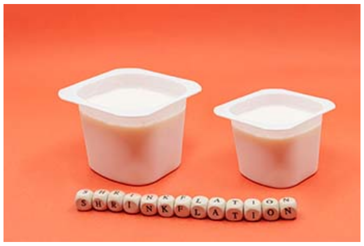

How To Unearth Hidden Cost Savings

third party profitability management

Summary: Autorenewals and hidden language within contracts aren't just a headache for consumers — they exist within the third-party relationships that CFIs have as well. Taking the time to review outdated contracts and redundancies within all aspects of your organization can lead to significant savings and a better overall service experience for your customers.

Whether it is cereal or toilet paper, cleaning supplies, or countless other products, manufacturers have cut back on the size of many of the goods that people regularly purchase. Prices, however, have risen. In many cases, the inconsistency is so blatant that consumers call out manufacturers on social media who are charging more for reduced-size products. In France, supermarket chain Carrefour has even taken to shaming companies engaging in "shrinkflation" by placing stickers on products where the size has decreased, despite lower costs for the raw materials needed to make them.

If you cut down the size of someone's favorite chocolate bar or ice cream, odds are good that they are going to notice and won't be happy about it. But not all cuts are bad. As community financial institutions (CFIs) strive for greater profitability, there are multiple cost-cutting measures they can employ that can actually benefit both customers and financial institutions themselves.

Shrinking Profitability

There is no shortage of factors impacting a financial institution's profitability in the current market. With the Federal Reserve finally slowing interest rate hikes, financial institutions are bracing for lower yields on lending and higher costs for deposits, all of which are expected to result in net interest margin (NIM) compression.

Meanwhile, financial institutions continue to struggle with a host of other factors impacting their profitability, from lack of liquidity and increasing regulatory costs to heightened competition from fintechs and other nontraditional lenders. Given these realities, the need to cut costs has moved to the forefront within the banking industry.

But cutting costs doesn't necessarily have to mean following the lead of some of the biggest banks in the industry by laying off staff. Instead, CFIs should conduct thorough and continual reviews and evaluations of all aspects of their businesses to identify areas where there are redundancies or where technology upgrades can introduce significant long-term savings.

7 Tips To Reassess Spending

Here are several areas that CFIs should review within their own institutions to find those hidden cost savings:

1. **Institute a hiring freeze.** Instead of cutting jobs, CFIs should consider implementing hiring freezes or even offering financial incentives to encourage early retirement for individuals nearing retirement age. Consolidating certain roles or departments within your organization can also be a good way to condense staffing costs. Just keep in mind the importance of transitioning knowledge of long-term employees to

younger counterparts before doing anything to avoid the loss of key skills that could prove difficult to replace.

2. **Outsource where you can.** Another way to rein in staffing costs is to outsource expertise sets, such as compliance and risk management, instead of bringing on employees dedicated to these functions.
3. **Upgrade your tech.** While technology upgrades can involve hefty upfront costs, in many cases the long-term savings and overall improvements and efficiencies far outweigh the initial outlay. Tech upgrades appear to be an industry-wide endeavor, as well: Forbes reported that 63% of nearly 100 top financial institutions are either already moving or planning to move their outdated core systems into the cloud.
4. **Review and negotiate your existing contracts.** Take a close look at any and all contracts and agreements. Ongoing contracts often contain autorenewal language or hidden fees that can be extremely costly, particularly if newer, more efficient service providers have come onto the scene. Some companies specialize in reviewing these contracts and getting quotes from other providers who offer similar services. Updating contracts with new providers can also introduce greater efficiencies and enhanced services for financial institutions, which can translate to a better user experience for customers. Even the simplest service agreements, such as contracts with check providers, can become dated so that the price your organization pays is no longer competitive. Other contracts that tend to go overlooked, but where better terms can typically be negotiated, include credit reporting and even ATM rentals. Of course, you can outsource the review of your contracts, including your core contract and check printing.
5. **Look for redundancies.** It is not uncommon for institutions to forget about ongoing agreements that auto-renew each year or overlook that multiple providers provide duplicate services that you may be paying for more than once.
6. **Trim your product offerings.** Review your organization’s product offerings for any overlap that exists and eliminate those that are outdated or less popular. According to PwC, a mere 5% of the products financial institutions rely on are responsible for more than 80% of revenue and profits.
7. **Read your agreements.** Don’t overlook easily overlooked clauses within vendor agreements such as Consumer Price Index increases that can mount up to hefty fees, if triggered. Instead, be sure to cap any such increases and be aware of penalties in the case of early termination.

As your institution strives for greater profitability, reining in costs doesn’t necessarily mean having to cut staff. Unrealized savings that have gone without notice exist within many organizations, often hidden in outdated product and service agreements or redundancies within a business. Taking the time to do a deep dive and evaluate your organization can have a significant payoff.

GET A COMPLIMENTARY CORE CONTRACT ASSESSMENT

Core and ancillary product contracts are some of your organization’s largest expenses. If you’re within 18 to 36 months of your next renewal, our partner can assess your current contract at no cost to you. You’ll get recommendations, RFPs for alternate providers, and hands-on help negotiating with a core provider of your choosing.

ECONOMY & RATES

Rates As Of: 10/26/2023 05:34AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.59	0.04	1.17
6M	5.57	0.04	0.81
1Y	5.43	-0.01	0.72

2Y	5.11	0.07	0.68
5Y	4.89	0.28	0.89
10Y	4.96	0.38	1.08
30Y	5.09	0.39	1.12

FF Market	**FF Disc**	**IORB**
5.33	5.50	5.40
SOFR	**Prime**	**OBFR**
5.30	8.50	5.32