

Small Bank Thinking

by Charles Wendel (with thanks to Chris Skinner)

Chris Skinner is a UK based commentator and author who focuses extensively on the challenges and changes demanded by digitalization. His most recent column has been forwarded to me by several consulting colleagues and industry vendors. It touches a nerve.

Skinner recounted a recent speech to a “conference focused upon smaller banks.” His topic was how they need to respond to digital change. However, he found their reticence to take action disturbing: “Many of them came up with a whole load of barriers to change.” His column then went on to list their objections. I will quote much of his blog and then comment under each issue.

One area in which I do disagree with Chris is in his highlighting only “small banks”. My experience with regional and larger banks indicates that this is a more widespread problem.

“We have too much to do: Yep, small financial firms are busy bees, with lots on their plate. Products are changing, customer needs are moving, regulations are updating and finding enough resource and bandwidth to keep up is nigh impossible. Tough. Make it so.”

Comment: Chris is not sympathetic to the type of corporate whining that often occurs. Bankers frequently seem overwhelmed by digitally related issues. So, some do nothing or take largely marginal actions. I have had internal bank staff focusing on these issues say that top management simply does not want to address these items, leaving them for the next management team.

“But it’s going to cost too much: No, it isn’t...It doesn’t cost a lot now to adapt and change at all. That’s why FinTech firms are bootstrapping on a few 1000 dollars and getting momentum...It doesn’t cost anything to get change these days so just do it. Make it so.”

Comment: Fintechs and other vendors want to work with banks and have shown great flexibility in doing so. The cost issue often occurs related to core processing and legacy services. This is where a new mindset has to take precedence over the traditional.

“But we have to build it: No, you don’t... These days, anyone building everything is an idiot. Build what you’re good at, buy what you can’t do and partner with anyone doing it better than everyone else. Make it so.”

Comments: Within the US I think most banks get this. They understand that they need to work with third parties, but they continue to struggle with outdated vetting policies and a sometimes out of control internal compliance group. And, they lack urgency.

“But the regulator won’t allow it: Really? Have you asked them? Do you know this for a fact or are you just making it up? I know plenty of regulators who are happy for credit unions, community banks, thrifts and small financial firms to innovate the hell out of the big banks using tech, so start trying harder. Believe. Make it so.”

Comment: Dealing with regulators is time consuming and expensive, but in some instances they are also used as a convenient excuse for inaction or marginalizing change.

“But the big banks have the advantage ‘cos they’re big: No, they don’t. In fact, the big banks have the disadvantage because they’re big. The bigger the bank, the harder it is to change. The smaller the bank, the more nimble you should be. And if you’re not, why not? Work out what’s stopping you and change. Make it so.”

Comment: Chris is right that the big banks are not nimble, but they do have extensive resources and usually an impressive talent pool, something many smaller banks lack. For example, smaller banks often lack a sales culture and fail when they try to turn on a time to implement one. Related to the digital world, banks have to provide employees with a clear value proposition for why brilliant young bankers should join them rather than go to a big bank, Marcus, or a Fintech. That’s a challenge.

“But it’s hard to change: Sure, it is. It’s hard to run a marathon, but people do it. If you don’t think you can change a teeny-weeny bank, then what the hell are you doing there? After all, there’s massive banks that are changing and they’ve got 1000x the challenges you have. Just get on with it. Make it so.”

Comment: Most senior bankers do not want to deal with the pain of changing. However, the best ones see change as an exciting challenge for them to navigate through. But there are not too many of the “best ones”.

Skinner continues: “Most of the barriers to small financial firms seizing the digital opportunities are created by negative thinking... the negative thinking of their CEO...”

Many small financial firms are led by a CEO who was anointed ages ago... They're not really a CEO to be honest, but just a caretaker for the next guy."

Comment: Yup. The caretaker mentality is destructive. This is where the Boards come in...or should, but don't.

Skinner concludes: "The number of times I meet a small financial firm's leadership team and find the CEO is the head of the table surrounded by *yes people* is a long list... They see all this stuff going on around them, and bring people like me in to show that they care. Then they don't do anything about it because they're *proud of their heritage*...and believe their differentiation *is their history*...that is absolutely abysmal in the digital age.. If you are not 1000% clear on [your] strategic focus and if you have not defined 1000% who your customers are and why, then I doubt you'll be around in a decade...So, for all those raising false barriers with a lackadaisical CEO who is just paying lip service to change ... change the CEO. Make it so."

Comment: Yes, but. But, many bank board members are ill informed and include people who lack the level of sophistication (quantitative or strategic) required. I remember one CEO discussing the type of Board he wanted. One item of importance was having Board members whose companies had a corporate jet so that they would not object to his. One further note: Many CEOs have time horizons that are much shorter than ten years. They will be out by then and, Chris is right, digital becomes someone else's problem.

On some level, isn't that really sad?