Community Banks - The Disruptors

by Steve Brown

We keep reading about disruptors and our thoughts immediately turned to those sounds that disturb our sleep - that's what they are talking about, right? Forbes put together a list of the most disruptive noises as rated by dwellers in apartment buildings and found that many of the noises most likely to disturb sleep were not a big surprise: a party in the building, outside construction, and thumping on the wall. Others that came in high on the list like snoring and nearby footsteps were a little more unusual.

There is another definition of disruption though that relates to technological innovation. A disruptive innovation is one that helps create a new market or value network, and eventually disrupts an existing market and value network (over a few years or decades), ultimately displacing the earlier technology. Banks are actively involved in both sides of this equation, trying to offer value and struggling with the displacement of an earlier technology. Community banks have primarily let the larger banks take on the expense and effort of determining which technologies are likely to stick and which ones will fade away due to lack of utility. But can smaller financial institutions be disruptors, can they lead the way in the quest for what customers want, and in doing so, create new markets and value?

Consider a book by Tolga Tavlas, head of digital banking at Unicredit Bank Austria entitled "Digital Banking Tips - Practical Ideas for Disruptors" that offers some advice on how to go about this. Tavlas had a blog before he wrote a book and what prompted his deeper dive according to an interview with EFMA was that most other writings on the subject were more theoretical than practical. Most banks need a quick and dirty manual on how to implement successful digital banking services.

First a good definition of digital banking is necessary and Tavlas describes it as banking or financial services through self-service channels with limited or no branch support. Internet and mobile services are a crucial part of that, but contact centers for support, ATMs and notification services are equally important parts of the equation.

That said; one of the biggest false assumptions is that innovation is always related to technology and most of the time requires a big financial investment in its development. Instead, banks can often find ways to more efficiently use resources they already have, by using them in a different way in order to bring about change. Banks should look for ways to reduce cost by migrating more transaction operations (both customer and internal) to low cost digital channels, generating revenues wherever possible using digital channels and most important of all increasing customer satisfaction.

For most community banks, partnerships are necessary to accomplish this, especially when it comes to offering technology like mobile services to customers. Strategic partners that can help your bank accomplish greater efficiency and greater customer satisfaction offer some of the greatest opportunities to differentiate your bank's services.

McKinsey and Company offers five criteria for successful partnerships: (1) Have a clear partnership strategy, meaning that both partners understand who the customer is and what they want. (2) Strategic fit of the partners - the relationship between partners should be based on trust and a complementary plan for the endeavor. (3) Harmonized customer experience. (4) Integration between platforms and seamless experience for the customer. (5) Have aligned incentives - financial goals between partners should be aligned with the vision of the task. Standing behind your bank's partnerships and the great technology is your friendly and capable staff to make the customer experience even more successful.

Given these thoughts, community banks can indeed be leaders in innovation and therefore be the disruptors in their markets. Doing so will also hopefully be especially disrupting to the tranquility (and the sleep) of the big bank across the street.

BANK NEWS

Rate Hikes

For the roller coaster enthusiasts out there, we note the recent extreme market volatility has all but derailed the chances for a Sept rate hike. While some Fed speakers have reinforced a call for Dec (to maintain credibility and likely try to build room away from the hard deck to allow for potential easing down the road just in case global issues continue), we will all have to wait and see.

Cyber Risk

Forrester Research predicts 60% of businesses will realize they have been victims of a security breach within the next 12 months and up to 80% will be victims and may not realize it.

BCP

The FDIC is telling banks that it expects them to prepare for natural disasters to include protecting customer data in the event of a cyber attack. Bankers should take note of this shift and be prepared to explain how within the context of the strategic plan going forward.

Settlement

Citigroup has agreed to pay $180mm to settle regulatory allegations it defrauded wealthy clients tied to two failed hedge funds. Citi employees reportedly told clients investments in the hedge funds were as safe as lower risk municipal bonds.

Branch Closure

BB&T said they plan to close 25 branches once it acquires National Penn, as it moves to cut non-interest expenses by 30% and remove overlap.

Fined

The CFPB has ordered a health care financing subsidiary of online lending platform Lending Club to refund $700,000 to certain borrowers. The CFPB said borrowers were misled into thinking the loans for dental work were interest free.

Biz Sale

Research by BizBuySell.com finds baby boomers moving into retirement have helped pushed the number of small businesses for sale nationwide to a 6Y high.