Counting All of the Numbers

by Steve Brown

Everyone probably knows Count von Count, the Muppet math-educator vampire found on Sesame Street. As you might recall from childhood, the Count spends his days counting everything, regardless of size, context, relevance or the level of irritation of others around him. He really has no reference to his surroundings, other than by giving them a numerical value. Hey, stop looking at your CFO like that!

In banking, numerical values are of great importance and they make up the very foundation of the industry. To truly operate effectively, though, banks know qualitative measures must also come into the mix. You know your customers care a great deal about customer service and that you can't charge substantially more for one service vs. others, so the numbers also have to add up. That being said, service and quality of execution in the end are what drive most customers to work with your bank.

To save staff time, reduce costs and bring in more expertise, most banks have a number of functions that are outsourced. When that occurs, your bank becomes the customer rather than the service provider, so you should be as discerning as your own customers are to you. All banks have vendor management processes to formalize which providers are chosen and to ascertain their ability to provide various services.

Most vendor management policies we have seen are based more on regulatory best-practices rather than immeasurable metrics and there is nothing wrong with starting there. Outside vendors are of interest to regulators as well, since vendors have become ever more fundamental to everyday functionality in banking. Regulatory focus has taken the form of financial audits, contract reviews, vendor policy reviews, SAS 70s and data security certifications. These are augmented with questionnaires and other numerical measures of vendor security and stability. It's an important process, given the expense and reliance that all banks have on outside providers; so the Count would be pleased.

However, the primary reasons that banks consider changing from one outside provider to another are generally not based on anything that would be found in an audit report or even on a questionnaire. Far more likely are factors such as reliability, ease of use, staff support, problem solving ability and your own satisfaction. That sounds a whole lot like customer service.

Certainly, changing providers is disruptive for staff and it can cost money. The best way to avoid this is to measure quality as well as quantity when choosing providers. We recommend banks go back to their vendor management policies and procedures and look for measures of performance, not just basic metrics. Ask for references from potential providers, talk to banks that have similar characteristics to yours and ask them about their satisfaction on both a quantitative and qualitative basis.

Another less-than-countable factor that should come into the decision-making process is not buttering the bread of your competitor. You have heard us say this before, but we do so again because risk is reaching a critical level. Anyone that takes deposits from business customers and offers them loans is a competitor - period. They also want your data so they can see how you lend, understand your markets and stay on top of trends. You cannot afford to help them compete by giving them such sensitive information - especially when you have so many other options that do not pose this risk. Call us and we can help.

The point of outsourcing is to provide help, expertise and save money, but outside providers should also enhance your ability to provide service to your customers. They free you up from mundane tasks so you can focus on customer needs. Like the Count, remember to keep on counting; but also add in qualitative and competitive measures when it comes to choosing vendors.

BANK NEWS

CFO Reassigned

Fifth Third Bank has changed around its management team, will pay a penalty and reassigned its CFO as part of a settlement with the SEC related to improper accounting of some loans. The SEC alleged the bank improperly sold and reclassified some loans as held for sale in 4Q of 2008 when it should have done so in 3Q.

Under Review

Regulators are reportedly looking at Fidelity and BlackRock to see if they should be included in the list of companies that could pose a risk to the financial system and would need to be subject to greater oversight.

No Force

The FHFA said it will ban mortgage companies that do business with FNMA and FHLMC from accepting payments related to force-placed insurance policies. Since FN and FH support 67% of the mortgage industry, the ban would essentially block the industry from doing this going forward. Specifically banned would be compensation paid by insurers to banks for placing coverage with them and reinsurance relationships where the bank or mortgage servicer is paid for taking on a portion of the insurance risk.

Social Value

SocialMedia finds the main benefits cited by marketing professionals of using social media for business purposes is to increase exposure (89%); increase traffic (73%), provide marketplace insight (69%); develop loyal fans (65%) and generate leads (61%).

Largest

According to Morningstar, Vanguard has overtaken Pimco as the world's largest bond mutual fund with $288B of assets at the end of Oct. vs. $248B for Pimco.

Retirement

A Spectrem Group survey finds 33% of those making $750k or more per year say they will not retire until after age 70 and 15% never plan to retire.