



Financial Crisis or Financial Opportunity? By David Wagstaff

In this Industry Insight we talk to David Wagstaff, Managing Principal at Clarity FI, LLC, about the current state of flux in the financial institution industry and get his view on whether we are presented with a crisis or an opportunity.

Are we facing a financial crisis or financial opportunity?

The financial institution industry is changing. Fast. And in ways we haven't seen before. Top banks are digesting major acquisitions, facing new threats to profitability, and bracing for the impact of new regulation and government interaction.

This turbulent storm will capsize some powerful large ships and toss aside many smaller vessels—yet for those who can navigate through the turbulence with a clear vision, guiding instruments, and a compass focused in the right direction, unprecedented opportunity awaits.

But not without risks.

Executives who make the wrong decisions quickly find themselves out on the street. The long prestigious history of their former institutions become just another footnote on some other bank's history of acquisitions.

So what is a savvy banking executive to do?

Get the basics right. Be better informed and more focused than the competition. Understand that long-term profitability isn't about following the pack—it's about executing well, day after day. It's about having the right information to make better decisions. Ultimately, it's about looking through a holistic lens to see what it takes to drive profitability.

Today, opportunities abound - especially when you consider that mergers and acquisitions nearly always create opportunities for prepared competitors. Here's how:

Mergers and acquisitions lead to a five to ten percent increase in customer attrition—and that's a conservative figure. The top six banks (Citibank, Bank of America, JP Morgan, Wachovia, Wells Fargo and Washington Mutual) as of June 30, 2008, controlled \$3.29 trillion in deposits combined.

This figure is roughly equal to the total deposits of the next 150 banks by deposit size. If these top six banks lose focus as a result of the current crisis and, in turn, lose five percent of their deposits, then other banks can pick up a share of that loss. Just how much is that figure? Combined, it's roughly \$165 billion. Are you prepared to gain share?

How to harness the storm:

Be Better Informed

The highest performing banks and bank executives don't spend their time chasing fires. Instead, they are informed and proactive. They wisely manage risk and know what's on the horizon—so they have ample time to maneuver.

Love Your Customers

Your current customers are the cornerstone of your profitability, so treat them well. Be balanced in your drive for profitability. Make decisions that are good for shareholders—but not at the expense of quality customer experience. It's OK to turn away someone with bad credit and it's OK to charge a premium price IF the customer is informed and can recognize the value of these choices.

But don't try to hide fees or 'stick it' to customers. Be up front and provide services that can create excited and energized customers. Because these customers will promote your brand. Remember, the secret of high growth banks is in having customers who love to spread the word about how well they're treated.

Deepen Relationships

Happy customers generate more revenue. And obviously, they cost less. Plus, they might even refer their friends. Analytic tools can enable management to visualize data, spot trends and identify opportunities, which can lead to gaining more happy customers and shareholders.

Engage Your Employees

We meet with hundreds of bankers each year and consistently notice that high growth banks have employees who are much more likely to be consistently excited and engaged. Which came first? Do you know why these employees are excited and engaged? If you don't, you could be missing the boat to greater opportunities.

Streamline Processes and Productivity

Slow and expensive processes are typically bad for customers, frustrating for employees and definitely bad for shareholders. But if you streamline processes, you can improve the speed and quality of information, which is vital to the productivity of your business. More importantly, improving processes and productivity is good for customers, improves employee engagement and raises short- and long-term returns for shareholders.

Improve Products and Services

Too often banks try to sell and deliver too many products and services and fail to see what works and what doesn't. As the number of products increases, many organizations can end up with so many pricing and product attributes that they lose sight of what makes sense for the bank and its customers. If banks can't align their offerings with their customers' needs and qualifications, they can end up wasting a lot of time and valuable resources.

Boost Attraction

Current customers may be the source of profitability today, but without a healthy pipeline of happy new customers coming in, future returns will fail. So you need to stand out and you need to spend your resources wisely. If you measure ROI on each dollar invested on gaining new customers, the results may surprise you.

Driving Bottom Line Financial Results

Informed executives wisely managing risk. Engaged employees. Happy customers. Efficient processes. The right products and services at the right price. These are the elements of a successful enterprise. But how can you ensure that each is driving toward a common vision and that dollars spent are in fact generating bottom line results?

We have found that in working with large national, regional and community institution, a holistic approach will look at not only the individual components of profitability, but also the bigger picture—and how everything works together to work in unison. This approach combines the value of looking strategically across the business while also focusing on the specific tactics that drive financial results. The outcome is an extremely effective approach that, in the end, yields real, tangible financial results.

You can learn more about specific strategies and tactics that can produce bottom line results by reading our future articles. In each forthcoming issue, we'll peel back another layer to reveal in-depth insights that can help you catapult results.

About the author

This article is provided by David Wagstaff, Managing Principal, Clarity FI, LLC. David and Clarity FI work with national financial institutions as well as larger community and regional banks in the United States and Canada.

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