THINKING ABOUT COST MANAGEMENT

by Steve Brown

If you are like most banks your departments print a tremendous amount of reports and information on the trusty printer. We found it interesting, therefore, that a study by HP uncovered the fact that 15% of print jobs are never retrieved. People get busy, they forget or they decide the job just isn't that important. Another interesting printer study we found was done by Key Bank. The bank installed software to capture information on jobs sent to printers around the bank and uncovered an amazing 40% of employee printing activity was personal in nature. Such items as income tax returns, spa brochures, restaurant menus and things like that were regularly printed throughout the bank. By tracking usage and reporting the data back to employees, the bank was able to save $2.5mm and reduce print activity by enough to save an estimated 70 acres of trees. While community banks don't have 12k printers like Key Bank, the lesson is nonetheless a good one in saving money - simply think before acting and when acting, try to do so a little bit smarter every time.

Another area most community banks usually don't monitor that closely relates to travel and entertainment expenses (T&E). For many banks, staying in front of customers to get business can push T&E expenses to the 2nd largest discretionary expense. Analysis finds only about 29% of companies conduct random audits of T&E expenses to be sure policies are being followed and expenses are actively managed. Doing so can not only catch issues early, but it can save money. A comprehensive audit of T&E costs can help ensure expenses are analyzed for exceptions to policies; regulations; identify waste; make sure discounts are obtained whenever possible and reduce the use of non-preferred vendors. This is important for banks to actively monitor, since studies find about 1 in 5 T&E expenses submitted may not even conform to policy. Banks can proactively manage T&E costs by collecting better data, enforcing policies, making sure travel booking is connected directly into expense management processes and conducting periodic audits to uncover mistakes. Doing so will help reduce instances of non-compliant activity and help employees and the bank better monitor expense reports overall.

Given all the activity these days managing risk in the loan portfolio, legal costs for many banks have also gone through the roof. Such expenses often start off as a single law firm working on a single troubled loan, but quickly expand the entire loan portfolio, chasing down delinquent borrowers or tightening up contracts to meet the onslaught of regulatory changes. To keep a handle on legal costs, banks should know that studies find less than 10% of legal fees are generated on other than an hourly basis. Lawyers are used to charging by the hour and bankers seldom ask them to innovate when working on loan or other transactions that can take months or years to resolve. Here, banks may want to consider taking a page from GE who formally request proposals from law firms, has reduced the number of firms they will do business with and signs multi-year agreements to lock down fees over longer periods. Bankers can still do plenty to reduce legal fees in coming years, so time spent now thinking about this subject could bear fruit in the future. After all, studies find only a small percentage of banks have negotiated formal multi-year arrangements with law firms they commonly use.

There are many other ways to save money in these tough times and some make sense, while others may not. Keep testing different things to see what works and quickly cancel those that don't. The industry is rapidly changing and banks should not be afraid to try new techniques or ideas along the way to remain competitive as the business is reinvented again and again.

BANK NEWS

A Message

Regulators are demanding that the top 23 former executive managers and all board members of the failed BankFirst ($210mm, SD) personally pay $77mm for losses because of "pervasive and persistent" misconduct. This is one of the rare times we have seen regulators go after personnel for negative events other than fraud and could mark the start of a wave of personal lawsuits. It remains to be seen if the FDIC is just going after the D&O insurance coverage or if it actually has a case for gross negligence. BankFirst of Sioux Falls failed back in 7/09 due to asset quality.

Overdraft

According to Moebs Services, of banks preparing for the overdraft protection regulation change, more than 50% intend to increase fees, 18% will reduce fees and slightly over 10% will provide overdraft protection (14% will drop it all).

Los Angeles

The City's controller said America's 2nd largest city will run out of cash on May 5.

JPM on HSAs

Looking through the details of JPMorgan Chase's annual report, it appears that their HSA initiative grew an impressive 30% in 2009 in terms of dollar balances. Last year, HSA accounts held an average of $1,913, which is above the estimated $1,300 national average.