Two Ways To Cut Costs for Greater Profitability

profitability strategic planning

Summary: Most bankers are looking to cut costs these days. We cover two big areas that can help.

John Lloyd Wright, Frank Lloyd Wright's son, invented the toy, Lincoln Logs. Remember those? While new inventions can increase your profitability, so can cutting costs.

These days, many community financial institutions (CFIs) are finding that staying profitable involves cutting costs. To that end, bankers are looking at potential places to trim expenses. We cover two big areas that can help.

Digital banking. The pandemic has made some potential cost-savers clearer than others. Some CFIs were already shedding branches, but an uptick in digital banking, plus a mostly successful move to remote working for some, may push some CFIs to reassess their branches even more.

A shift to more online and app-based banking also allows CFIs to spend less money and time managing paper, and allows customers to receive their account statements online. Back in 2015, Javelin Strategy & Research reported that banks and billers would likely save $2.2B by 2020 in paper statement delivery costs due to digitization. With even greater digital adoption due to COVID-19, that cost savings is most likely even larger.

Your core provider. According to a recent survey done by Independent Banker magazine, more than a quarter of banks trying to save money look at the expense-to-value proposition of their core-processing contracts. It is often difficult to get out of a contract easily; still, it could be time to take a hard look at your core provider.

Look at things like: how many years are left on your contract; how many services it provides; how innovative its products are; and how solid its security and service levels are. While ending contracts early could mean paying substantial fees, it may be more cost-effective than the opportunity cost of not providing the right services to your customers.

If you don't feel ready to make any sudden moves, keep a careful eye on the date that a core-processing contract comes up for renewal. This is the moment when you have the most leverage. "*The biggest mistake many banks make is to allow the contract to auto-renew,*" says Ryan Rackley, a contract-negotiation specialist at Cornerstone Advisors, a consulting firm in Scottsdale, Arizona.

Instead, come to the negotiation table with a well-developed plan for what your CFI needs in multiple categories, such as flat annual adjustments, bundled pricing for multiple products, performance standards, ease of integration with outside providers, and reasonable fees for accessing bank information after a core-processor contract concludes.

Also, have a sense of what penalties you think are fair to enforce performance standards. Many institutions are negotiating contracts that include performance commitments for the provider, as well as penalties if the provider doesn't live up to those standards.

These are only a couple of ways to cut costs, but they could be big ones for your institution. Now is a good time to reassess as you enter into the strategic planning season.

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