The Balloon Over Your Bank
by Charles B. Wendel

At its height, press reports and cable news commentary about the Chinese spy balloon floating over Montana and elsewhere approached the plot of a mediocre spy or science fiction movie. So much was unknown and frightening, some of the press wrote breathlessly. What was it searching for? Was it carrying a covid-like package? Why weren't we blowing it up immediately? Uncertainty. Fear. Apparently, the story even had a hero, a citizen in Montana who told the reactive press about what was overhead. He looked up.

Balloons of uncertainty are floating over many banks these days. And like the government many banks are taking their time to deal with any potential crisis. Some may hope they float out to sea. Or maybe the balloon will just float overhead for a few more years until present management retires, making it someone else's problem.

What threats, some known and some unrecognized, are floating over your bank? Which are you addressing proactively, and which are you hoping blow away?

Right now, management sees threats related to risk, costs, and, more recently, deposit growth, among other areas. None of these areas crept up on banks like a balloon in the night. The good news is that, this time, I think most banks are operating with the discipline and focus to avoid risk-related blowups. While some banks will suffer credit-related failure, it seems unlikely that there will be a return to the heyday of FDIC-Shared Loss Agreements.

But the focus on expenses comes and goes at many banks; few have an embedded low-cost culture. Here's a free observation: you have too many people and you spend money on low-value activities. You're welcome.

Regarding people, for example, the recent focus on digital resulted in an explosion of hiring, both related to marketing, IT, and other areas. Now is a good time to take a breath and assess whether cuts are possible in that area. At some banks, Compliance, Fraud, and now, ESG, have become almost sacrosanct areas. The message from those groups and others is "Yes, we could maybe reduce one or two people, but you, senior management, will live with the consequences." The implied consequences include more regulatory issues and community anger. Few top managers want to pop that balloon, despite all its hot air. For sure, ESG activities merit a close look despite the virtue-signaling it allows a company.

Non-employee expenses include part-timers and, I hate to write the following words, consultants and trainers. I've written about the issue of consultants many times. At their best they provide leverage and insights; at their worse they hypnotize senior management into dependency. But it is up to management to review the work of consultants, trainers, part-timers (sometimes a way around budget caps) and assess their value. Anything on a yearly contract that gets renewed semi-automatically should be highlighted.

Deposits have suddenly come back into spotlight. Selected rates at some banks and credit unions now exceed four percent while others offer less than one percent. Banks did a great job discouraging deposits and creating their deposit problem. Now, with a potential crisis approaching, they are waking up to their need for them. In recent years, some disbanded deposit-focused teams; others exploited artificially low rates by giving their depositors, the ones they hope will be loyal to them long term, close to zero percent interest while charging 20+ percent for credit cards.

Creating a deposit-focused organization (for some banks yet another time), targeting critical personal and business segments, and creating pricing flexibility are some of the areas of required focus. It is not hard to figure out the steps that a bank should follow to retain and build deposits. It is hard to follow those steps consistently, revise them when necessary, and stay the course. Maybe this time banks will maintain their deposit cultures. Maybe.

An unrecognized problem? People management. There are multiple issues here:

- In some cases, the wrong employees are hanging on.
- Some of the best revenue performers may be underpaid and underappreciated.
- It is difficult for some banks to make a compelling case for the best younger employees to join.
- It is difficult for some banks to make a compelling case for the best younger employees to stay.
- Some staff areas continue to shovel more requirements on to business lines, harming productivity and culture.
- Some staff areas fail to appreciate the importance of their bank's revenue generators.

Even when the problem is recognized it is often ignored. This problem and its negative impact on corporate culture and performance will not float away.

FIC works with senior management and Boards on issues that are critical to a bank's sustainability and growth. We emphasize practical solutions that we customize to a company's capabilities and culture. Reach FIC at cwendel@ficinc.com.