LIKE DOCTORS, LIKE BANKERS

by Steve Brown

Given the focus on health care reform in this country, an interesting debate has resurfaced that has a parallel in banking. Because of the recent debate, doctors across the nation ask themselves whether they are in the healing business or in the business of medicine? The doctors that believe they are in the business to heal provide great service, but unfortunately they are having a difficult time staying in business, as their resources are misallocated.

In comparison, the doctors that take the business of medicine seriously often use an industry-standard system known as the relative value unit (RVU). The RVU is a non-monetary numeric value of the types of services rendered within a practice. Basically, units are assigned to each aspect of healthcare so that unit values are higher for higher skilled services. In this structure, the taking of vitals and patient history might receive a 1.5 value, while prostate surgery might get a 35.5 score. The value represents the training, time and resources it takes to successfully accomplish each action. The end result is a numerical score for the physician's practice that can be tabulated each hour, day, office, patient or employee. This structure gives the manager a quantitative way to better allocate staff, equipment and other resources in order to increase the aggregate RVU. Instead of a doctor spending time talking about the side effects of a prescribed medication, a nurse or physician's assistant maybe more appropriate. This allows more time to be spent with the patient and frees up the doctor up to review more complicated cases or perform higher-skilled procedures. The structure also allows the doctors to see more patients, thus better allocating his or her expertise across a larger practice which reduces economic risk. Practices that use the RVU methodology tend to be multiple times more profitable and often have higher satisfaction scores.

The RVU methodology can apply to banking in almost every aspect. Pick a resource such as the CEO's time, capital, or marketing budget and ask the question whether your team is really investing its resources based on the "highest and best use?" If you had to rate bank activity for value, building low cost core deposits may get a high RVU-type score, while dealing with brokered CD sales people, might not.

Thinking in this manner may drive your management team to better prioritize products, tasks and activities; to focus on those core competencies that really drive shareholder value. By thinking through low value activities, banks might find that maybe it is worth hiring an entry level person to help come up with leads that are likely to need a loan product. Maybe, loan committee might be shortened and deposit committee expanded? Maybe more capital needs to be allocated to cash management products and less to home equity lending?

Regardless of the decisions your bank makes, our point here is that given increased economic pressures, it is time to think about the process of allocating resources in a more formalized way to ensure that your bank puts its most costly resources to the highest and best use of bringing in and maintaining happiness among the profitable customers. No one likes to allocate scarce resources, particularly when it comes to health care. However, physicians have learned that if they don't focus on resource productivity, they will not be worth much to their patients if they are out of business.

BANK NEWS

New Unemployment

The Fed SF is reporting in a research piece that the new "normal" unemployment rate may now be 6.7% vs. the 5.0% level before the recession began. The report cited high rates of long-term joblessness, extended unemployment benefits and a mismatch of skills between workers and available jobs as the primary reasons.

FDIC Oversight

The House Financial Services Committee approved an amendment that would include the FDIC examination process of banks into its review. Of particular interest is how FDIC examiners handle the determining of real estate asset value and probability of repayment.

Muni Pressure

The 2009 federal stimulus funds that flowed out to states across the country is running down and will drop to $89.4B in federal stimulus funds for 2011, $23.3B in 2012 and $14.3B in 2013. States are expected to continue to cut workers to offset the reduced funding.

Systemic Oversight

The Fed release a proposal (required under DFA) that gives the Central Bank the power to regulate non-bank financial companies, such as hedge funds, to the extent they could threaten financial stability. The rule makes the distinction of firms that are "significant" if they manage over $50B in consolidated assets.

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