The Cost Cutters Are Back
by Charles B. Wendel

Of course, the best approach to cost cutting is to minimize expenditures upfront, meaning don't make excessive hires in the first place. There may still be one bank I know that follows that philosophy. Instead, in recent years banks have been on a hiring binge, mostly in non-revenue producing areas. Yesterday was the time to start cutting those expenses. Tomorrow is too late. Now is the time.

In recent years multiple support groups made strong cases for increased expenses and investment:

- Compliance: we need more staff to meet regulatory demands
- Fraud: we need more specialized staff and technology
- Marketing: we need digital gurus and technology
- ESG/DEI/DIE initiatives: society demands dollars for people and community/hiring initiatives and PR
- IT: same as above

In some areas banks had no choice but to make these and similar investments. In other cases, they acted to quell activists and take a target off their back.

The list of areas asking for dollars grows. To my knowledge no group has raised its corporate hand and said we need fewer resources. For the largest banks these areas can involve $1B+ costs. For smaller banks these and related areas drain limited resources and may even lead to sale.

Let's digress to look at US universities for some insight to what's been happening across many industries. A 2021 Yale Daily News article reports, "Over the last two decades, the number of managerial and professional staff that Yale employs has risen three times faster than the undergraduate student body, according to University financial reports. The group's 44.7 percent expansion since 2003 has had detrimental effects on faculty, students and tuition, according to eight faculty members."

Banks have experienced a similar phenomenon. I haven't been able to find industry wide numbers that quantify the growth of "cost of business" employees versus line. In any case those numbers are always wrong, as "creating" them seems to be the province of big consulting firms that want data to back up their latest sales focus. But my client experience points to a rebalance of banking to favor staff over line with the staff often coming up with initiatives to cut or emasculate revenue producers. (You can find discussions about the female versions of the word emasculate on the Internet.) Bottom line, at many banks staff levels are out of control due to regulatory requirements, IT needs, influence group pressure, and yes, even customer demands.

What to do? Well, what first not to do is alienate the line bankers who are bringing in the profits. Too often, banks cut their compensation and benefits, failing to understand that the best bankers have options. That may not be the case for staff and leaders in come cost centers that have become fortress like silos

Cost reduction is a task that banks should be able to perform for themselves without involving consultants, but that seldom happens. With the close involvement of bank leadership it is one area where consultants can provide substantial, quantifiable, and fairly immediate value. Banks usually need an “independent” set of eyes to identify cost opportunities, evaluate internal objections, and implement.

Some consultants will work for a percentage of costs taken out while others work on a straight fee. Bankers often like the percentage of costs saved approach. I’ve done both types of projects. On balance straight fees will better serve lost clients. Yes, there is a commitment of dollars required, but it eliminates potential conflicts of interest resulting from the consultant “reaching” to cut out as much as possible to fatten his consulting firm’s revenue.

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