

Depending upon how you define the segment, professionals can include medical and dental practices, accounting firms, lawyers, advertising agencies, business management firms, private equity firms and consultants, among others. Banks are increasing their focus on this group because of the generally strong credit profile they offer and the opportunity they provide for banks to develop a relationship that includes lending, cash management, investments, and advisory work related both to personal and business needs. Today, in particular, more banks are looking to professionals for increasingly important deposits.

This is also a particularly demanding segment, one that requires banker sophistication and proactivity. And, competitors are swarming over this group, requiring banks that focus to pick their niches and execute with rigor and consistency.

What do professionals need from a bank? Perhaps the first issue for banks to address centers on the fact that “professionals” are not a homogeneous group with the same needs or levels of attractiveness. Further, depending upon the subsegment, loan and cash management needs can vary substantially.

For different types of professional services firms in different stages of their development lending alone can encompass working capital loans, commercial real estate owner/occupied lending, equipment finance, acquisition financing, partnership lending, foreign exchange lines, and/or other needs. Similar differences exist related to cash management, investments, etc. In some cases loans are the key determinant of a company’s bank choice while in others it might be cash management or perceived service both to the company and/or its senior personnel.

What banks have the capabilities or the desire to serve all of these needs and preferences? None. Therefore, like the best practice banks, management needs to pick its spots and then execute relentlessly. Some examples:

- Live Oak with one branch focuses nationally on professional segments leveraging both technology and its SBA expertise
- Citibank has long focused on law firms, meeting their borrowing and cash management needs
- A regional bank we know has found a growth path in making acquisition loans related to medical practices
- Another regional focuses on business managers and their clients, providing both loans and investments
- Some banks, like First Republic, excel with professionals by initially focusing on the jumbo mortgage needs of the principals and then move on to their business needs

As with many strategic initiatives, banks should begin evaluating their professional services opportunity by determining where they want to focus and the products/skills that they can best leverage. For example, if they have no leasing capabilities, start-up medical practices should be avoided. Without good escrow capabilities law firms will go elsewhere. Of course gaps can be closed but banks must determine if the time and cost is worth the likely payoff.

Banks also need to determine when entering this segment whether a “build or buy” approach works best for them. Should they assign one or more current bankers focus on a particular segment or should they look outside to “lift out” an established team from another player? Banks buying a team need to be comfortable with a significant upfront investment and the possibility that it will come to naught. In addition, bringing in a team will not result in success unless the bank has the necessary products and offers a compensation scheme that encourages bankers to generate revenues and retains them (“handcuffs”).

Here’s a quick checklist that banks should consider in evaluating this space:

- Does the bank already have professionals and what type in its portfolio?
- Alternatively, or in addition, does the geography in which the bank operates include a significant number of the same types of professionals?
- Do these groups have industry specific needs (loan, cash management or other) that the bank can meet or can acquire relatively quickly?
- What is the 15-second elevator pitch that describes the banks’ focus on professionals and why it is competitive with or better than other banks?
- Does senior management embrace this effort or will a professional focus have to fight to get “shelf space” versus other initiatives?

For the right bank with the right approach one or more subgroups of professionals can generate string revenues and build a sustainable franchise. Self-reflection and spadework come first.

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