Making Step by Step Choices the Dilbert Way

by Steve Brown

In a recent blog, Scott Adams, the creator of the comic strip Dilbert (known for its satirical office humor) argues government sequestration is not as evil as it's been made out to be. He contends that when budgets are slashed across

the board, departments naturally adapt. In other words, even though people may gripe about having to make difficult choices, forcing things fuels creativity, says Adams, who previously worked as a budget manager for a bank and for a phone company.

Whether or not you believe Adams is right or is joking, it's sound business practice to look for efficiencies on an ongoing basis. It's generally a bad idea to let things get to the point where you are forced to make drastic, across-the- board cuts.

To be sure, most community banks are not in the financial disarray experienced by the largest banks and have also produced a decent pretax ROA over the past 15Ys. Moreover, several segments within the community banking sector have posted strong and steady earnings. Still, community banks must be constantly vigilant about restraining costs to keep performance humming along.

This is one area where it makes sense to be smart about cost- cutting. There are really no areas of a bank that should be off limits when it comes to cost savings, so emotions must be kept in check and customer trends must be continually analyzed as the bank business model is constantly refined over time.

Many banks have chosen to close branches as a way to reign in real estate and personnel costs. Overall, banks closed 2,267 branches last year and opened only 1,149, according to SNL Financial. The result was a loss of 1,118 branches across the country, the highest level since 2005.

Beyond closing branches, there are other ways banks can become leaner, such as modifying tellers' hours to match customer traffic patterns or cutting back on non-essential positions. Outsourcing can also be a way to scale back costs and non-essential or uninteresting jobs are a great place to target.

The flip side of the efficiency coin from cost is revenue. Here, banks are looking everywhere to increase revenue. Whether that means trying out new products/services, monitoring the competition or going to more conferences to mingle with other bankers, it is a continual process to be sure.

To get started, consider a KPMG survey last year of community banks that found 93% of respondents said fee income accounts for 20% or less of their bank's total revenue and nearly 50% expected loan-related fees to provide the greatest potential to boost fee income.

Beyond loans, there are other areas to potentially generate fees (depending on the competition) that include prepaid debit cards, mobile banking, checking accounts, ATMs, credit cards and advisory-related. These take time to develop, but some can add to the bottom line.

Like the government, banks must find ways to cut costs, but be smart and diligent when cutting to avoid unintended consequences. Then, augment cuts by proactively seeking out new revenue opportunities and you have taken a few more positive steps up the long and winding performance staircase.

BANK NEWS

M&A

Heartland Financial USA ($4.9B, IA) will buy Morrill & Janes Bank & Trust ($751mm, KS) for $61.5mm in cash/stock.

M&A

Mortgage servicer Ocwen Financial (GA) will buy mortgage servicing rights on $78B in unpaid principal balances from OneWest Bank ($25.4B, CA) for $2.5B. Ocwen already services $469B in mortgages.

Deficit

The Treasury reports the US budget deficit for the first 8 months of the fiscal year was $626.3B, a 26% decline from the same period a year earlier. It is on track to be the smallest projected annual deficit in 5Ys.

Future Banking

Research by Efma & Wipro finds 91% of bankers surveyed see online/mobile as the primary channel for customer transactions in the next 5Ys. Further, about 80% saw it as complementary to branches, 64% said it would be the primary channel for customer service and 34% expected it would be the primary channel for sales and advice.

Millennials

A new survey by Think Finance of people ages 18 to 34 finds 92% currently use a bank, but 45% say they have also used prepaid cards, check cashing services, pawn shops and payday loans. This age cohort is clearly more open to financial innovation, so bankers need to be flexible and continue to adapt in order to retain them over the longer term.

Industry Confidence

Gallup reports 26% of Americans are confident in US banks, up from a record low of 21% one year ago (but still well below the 53% level reached in May 2004).

Wealthy Customers

A study of wealthy Americans (investible assets of $1mm+) by the private banking unit of Bank of Montreal finds 75% are over the age of 40Ys old, 54% hold a graduate or professional degree and 33% were born outside the country or are first generation Americans.

Virtual Crackdown

US regulators have ramped up their scrutiny of virtual currencies, driven by concerns people could using them to launder money or to avoid paying taxes.

Women Investors

A survey by Fidelity of millionaires finds at some point in their lives 90% of women will be solely responsible for their finances.