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Stacking the Deck:

SECRETS OF HIGH-PERFORMING BANKS

By Dr. Sean Payant

Many financial institution executives spend considerable time thinking about strategies to improve overall profitability and create sustainable growth.

The focus on best practices is generally aimed at strategies to cut expenses: using technology, looking at staffing levels and increasing productivity, among others. Although this advice is sound, **is that actually what high-performing banks do?** To answer this question, we analyzed data for 81 institutions that have been in the top five for return on equity for five consecutive years to peers. These institutions averaged an efficiency ratio of 52.04%.

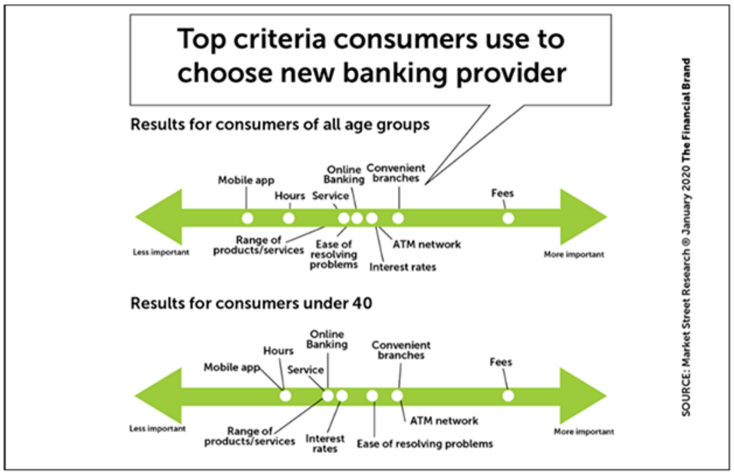
Metric	High-Performing	Other	% Variance
Return on Assets	**3.18%**	**1.14%**	**179%**
Return on Equity	**31.22%**	**10.76%**	**190%**
Net Interest Margins	3.60%	3.27%	10%
Cost of Fund	0.33%	0.33%	0%
Yield on Loans	5.64%	5.08%	11%
Loan/Deposit Ratio	69.27%	67.67%	2%
Non-Interest Income to Assets	**\$22.30**	**\$5.25**	**325%**
Non-Interest Expense to Assets	**\$28.76**	**\$23.26**	**24%**
Equity Capital to Assets	11.11%	10.81%	3%

Note: Data Through 9/30/2021

As the data illustrates, **high-performing institutions don't attempt to save their way to prosperity.** They underperform in non-interest expense to assets by 24% and overperform in non-interest income to assets by 325%. So how does your bank stack the deck in its favor?

The key to better results is aligning marketing and execution. High-performing banks invest in growth to create a sustainable advantage that produces superior results. After 35-plus years, here's what we know:

Get product right. People hate fees. Compressed margins and decreased profitability can lead executives to discuss increasing monthly service fees or minimum balance requirements. Below is recent research on the criteria consumers use when selecting a primary financial institution. Compressed bank earnings have little impact on what consumers want from their banking partner. Your retail and business product considerations must remain compelling if you want the greatest opportunity to grow core customers.



Remove process barriers. Banks must be attuned to compliance-related items; however, over-compliance creates barriers. Look at your customer identification program (CIP), as well as your retail and business account opening policies: Do they create barriers to growth? Is it easy for a consumer to open a retail or business account at your bank? Do you have restrictive scoring metrics that are actually costing you revenue opportunities?

Market to grow. Increase your bank's spending on strategic marketing.

- **Proactive:** According to Novantas, 65% of consumers only consider two options when they decide to change their primary financial institutions. That means that 65% of your current customers already know where they would bank if they didn't bank with you. Your institution must be top-of-mind before consumers and businesses decide that they want to switch. Your marketing must create the opportunity for them to pick you.
- **Targeted:** Your bank needs to use data and analytics to help understand where to market before any campaigns. Your marketing resources should be allocated to target consumers and businesses that haven't chosen your bank yet — but could and should.
- **ROI Focused:** Executives must define what and how the bank will measure success before the marketing campaign, not after. Make sure your marketing investment is working to create tangible, measurable results.

Invest in team training. Too often, banks treat training as an event rather than a way of life. Employees who do not understand your products and services won't be able to recognize opportunities with customers or discuss the benefits, rather than features. It is crucial your institution commits to regular training initiatives regarding products and services. Once everyone has been trained, begin the process again; knowledge leaks unless it is reinforced regularly.

The actions of high-performing banks tell the story. **Banks that invest in growth reap the greatest rewards.** While it may not be intuitive, bank executives must ensure they have all of the right strategies to capitalize on growth opportunities that present themselves in any environment.

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