



INDUSTRY INSIGHTS

Four Keys Essential to Middle Market Banking Success

Recommendations for Helping Middle Market Banks Drive-Up Customer Satisfaction, While Reducing Operating and Service Costs, Mitigating Operational Risk, and Improving Employee Engagement.

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CONSULTING FOR THE MIDDLE MARKET™



With the recent changes to banking regulations and a highly competitive landscape, small to mid-sized banks face new challenges to finding and keeping both customers and employees, let alone responding to regulatory demands and oversight. The paper outlines four key operational priorities that can help the mid-sized bank reach and stay in the lead.

FOUR KEYS ESSENTIAL TO MIDDLE MARKET BANKING SUCCESS

RECOMMENDATIONS FOR HELPING MIDDLE MARKET BANKS DRIVE-UP CUSTOMER SATISFACTION, WHILE REDUCING OPERATING AND SERVICE COSTS, MITIGATING OPERATIONAL RISK, AND IMPROVING EMPLOYEE ENGAGEMENT.

THE “FULL AGENDA” FACING TODAY'S BANKERS

In today's increasingly competitive and highly regulated market place, bank leaders continue to seek winning formulas for improving market share and increasing profits. As new regulations find their way into Middle Market Banks, cost pressures increase and in-house talent gets stretched. Instead of improving operating performance and market share, banks find themselves shifting their attention to complying with new requirements and creating new internal processes and disciplines.

Larger competitors can have advantages in operating margin due to their scale. They can afford to assign in-house talent to deal with regulations and build innovative capabilities. Many Middle Market Banks prefer to differentiate based on Customer Experience while remaining cost competitive. Yet, new regulations and competitor scale put additional pressure on internal staff often distracting leaders of Middle Market Banks from their prime objectives.

Increasingly, leaders need to adjust their strategies to find the right competitive service offerings. In this world of increasing regulations and competitive pressures, Middle Market Banks cannot always afford the fulltime talent needed to be compliant in a way that is sustainable and satisfies the regulators, and, at the same time, focuses on profitability and competitive pressures. These pressures are real, and can often seem overwhelming to an organization's capability and capacity. Often leaders feel that tradeoffs need to be made between costs and compliance, service and operating risk, costs and customer experience, employee satisfaction and costs. Fortunately, that is not the case.



SETTING PRIORITIES – FOCUSING ON THE “CRITICAL FEW”

When assisting Banks, CE3 Solutions Consulting's team of experienced bankers do a full assessment - simultaneously focusing on Customer Experience, Costs of Operations and Service, Operational Risk, and Employee Engagement. We believe that this simultaneous assessment across an enterprise can result in strategic and tactical recommendations that create solutions sets that individually drive improvements in two or more of these focus areas - often in all four.

Our banking experts have experience in creating operational risk programs that not only comply with regulations, but also identify hidden cost drivers. We understand the root causes of poor customer experience and high operating and service costs, and are able to find solutions that simultaneously improve experience and reduce costs. Integral to our optimal solution sets for our clients, we help to create cultures and business routines that generate continuous improvements well after our departure from assisting our clients.

So, let's briefly discuss those four key areas:

CUSTOMER EXPERIENCE

Not enough can be said about maintaining consistent, positive interactions with customers each and every time they touch your bank- in a human form or through technology and self-service. If customers have positive experiences, especially when they have perceived problems, customer loyalty can be built. Unfortunately, if a negative experience occurs, the goodwill from previous great service can be erased. In this day of social media, virtual negative-word-of-mouth can quickly and adversely erode customer satisfaction for many current and potential customers.

Customer experience is driven by the "operationalization" of the brand promise. Often times the brand promise is vague to both customers and employees. Making it specific to internal staff enables the building of highly reliable and repeatable processes and staff disciplines that deliver on that promise. Clarity of promise, capable processes, management rigor, and engaged, motivated employees are foundational to being recognized as best-in-class customer experience in your peer group. Being known as a customer-focused bank will lead to reduced customer turnover and higher profits.

Being customer focused means being vigilantly focused on reducing problems and being seen as a customer advocate when, at times, problems do occur. A great service experience requires high-performing operating and service organizations. A focus on great service, error reduction, and speed of resolving problems will also result in lower cost of operations.



COST OF OPERATIONS AND SERVICE DELIVERY

The cost of bad or mediocre service impacts revenue and also impacts the cost of operations and service. Some of the associated preventable costs of poor service can include rework, problem correction, customer service, and the marketing costs incurred to obtain new customers to make up for the loss of defecting customers.

Middle Market Banks focusing on great customer experience can minimize the scale advantage of large banks. Great experience requires fewer errors, faster problem resolution, and great interpersonal relations that boost the emotional connection between customers and their banks. These are also characteristics of low-cost providers.

Automation and self-service are traditional ways that banks reduce costs. If done wrong, banks make customers angry trying to save costs. However, if done with the right human and ease-of-use design criteria, banks can make their cheaper channels into the preferred channels by customers who also want to save time and effort. There is a big difference between being customer-focused AND cost-focused versus being cost-focused with only lip service provided to being customer-focused.

Options exist for Middle Market Banks to look at various sourcing alternatives besides just insourcing. Banks, especially through associations and strategic non-competitor ally development, can have buying leverage with outsource providers. In some cases leveraging 3rd parties can bring new technology capabilities that Middle Market Banks cannot afford, or can bring scale that lowers cost. Care must be taken to be sure that a better service experience can be achieved. Also critical is the relationship between a bank and its supplier - it must be healthy and create incentives for both parties to improve the customer experience and reduce costs of operations and service. Outsourcing is not for everyone, but it is an option to consider, often providing interesting benchmarks at minimum cost.

CE3 Solutions Consulting has deep experience in Operational Excellence, Customer Service and managing an array of outsource providers in ways that improve experience, reduce costs and reduce operating risk.

OPERATIONAL RISK

Minimizing operating risks across your institution through delivering consistent, quality product and service offerings are significant ways to enhance customer experience and can differentiate you from your competitors. Careful, diligent planning and having the ability to continue to operate during various predicaments that could disrupt business are keys for satisfying regulators and customers, and can minimize costs as well.

Operational Risk management is not only focused on internal operations, but also on the many vendor relationships that financial services companies use to deliver their customer's experience. Do your vendors and internal vendor managers have a focus on reducing operating risk and complying with your programs as well as with regulators?

Competently managing compliance to regulations, policies and procedures, reducing the need for and streamlining corrective strategies and work-a-rounds, and commitment to ethical practice reinforces trust and reduces risk exposure. It minimizes the wrong-kind-of attention and scrutiny from regulators and potential penalties. These disciplines also identify cost-



reduction opportunities created by risk mitigation and help prepare for business continuity challenges so that contingency execution can be smooth and cost effective.

Additionally, exceptionally managing risk and compliance avoids associated costs of time and erosion of customer confidence, and enables leaders to focus their energies on their key areas of expertise, not putting out fires. Proven business processes and practices, full compliance to regulations, and healthy organizational culture provides “an ounce of prevention [that] is worth a pound of cure” and much more for banks. What are your operational risks? What are you doing to mitigate them? Can you demonstrate to regulators that you have these identified, rated in terms of possible and likely consequences, and have properly addressed them by effective mitigation plans? Can you demonstrate to your boards, shareholders and regulators a year-over-year improvement discipline for managing your operating risk?

Meris Consulting has the talent and methodologies to improve existing operational risk disciplines or bring a new operational risk management tool /process in-a-box into your organization. This is an area that Middle Market banks have not traditionally had to demonstrate they have under control to regulators and their shareholders. Though, focus on risk management disciplines is finding its way to Middle Market Banks via new regulatory guidance.

EMPLOYEE ENGAGEMENT

Research confirms over-and-over again the benefits of retaining engaged employees. Engaged employees fully invest their time and presence in accomplishing their assigned work, often creatively assimilating new ideas or providing insights and recommendations for customer experience and process improvement. With the right empowerment, they service customers efficiently, acknowledging the value of each customer while



showing respect and building trust. As true customer advocates, they take pride in knowing that their roles make a difference to the customer, and to their organization’s success. Loyal employees reduce the cost to hire new ones, and also have more efficient and satisfying transactions with customers. Engaged employees lead to higher sales and profits. Hiring and cultivating engaged employees are foundational for sustainable success.

Engaged employees are necessary for an organization to excel at Customer Experience, to have better operating margins, and to reduce operational risk. Working in an environment that is focused on employee and customer satisfaction builds engaged employees.

What comes first the chicken or the egg? Yes, all four of these key areas need to be leveraged simultaneously through value-based and focused leadership. Meris Consulting makes our clients better in ways that make a sustainable difference.

TRUST, THE FOUNDATION

Without a doubt, improving the four key areas discussed above would undoubtedly create significant value for your business and customers. Trust is a component of those areas, both undergirding and a by-product of excelling in them. In all relationships, personal and business, trust is absolutely essential. It supplies confidence to customers for entrusting their valuables, security, livelihood and futures to your bank while maintaining their peace of mind. Trust built over time, can be eroded quickly. Therefore, it must be cherished and protected.

In general, most business leaders' strategy is focused on appealing to new customers, satisfying and retaining current customers, and strengthening a positive-brand recognition – all built through trust, ethical business practices and a stellar reputation. At Meris Consulting our chief aim is to gain and grow your trust by assisting you and your organization to attain lofty goals and flourishing, while enabling your customers to do the same.

CONCLUSION

The CE3 Solutions Consulting approach includes world-class methodologies that allow our clients to improve their customers' experience, to identify and reduce costs, to install operating risk disciplines and programs that meet the evolving regulatory and compliance requirements, and to fully unleash employee potential. Our consultants can assist client leadership in creating strategic transformational plans that work, and build the internal capability to compete and win in such a complex, competitive and regulated environment.

Whether you plan to remain independent, acquire other institutions, or prepare to be acquired, CE3 Solutions Consulting is there with seasoned professionals who have been in your shoes and who have the discipline for systemic and analytically-based assessments, the skills of sequential transformational planning, and wisdom for sustainable implementation. Bank leaders can supplement their teams with a world-class team of temporary advisers who bring a customer and compliant big bank experience to the Middle Market.

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CE3 Solutions, LLC, a boutique management consulting firm specializing in creation and implementation of strategic and tactical roadmaps for businesses to simultaneously improve their customer experience, shareholder/business value, employee engagement, and risk management. CE3 Solutions partners have collectively over 100 years of experience in directly managing these areas with numerous Fortune 500 organizations, while also providing solutions to businesses of all sizes.