Uncharted Waters:

Near-Term Actions That Could Ease Financial Strain

The safety and wellbeing of customers and employees are of utmost importance at this difficult time, but the recent dramatic rate cuts will push banks' management to take meaningful action to operate a sustainable business.

The following are some actions that banks can consider as they seek to advance business during this time of stress:

Branches

There may be a need to temporarily close or otherwise reduce branches during this crisis. As a result, banks can encourage customers to use virtual/digital channels that advance the industry's transition to thin networks.

Banks have already closed thousands of branches, but there are still too many. With the current compelling need to migrate customers, is it time to accelerate branch closures and possibly take a one-time charge? This next round of branch closures might also be used to focus the organization on digital capabilities and work-at-home phone-centers.

Workforce

By focusing on digital capabilities, it may also be time to reconsider what the sales force does, how they are enabled digitally and how many of what type are needed. Currently, there is a need to stay in close contact with customers. For some, this is an opportunity to cement core relationships while promoting digital engagement. Business-banker relationships, for example, might better be reserved for companies with complex credit and cash-management needs. Clients with more simple needs could be serviced through the branch or inside sales teams. The ultimate objective is to transition from being reactive to being far more proactive. With "face-to-face" contact diminished, there may also be an opportunity to increase specialization, if not reduce physical coverage.

Marketing

Marketing often gets the first call for budget clawbacks. That, however, contradicts the need for more spending as branches close. Banks might consider differentiating spending based on lower-funnel versus upper-funnel needs.

For the lower funnel, it could be effective to pour investment dollars into targeted, digital-acquisition campaigns that attract the best customers. There may also be an opportunity to reduce spending on lending products like mortgages, where refinancings already are high.

As for the upper funnel, executives might consider reducing budgets even if those cuts aren't realized immediately due to the long lead time of investments.

Rates

There's little doubt that the Fed's rate cuts have put profits under extreme pressure. But indiscriminately slashing rates misses the opportunity of building a better, long-term core franchise while still reducing the cost of funding.

For consumers and small business, management's priority obviously is to protect core and loyal customers. At the same time, there is a need to reduce rates. This may involve surgical, if not customer-level, pricing. For example, many banks have large portfolios of retail CDs coming due. This represents an ideal opportunity to precision-price renewals.

For commercial customers, the expectation is that rates will fall with the market. Also, corporate treasurers are likely focused on preserving liquidity more than optimizing interest earnings. With MMF rates so low, corporate deposits will naturally accumulate in bank accounts. Banks are actively reducing rates on commercial customers, but again, this will likely be done in deference to long-term core relationships. It is a similar story for wealth and mass-affluent customers.

Product Adjustments

These are not particularly short-term. The current crisis, however, could represent an opportunity to reposition products and fees against customer needs and fintech competitors. Banks should consider offering products that encourage savings, provide liquidity assurance and charge appropriate fees.

Balance-Sheet Management

Obviously, monitoring asset volumes and mix is an important priority for balance-sheet management. Funding optimization, however, is equally important for managing profitability. Uncertainty around loan demand — who is borrowing and who is paying off loans — makes the job of funding much more difficult for Treasury. In such stressed times, balance-sheet managers should strive to understand likely behavior across different deposit-pools — what is happening with a bank's corporate deposits, retail deposits, wholesale borrowing, etc. To meet funding challenges in an uncertain world, treasurers could turn to enterprise-wide funding optimization.

There's no doubt that we are only at the start of a difficult and uncertain time. Customers of all sizes need assurances that the banking industry is well-capitalized and on solid footing. Bank management, meanwhile, needs to take decisive action to deal with the immediate crisis and advance the business agenda.

ABOUT NOVANTAS

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