Undercover Boss

by Steve Brown

You may be familiar with the CBS Emmy-Award winning reality series Undercover Boss. It follows high-level corporate chiefs that don false beards, glasses and otherwise disguise themselves to mingle anonymously with workers. Their goal is to get an inside view of what really goes on behind the scenes at their companies. Each week, the show highlights a different executive who gets his or her hands dirty (sometimes literally) while scrutinizing from within how their company operates.

Community banks are probably too small to make this work, so CEOs that dress up and pretend to be a teller or member of the janitorial staff wouldn't fool anyone. Despite this issue, it strikes us that at the very least managers should frequently observe how everything is running, where things can be improved and to hold staff accountable for successes and failures.

As community bankers, we pride ourselves on high levels of customer service. It can be easy to get complacent though and that's something we have to fight against tooth and nail. An acquaintance recently told us about an experience she had at local bank branch. She tried to cash a check at the drive through, but was told she had to come into the bank because of the nature of the transaction. We'll concede this may have been justifiable, but we can't excuse what happened when she went into the branch, already feeling inconvenienced. As she entered, she passed a desk where a staff member was sitting, presumably to greet customers. Our acquaintance walked into the bank completely unnoticed though and the greeter didn't even lift her head. We wonder what's the purpose of a greeter if not to engage customers and make them feel welcome?

Contrast this with a vastly different experience the same acquaintance had at a different bank less than a mile down the road. As soon as she walked in, a teller uttered a friendly hello. Subsequent bank customers that also walked into the branch received the same cheery greeting. All other things being equal, it's a no brainer which bank most customers would be more inclined to do business with given this comparison.

There are tangible dangers to falling short of the competition when it comes to customer service. In fact, more than 50% of all customers opened or closed an account in 2013, according to Ernst & Young's 3d Global Consumer Banking Survey. Meanwhile, 40% of customers said they plan to do so this year. Community bankers know that every customer lost is a competitor's gain, so the fight is on to stop that. While there will always been some level of attrition, bankers may be able to keep more customers by taking a closer look at what's actually going on in the branches day to day. Are customers being treated with respect? Do they feel special? Is staff smiling and making customers feel welcome?

We all lead busy lives, but as bank executives, it's important to stop and smell the proverbial roses and to plant new ones if needed. We encourage you to take a look around the bank to see how personnel are interacting with customers, how well they're getting the job done and what less-than-ideal behaviors, if any, require immediate pruning. Competition is arguably fiercer than ever in banking and losing business isn't acceptable because it is very difficult to replace. You don't have to go undercover or launch a television show, but it does make sense to look around to see where things can be improved.

BANK NEWS

Loss Given Default

The Fed suggests bankers consider the cost of selling a property in any analysis of loss given default (recall the probability of default is the likelihood a default will occur, while the loss given default is the credit loss in percentage terms that would be incurred if a borrower defaults). This is important because it is used under Basel III.

Flood Regulation

Regulators have issued an interagency statement changing limits under the new National Flood Insurance Program and regulatory expectations for banks as a result. Changes include a higher maximum limit of building coverage for non-condominium residential buildings designed for 5 or more families (went from $250k to $500k, contents coverage is still $100k); increased limits are available and should be used on new policies, policy renewals, or existing policies with change endorsements that are effective on or after June 1, 2014; lenders are expected to review flood insurance to ensure the borrower obtains sufficient coverage if they are covered by an amount less than required by new federal flood insurance regulations.

Competition

An Accenture survey of people ages 18 to 34Ys finds 80% of this group are open to banking with companies that do not currently offer such services and 70% said they define banking as conducting simple transactions such as bill pay and account statements (vs. a personal relationship with a banker). Clearly community bankers will have to stay on top of the changing interests and needs of this group of clients in order to get an opportunity to capture them.

Fraud Probe

The DOJ has reportedly issued subpoenas to 50 banks and 6 payment processors as it probes whether these entities ignored signs of payment fraud and cracks down on payday lenders, internet gambling web sites, telemarketers, short term online lenders and others. Prosecutors say banks and payment processors that process transactions they know to be fraudulent or are willfully ignorant are breaking federal law.