When Should a Bank Outsource

by Steve Brown

There is a hotel we frequent for business and as often happens after a number of visits, one comes to know the regular staff. This hotel is not located in a tourist destination resort and the reason for the existence of the hotel is lodging for the people who work in nearby enterprises. For this hotel, repeat business is the name of the game.

This hotel uses a shuttle service to help guests get to their offices and meetings, but they also recommend restaurants and local attractions as they drive along talking to guests. In short, these drivers are among the most important customer facing staff. Yet, a decision was made somewhere at the corporate level to outsource this shuttle service to save money, so it no longer has any employee drivers. Shiny new vans arrived with the new contract, driven by new drivers with shiny new faces. The problem was the new drivers were unfamiliar with the town. In fact, they didn't know their way around as well as many visitors this hotel specialized in serving. It was even worse to ask for a restaurant recommendation. Needless to say, customers were not thrilled, complained loudly and in the end, the hotel reversed course and brought back its own shuttles and employee drivers.

For hotels and especially ones that depend on repeat customers, the business model looks a lot like that of a community bank. The primary driver of the business for both is customer satisfaction. This satisfaction is based almost entirely on a quality service experience. Price is a factor as well, but for repeat customers the service experience is the primary decision maker. While we absolutely recommend outsourcing that creates efficiencies and allows the bank to focus on its core services, we cannot fathom outsourcing customer-facing staff in a customer satisfaction driven business. When you introduce inexperienced staff with no connection to the enterprise (as with the hotel above) you risk a heap of trouble.

Let's think about what kind of functions a bank could outsource to create efficiencies. It can make sense to outsource highly technical areas to capture more expertise or remove non-core functions so executives can focus on the customer experience. These can include certain areas of compliance, or with regulation-driven tasks like interest rate risk reviews, stress testing, calculation of loan loss reserves, vendor management and asset liability management processing to name a few. Outside experts should have experience with similar banks, not be competitors (watch out for "frenemies") and deliver up-to-date information on the regulatory environment around these processes. Think in terms of areas where it is more efficient to not re-invent the wheel and to leverage the collective experience of others, but never ever outsource anything to a competitor.

Other places to look for outside help would include general processing tasks where there are efficiencies of scale and machinery available to an organization that specializes in those tasks - mailing statements would be an example. Mortgage payment processing and collections may be other areas.

One of the great benefits of community banking, but also one of its limitations, is that in a smaller bank almost everyone covers more than one area of responsibility. This makes the job more interesting, but it adds other challenges. In the end, the one area community bankers must cover because no one else can is business development. This is true whether you are trying to capture new business or retain existing. Outsourcing should be used when it can free up time for business development, but it should never substitute for a community banker's personal touch.

BANK NEWS

Branch Sale

A division of Synovus Bank ($26.2B, GA) will sell 4 TN branches to IberiaBank ($12.8B, LA) for a nameless sum.

Switching Banks

A TD Bank survey of checking account customers finds the main reasons people changed banks in the past 2Ys (primary checking account) were due to fees (11%), moved to another state (11%) & customer service issues (10%).

OD Down

Research by Moebs Services finds consumers overdrew their checking account at the lowest level in 14Ys. Overdrafts happen now about 7x per year vs. a peak of 10x in 2008/2009.

Digital Funding

Javelin Strategy & Research reports a whopping 88.5mm Americans tried to open an account online or with a mobile device in the past 12 months and about 76% of those were successful.

Competition

PayPal has launched a new mobile app that will let people make mobile purchases, use their bank account or credit card, open a line of credit and switch from credit cards to bank accounts when shopping by using a smartphone.

M & A Strategies

A Deloitte survey of CFOs at companies with revenue of $500mm+ finds the top 3 strategies for M&A over the next 12 to 18 months are: seeking smaller strategic deals to take advantage of favorable opportunities/valuations (43%), reactively responding to opportunities that arise (27%) and seeking major transformational deals now to take advantage of favorable opportunities/valuations. Meanwhile, the top 3 objectives cited by CFOs were product/service differentiation (64%), expand customer base in existing geographic markets (42%) and entering new geographic markets (42%).

Bank Accounts

FDIC research finds 90% of households in the US have bank accounts.