

The Deep State in Banking: Can it Be Defeated?

by Charles Wendel

Last week this [newsletter](#) focused on discussing the existence of a Deep State in banking that, in its own way, is every bit as powerful as the groups of long-tenured governmental employees that the some in the press have been highlighting. As mentioned in the earlier article: “In a bank’s case, the deep state exists in a entrenched internal bureaucracy, cement-like traditions, and rules that can constrain a bank’s flexibility and innovation... becoming an innovation-killing machine.”

This follow-up column addresses some of the comments I received and, more critically, outlines what, if anything, a bank can do to break the internal organizational chains that can slow down decision making, kill or, at a minimum, delay innovation, undercut employee morale, and damage customer experience.

In particular, two comments we received in reaction to the article merit reply.

“From big banks to small banks the Deep State can slowly kill you. Your writing makes me wonder if there is a way to detect this... it can often be explained by the bankers using third person language when they talk about their employer.” Great point. I often hear bankers talk about their banks as if they are unconnected to them. This suggests their alienation from their employer and that they have view themselves as unable to make a meaningful impact. This might be understandable from a junior banker, but, at some banks, this attitude predominates. I have heard COOs refer to their bank as if they were not the ones responsible for it! When I have (gently) pushed back on this view they mention owners, the CEO, and/or the Board to explain their frustration. I have never heard them blame themselves.

But, taking responsibility for the growth of an internal Deep State and trying to counteract it is the responsibility of senior bankers. Instead, too many go along due to fear, lack of self-confidence, and/or simply a desire to survive. I know (and you probably do too) more than one bank employee who spoke up against unnecessary rules and poor internal decisions and got fired.

Unfortunately, courage sometimes grows as the time to retirement becomes shorter. I was speaking with one senior banker recently who expressed this perfectly: “I am speaking up more now on a number of issues. I might not have spoken up before.” In understand that comment, but, as a professional outsider, it seems sad to me.

One of FIC’s current projects is for the Equipment Leasing and Finance Foundation (ELFF). It focuses on analyzing Independent companies, meaning those that are owned neither by banks nor captive finance companies. Based on our work so far, very few, if any, Independents allow a deep state to exist within their firms. Most operate with a strong common culture, one that emphasizes internal transparency and excellent customer service. They seem to be constantly focusing on their customer and how to provide the value that will differentiate them from often-lower cost financing alternatives. They

simply cannot afford the inefficiency that many banks allow to grow barnacle-like within their institutions.

However, perhaps the nature of a bank means that a Deep State bureaucracy must exist. A second comment to last week's piece suggests that is the case: "Any organization that is by design or by law rule-based and regulated and interested in continuity will generate a deep state. Even if you replaced all the people in the Deep State, the new people would likely succumb. And that's why the challengers will make headway."

I respectfully must disagree. Yes, a heavily rules-based likely has the tendency to create a Deep State, but it does not have to exist. I know banks, large banks, in which the leadership has no tolerance for a Deep State and instead of ignoring it (what most bankers do) they put a spotlight on it and deal within it as quickly as possible.

Imagine if a bank were to conduct a Deep State review and eliminate at least some of it. Operating expenses might decline and customer satisfaction would likely increase.

We'll focus on how to conduct a Deep State review next time. It is not that hard. Just takes courage.