Too Lazy or Parochial to Succeed?
By Charles Wendel

Banks, both big and small, now have an unparalled opportunity to work with third-party Fintech-oriented players in multiple areas. But, many, if not most, banks are missing this opportunity by, frankly, failing to work hard enough to determine their goals, selection criteria, and the universe of players they should consider. If effect their due diligence process is often inadequate and fails the bank and, too often, may rely on personal contacts rather than objective analysis. As one bank executive said to me recently, "Sometimes it seems that our technology decisions are made based upon who entertained most recently."

The options for working with a third-party "partner" are many in type and increasing in number. Whether related to lending (including but not limited to consumer loans, mortgages, small business loans, student lending), payments, wealth management, regulations and compliance, or other areas, banks can chose from dozens of areas and hundreds (likely thousands) of vendors. Many of the third-party offers focus on addressing internal issues related to efficiency, compliance, and revenue growth. Some Fintechs also provide an opportunity for a bank to offer its customers informational or analytic capabilities, for example, robo-investment advice or suggestions for how to manage their money or which type of loan best meets a borrower's requirements. Applying vendor technology can play an important part in differentiating your bank from others.

The need for a rigorous internal decision-making process, one that provides focus and direction, seems apparent, but remains more the exception than the rule at banks and credit unions trying to navigate this area.

At a recent Source Media Digital Lending and Investment conference, Citizens Bank described the rigorous process they went through before selecting their small business partner, Fundation. During this presentation Brian O'Connor of Citizens was nice enough to mention the role that FIC had played in the selection and due diligence process. Brian and others at the bank would agree that the route to making the optimal decision for them was long with many twists and curves as well as the occasional frustration. However, unlike most other banks they kept at the task with a clear goal and timeline. It did not hurt (in fact it was probably essential) that the Chairman was very interested in the project.

But what is happening at other banks?

- One bank we know chose an IT partner based upon high level management contacts between the bank and the IT firm. There was no "bakeoff' or RFP process and, in our view, the bank could have picked a much stronger vendor.

- At another bank when I asked the President about the status of the third-party lending project underway at his bank, he said he was out of the loop: "I should check into it" was his comment.
- A sales consultant contacted me with the request that I opine about which of several Fintech firms was best for his bank client, as if the bank was selecting a commodity provider rather than, potentially, making decisions that might determine its fate.
- Other banks we know focus on a specific need such as digital document capture or e-signatures. It is understandable to focus on some initial pain points, but where is the overall digital strategy? Often punted down the road.

These examples all illustrate ignorance about the issues that a bank needs to consider and maybe some laziness on the part of a management that is failing to ask some fundamental questions about the bank's needs and direction.

Chris Skinner, who writes a daily blog about things digital, writes that "there is an enormous difference being *doing digital* and *being digital*." He goes on to point out that a "CGI survey found that 80% of senior bankers surveyed believe they've done digital; Gartner have a stat that 76% of C-level bankers surveyed see digital requiring zero change to their business model." To many of these bankers digital is a channel. Here is the big message from Skinner; "In fact, digital requires a complete rethinking of the business."

But how many 50+-year-old bankers can or want to completely rethink the business they have been in all their lives? Despite their unwillingness, Skinner correctly highlights the need for bankers to consider "how does the business model need to look for the future, and how are we going to get there."

The banks that will be the leaders rather than just surviving laggards (many hoping to be bought out) create a bank-wide effort to understand the changes that are happening around them and determine how they can transform themselves in light of the need and opportunity to be digital. Old, tired ways of doing business and selecting vendors will ultimately result in lost customers.

Vendors often talk behind the backs of their clients, particularly at a conference after cocktails. No surprise that oftentimes a lot of whining occurs as vendors bemoan the lack of any sense of urgency or top management support to what they are trying to accomplish. Want to know what the say about a partner like Citizens (and I have heard almost these exact words): "They get it. Great to work with…committed to success." Do your vendors say that about you and your bank? Can you say that about yourself?