The Way Forward?
Simple: Manage Revenues and Expenses

by Charles B. Wendel

Last week I was talking with a friend discussing a financial institution (FI) that was trying to address how to move forward, given the current uncertainty and the economic pressures it faces. Banks operate with a finite number of choices for improving their future performance, and making some decisions, even tentative decision, seems a better approach than hoping "This too shall pass." It may not.

Damn. Expenses First.

Credit Portfolio. Understandably, this is where many FIs are putting their current focus. Some banks will find that they require more capital or an injection of new talent to get through this crisis. That's one reason why industry consolidation will increase. For this newsletter, we'll assume that your loan portfolio is under control, even though it may take time and a lot of effort to manage through a downturn that seems to center on selected industries.

People. It is always easier to achieve expense cuts rather than revenue gains, largely because most bank expenses involve people. Unfortunately, that is where to look first to shore up the bottom line. During the recent strong economy, some of the banks we know loosened up their hiring, particularly in staff areas. We have seen situations in which assistants have assistants. To use a local Miami expression, No mas. Cost reduction exercises are painful, but for most banks necessary. Banks that may have been paternalistic in the past will simply not be able to afford being so in the future. For many FIs, long-term survival requires a different operating model than in the past.

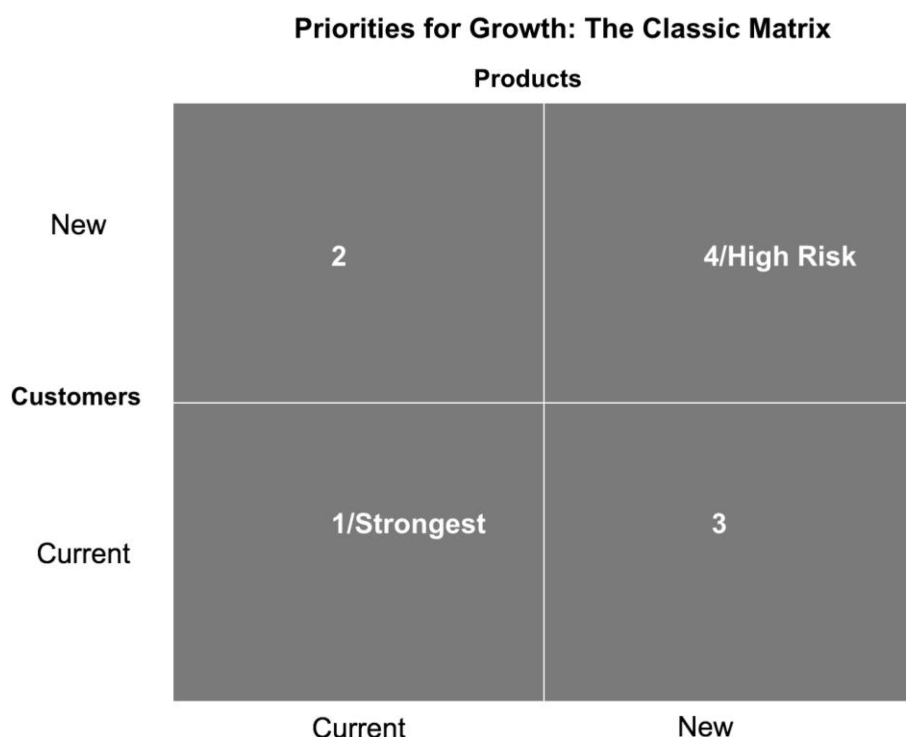
Fewer Branches and Reduced Space. Almost every bank we know is looking at eliminating branches or reconfiguring to a smaller space to reduce costs. I always thought making the branch a multi-use space was a great idea, whether the branch included a coffee shop, areas for Gig workers to hang out, community meeting space, etc. Again, no mas in the post-pandemic world. Whenever possible, appointment banking will increase and is good for the bank and the customer.

Self-service. A survey released last week claimed that 80% of customers said they no longer needed to use branches to conduct banking. Who knows if that number is high, but the pandemic has caused customers and banks to break through a wall of resistance to technology and remote banking. Obviously, there are costs related to technology and banks need the staff to manage the processes, but this investment should pay for itself in two ways: an improved customer experience resulting in increased wallet share and retention and, over time, personnel cost reductions.

Outsource. Can a third party, a Fintech, provide services to a bank that cost less than a bank's internal cost? Oftentimes, yes. Thee PPP process saw many FIs working with Fintechs to meet customer needs quickly; that trend needs to continue.

Revenue: Hard, but Doable

The best banks don't need to spend much time on expenses. Why? Because they never made the excessive hires to begin with. They avoid the committee, CYA mentality. They communicate frequently but often informally. A client once said to me "The best way to avoid cost reduction programs is to never make the hire in the first place." True. These banks remain primed for growth. What are potential growth paths? Sketching out the options is easy; doing them, not so much. Basically, what follows is a description of a simple of a 2X2 matrix, simple but, potentially, a powerful strategic tool.



A 2x2 matrix in 2020? Really? Is it trite and simplistic? No. The best banks keep it simple. They work from a customer perspective. Today, more than ever, banks in the US are spending time and dollars placating an increasing number of special interest groups. The best banks stay focused on their customers as the special interest group for them.

As simple as it is, this matrix captures the four paths to growth FIs should consider and make more specific.

Current product to current customers. Do your customers have deposits, transaction accounts, loans, investments, etc. with FIs other than your own? Why? I have heard FIs say, "We've totally sold all we can to all our customers" Really? Look again. There is often more opportunity, if you

push for it. Some deposit, loan, investment business, etc. may be going elsewhere. Determine whether you want that business and how to get it.

New products to current customers. Your wallet share of current customers is not 100%. Banks probably cannot nor should they offer all the transaction, credit, insurance, and investment products that a customer needs, but, in all likelihood, there are more products you can provide your customers, either directly or through third party partnerships. We know FIs that are doing this right now, even now when the environment is volatile. All banks have that opportunity. ALL.

Current products to new customers. This is a good path if your product offer is distinctive. I have had a few clients with distinctive offers and know others that think they have unique offers, but they are mistaken. Banks need to be honest about the uniqueness of a product or solution and its ability to move share.

*New products to new custo*mers. In the words of my fellow Brooklyn natives, “fuhgeddaboudit.” Too tough and not necessary because of the other opportunities outlined above. An acquisition may be necessary to go this route.

The Next Step. As part of their planning process, FIs should develop a list of potential cost reduction and revenue areas and then evaluate and prioritize them. Ending up with a null set, for whatever reasons, is not an option.

FIC works with clients on these and related issues. Continued uncertainty means financial institutions need to focus on their future performance and growth as they manage current portfolios and changing customer expectations.