STACKING THE DECK: SECRETS OF HIGH-PERFORMING BANKS

By Sean C. Payant, Ph.D., Haberfeld

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

The focus across industry press and conference best practices is generally aimed at strategies to cut expenses – using technology, looking at staffing levels, increasing productivity, etc. Although this advice is sound, is that actually what high-performing banks do? To answer this question, we looked at 81 institutions who have been in the top five for return on equity for five consecutive years and compared them to peers. For these institutions, they averaged an efficiency ratio of 52.04%.

As the data illustrates, high-performing institutions don't attempt to save their way to prosperity. They underperform in noninterest expense to assets by 24% to overperform in noninterest 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. As noted by high-performing banks, it's about making an investment in growth to create a sustainable advantage that produces superior results. After 35 plus years, here's what we know:

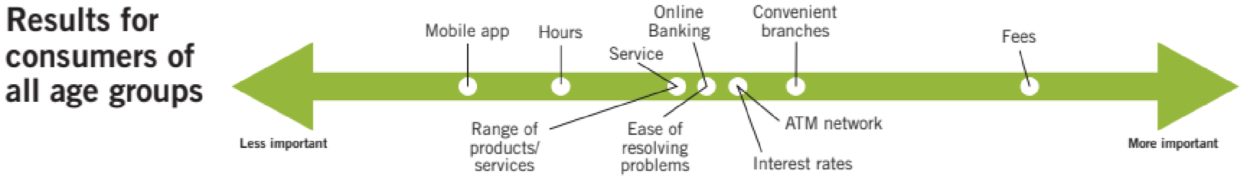
PRODUCT - get product right: People hate fees. Compressed margins and decreased profitability can lead to the discussion of increasing monthly service fees or minimum balance requirements. Below is recent research on the criteria consumers use when selecting a primary financial institution. Compression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

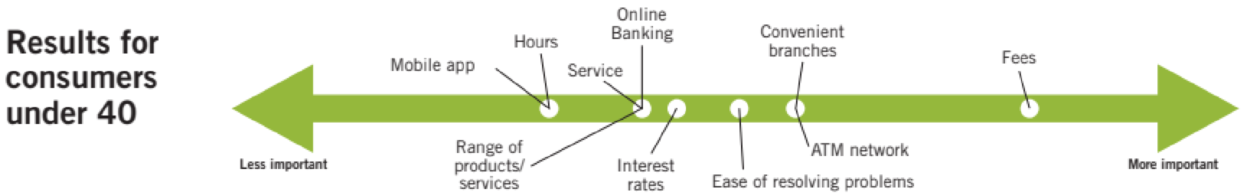
INSTITUTIONS IN THE TOP FIVE FOR RETURN ON EQUITY FOR FIVE CONSECUTIVE YEARS

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

Note: Data Through 9/30/2021

TOP CRITERIA CONSUMERS USE TO CHOOSE NEW BANKING PROVIDER





PROCESSES - remove barriers: Stop getting in your own way. We must be in compliance; 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?

PROMOTION - marketing to grow: Increase your spending on strategic marketing.

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

PEOPLE - invest in training your team: Too often our industry treats training as an event rather than a way of life. Employees who do not understand your product will never be able to recognize opportunities with customers, let alone speak in terms of benefits rather than features. It is crucial your institution commits to regular training initiatives regarding your products and services. Then once you have trained everything, start over and do it 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, make sure you have all of the right strategies in place to capitalize on the growth opportunities that present themselves in any environment.

Sean C. Payant, Ph.D. is Chief Strategy Officer at Haberfeld, a data-driven consulting firm specializing in core relationships and profitability growth for community-based financial institutions. Sean can be reached at 402-323-3614 or sean@haberfeld.com.