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The Informed Banker Future Readiness Series – Part I: Is Your Financial Institution Future Ready?
TRANSCRIPT

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Nathan: Good day, and welcome to Harland Clarke's "The Informed Banker Future Readiness Series, Part One: Is Your Financial Institution Future Ready?" This webcast is being recorded, and a replay will be provided to you within a few days. If you have questions, please use the chat box located in the control panel. Your questions are private and are only seen by the presenters. I will now turn the call over to Christine Ahlgren with our marketing department at Harland Clarke. Christine, you have the call.

Christine: Thank you, Nathan, and welcome to everyone who's joined us for today's presentation, "Is Your Financial Institution Future Ready?" Today's presentation is the first in the three-part future readiness series, brought to you in partnership with Cornerstone Advisors. The future ready series is focused on preparedness in three key areas. Today will take a broad view of the readiness of your financial institution as a whole, and in September and November, respectively, we'll be tackling the futures of your marketing and payment programs. Keep an eye out for those invitations.

The Harland Clarke Informed Banker Series was created with you, the community-based bank and credit union, in mind, and we aim to consistently bring you succinct, timely information on topics that are critical to the success of your businesses. You'll be receiving a short survey at the conclusion of the presentation today, and we'd greatly appreciate it if you could take just a moment to fill out that survey, as we use those results to integrate the feedback directly into future sessions. Also, a quick note on next month's session on July 19th, we'll be continuing our marketer's guide to justifying your existence series, with a focus on activating and engaging accounts.

Now, I'd like to introduce you to today's speakers, Ron Shevlin and Sam Kilmer of Cornerstone Advisors. Ron leads research at Cornerstone Advisors, including the Cornerstone Performance Report and the Insight Vault. He's often cited in the industry press, and Ron is the author of Smarter Banks, and a regular contributor to both Gonzobanker and Smarketing. Sam specializes in strategic planning, marketing, and delivery at Cornerstone and has prior experience in strategy, analytics, digital delivery, and marketing leadership at two midsize banks, as well as two Symtec firms and, most recently, Harland Financial

Solutions. We're really excited to have Ron and Sam with us today. Thank you both for being here. The floor is all yours.

Ron: Great. Thanks, Christine. Ron Shevlin here. Thanks everybody for joining. Appreciate you taking some time out of the day. I want to discuss a few things with you guys today around the future readiness of banks and credit unions. A couple of questions that we've kind of queued up for today. Want to talk a little bit today about how future ready are financial institutions, but importantly what does it mean? What does it mean to be future ready? How can you assess whether or not you are future ready?

We'll share some thoughts and ideas about some of the banks and credit unions that we've come across who are future ready, or at least we believe are on the right path. Before I get into that, though, I'd actually like to ask you guys a question. I'm going to queue up one of the polls here, and ask which of the following do you think best describes the future readiness of your institution? Would you say that you're somewhat or even very future ready? Are you not future ready but making progress, or not at all future ready?

I think you guys can just click on there. We'll take a couple of seconds to see how everybody's doing. I see the answers are coming in. I'll give it – almost half have voted so far, so get out those mouses and click away there. I can tell you already, I'm somewhat surprised at the answers coming in here. We'll see how this shakes out in just a couple more --

Sam: Ron, I believe – this is Sam. I believe this is where our Jeopardy background music is supposed to kick in.

Ron: Yeah. I thought you were going to sing, Sam, because you're usually the singer, so I thought you would kind of chime in on that one.

Sam: I don't think you're going to want that.

Ron: Okay, so we're – I'm going to close this out as we are getting pretty high on the percentage that have voted, so far. Okay, let me close that out and go back and share that. Roughly, about four out of ten of you said that you're somewhat or future ready. Only 4% said not at all future ready, but a little more than half of you said not future ready but making progress. I'm guessing that the four out of ten of you who said you're somewhat or future ready joined this call, so you could make fun of your comrades who aren't future ready and are struggling to do that.

We actually conducted some survey back in December of 2016 to ask financial executives, in particular, not just the high-level question about how future ready they were, but specifically, in terms of very specific functions within the organization. Asking for the same breakout of somewhat or very future ready, not future ready but making progress, or not at all future ready and falling behind, what we found was that a little over half of the respondents told us that both digital banking ad IT were somewhat or very future ready. Few thought that they were not at all or falling behind. Following that, about four out of ten felt marketing, payments, branch delivery, and fraud and risk management were somewhat or future ready, but then again, not a lot in the last category of not falling behind.

What really kind of stuck out for us were the percentages for the contact center and analytics, which came to the bottom of the list. Only three out of ten believe that their contact center was even somewhat or future ready, and less than a quarter believing analytics – you can see that about one out of five, one out of four felt that they were not at all future ready and falling behind. Sam, any comments on this? I know you want to do a deep dive into analytics, but before you do, any comments about the overall findings?

Sam: Yeah, I think one of the things that popped out at me when I was looking at this was, particularly around the area of marketing, which is near and dear to my heart from years in the industry, as well as payments and fraud and risk is how can your marketing be future ready if your analytics isn't? I think is one of the takeaways that I had from this. It's just becoming such an analytically driven business with approaches to, whether it's campaign management, or other means of outreach there, and similarly in payments. Payments is increasingly, seems like a data-driven business.

Ron: Absolutely, totally agree. You want to talk a little bit more about analytics maturity?

Sam: Yeah, absolutely. One of the things that we started noticing in our strategic planning sessions with midsize banks and credit unions in the conversations that we were having assessing organizations was one trait that seemed to be very heavily in common, not just the fact that it was at the bottom of the research poll that we just talked about that less than one in four felt their analytics were somewhat, or even somewhat future ready let alone very future ready.

When we work with bank CEOs, CFOs, and the executive management teams of banks and credit unions throughout the country, one of the things that we've been finding is just how far along are they at maturing their analytics initiatives. I don't want to get too much into organizational charts and who does what, other than just to say that there seems to be a level of maturity here, and sort of adapting from this competing in analytics framework of Thomas Davenport's.

We certainly see where the industry has come from is that we've always had analytics. It might be driven by providers around fraud, or payment providers, but we've always had to have analytics to protect our bacon on the risk side as bankers and credit union executives, but it has tended to be localized. You might have analytical expertise in the fraud, or AML areas, or certainly in your credit areas to drive, again, protect the bank or the credit union against bad credit decisions. You might have a marketing MCIF. You might have a profit engine in your finance area, but they tend to be localized, and then as people have moved along the path, we just sort of see IT or finance getting involved and trying to resource some more broadly driven effort.

Again, it tends to be risk oriented and somewhat cost oriented around things like staffing, maybe benchmarking ourselves to competitors, lending, etc. Then as it moves along the path to this analytical company, it tends to be more of an enterprise priority, where we start to see analytics showing up in the strategic plan by name. It's more aligned with the business model. It's not uncommon for us to see, for example, a commercial and wealth oriented bank in the aspiring area to be having a lot of their analytics initiatives associated with consumer and retail banking.

They get to analytical company, and they tend to align their analytics initiatives more closely with their business model, and where their revenue comes from gets to be a little bit more integrated in the process as they get to the competitor piece there towards the top end of the, or the far end of the maturity, so that we really start to see people tying the revenue ambitions and strategies, and expectations to analytics. Quite frankly, if they're not doing well on analytics, they're not hitting their numbers or whatever that they're looking to do in terms of achievement. That's sort of how we're seeing this evolve along that path in terms of --

Ron: Data plays a pretty big, important role in this, doesn't it?

Sam: Yeah, it really does. Data plays a big role, and revenue plays a big role, and I think, Ron, we have a little bit of a view on this that banks have been sort of in the middle of a process of offense versus defense. We've got hospitals on the far end of the spectrum that have been, just for regulatory reasons, heavily driven by risk management. Retailers, who typically use data for more revenue driving purposes, sales, etc., and banks have been right in the middle of that. This is one area where we just think from a future readiness perspective, banks just need to lean more towards the middle and towards offense and using more on offense – not easy to do.

This is not, very quickly here, it's not like football. We used to play football where we had a different squad for defense and offense. This is more like basketball. We have the same players that are playing both sides, and we need to do a better job. I know one of the things that we wanted to ask you all – Ron, if you could pull up the poll here on the offense, defense is just – wanted to ask you all, which off the following categories really describes your financial institution's data strategy? Would you say you're predominantly still playing defense, trying to do a better job playing some offense, or would you say you're effectively playing both defense for risk purposes and maybe some cost purposes, but leaning towards offense and really doing a better job using this for revenue generation?

Why don't we just take a moment. Ron, I believe since you asked me to sing during our last break, this is probably where I ask you to sing one of those Grateful Dead songs I think you're known for.

Ron: Yeah, right. That's not going to happen, but I'll tell you that we're already over 60% voted, so give it another 10 seconds or so for everybody to vote if they can, and then we'll see. Sam, do you want to take any guesses as to the allocations before I launch the data?

Sam: Oh, I think we all like to try better, so how about leaning towards trying to do a better job? That would be my guess.

Ron: You nailed it.

Sam: Hey, we're all trying to be troublemakers out there, and put more of our resources into offense. We do see here a little bit of a split here between those that are primarily on defense, and we get it, guys. That's what you're mainly known for. It's almost like benchmarking, Ron, where you have the top quartile. We have 23% saying effectively playing offense and defense. You know, guys, at Cornerstone when we're out and about working with midsize banks and credit unions, one of the things we like to celebrate is who is out there not just effectively playing offense and defense but really trying to stir it up. Ron, if we come back to some of our content here --

Ron: Yeah, there we go.

Sam: We really like to focus on pointing out some of the best practices in the industry and some of the troublemakers out there, the folks that are really pushing it, always a little bit restless, pushy, maybe a little pushy in their organization, fighters, never quite settling down, entrepreneurial types. You have Michael J. Fox here, Marty McFly, always looking out for the future, trying to stir things up a little bit and keeping yourself ahead.

Ron, if you pull up the next – I think this is a good example of this defense and offense point that we've been talking about is a bank executive, Jennifer. That is her real name. "I used to be a statistician and I looked for fraud. Now, I look for opportunity, and I'm called a data scientist because that's cool." It's a bit of a fun quote on the data scientist part of it. We are rebranding some of our roles in banking. I think the big part to take away here is the offense, defense. It's the same team player. This is basketball. It's not football. We don't have different squads, so Jennifer was really looking for fraud. Same type of talent, perhaps even some of the same tools, is now looking for revenue opportunities. We're going to be seeing a lot more of that. This is what makes us future ready. It's not just about the tools but about the talent and how we're leveraging it inside the bank.

Ron: Yeah, so Sam, I'll just pick up on that a little bit because I think we're in agreement that having an analytic capability and being able to balance that data offense and strategy is an important component to being future ready. Without that in place, it's almost like not having the infrastructure to be future ready. As we have been trying to build out this notion of what does it really mean to be future ready, we're playing with a framework that says there's a set of capabilities, and this happens at really a functional level that an organization goes through, from being reactive, to having a defined set of processes, to really effectively managing and optimizing those processes, to being innovative.

As we build out this framework, what we've begun to realize that there are some consistent components to this. It's the role of the people. It's not just about the technology. It's really about the role of the people and how they're integrated from an organizational perspective as well as the process and technology, but also, we see very big differences among organizations at the functional level between what types of metrics they're using to manage the business. What's the overall strategy of that function?

I think as we hone this framework a little bit, I think realizing that the type of data that's being used is a very critical aspect of determining how future ready an organization is. If you don't have that data strategy in place, don't have that analytics capability in place, we think that it's hard to be able to effectively work your way up this framework towards being innovative and future ready.

Sam: Yeah, one quick point on that, Ron. I just think if there's one consistent theme that we're seeing in banks and credit unions that feel like that they are really pushing ahead and pushing up this pyramid here on future readiness, it's in the whole concept of what we've called engineering over energy. What we mean by that is historically, especially in commercial banking, but not only in commercial banking, leadership, especially revenue leadership and growth leadership was very much defined by which lenders you brought on board, hiring more lenders, hiring more effective branch managers, high energy rainmakers in the organization.

What we're seeing is that future readiness now is much more about systematic, sustainable process and engineering of the revenue-generation process. This is how marketing, and delivery, and sales all come together. Some of the things that you see here around role clarity – now that it's becoming more process oriented, we have to know who's doing what and how are we working together. We have to be focused mercilessly on impact and some top down vision and just how are we redirecting resources and really keeping it externally focused, so that we're competitive. Analytics plays a big part in that. It's not the only piece. There's still a teamwork play here, but it is very much about how do we work this into ongoing process.

Ron: Just one more example of a troublemaker. You know, we always like to celebrate real-life examples. Here's another example, Matt. That is his real name. "Matt combined data analysis and process improvement. He doesn't just understand his area of the organization. He's a change agent across the entire organization."

Guys, this is one thing that we're hearing over and over. We're hearing names in the board room. We'll hear something like, wow, you know, Nancy's doing a great job of using data in finance and translating that into other areas, or Ben is a great person that's leveraged marketing data and translated that across the whole organization. We need more Bens. We need more Nancys. We need more Matts. These are very specific examples of how this is translating across the organization, so long live the troublemakers, and let there be more of them.

Christine: Sam and Ron, Christine. You've given so much information. We have some questions from the audience, and folks, if you do have questions for Sam and Ron, you can feel free to enter them into the chat box within your webcast control feature. Here's the first question, if you're ready. Let's see, how important is it that a bank or credit union be in the top categories of future readiness across all areas of the organization? **[Crosstalk]**

Sam: Hey, Ron. If you don't mind, can you pull up that pyramid? Can you go back to that pyramid that was sort of, I think that was the visual that we're talking about here? My take on this, guys, from working with a lot of different organizations, is it really depends on the business model of the organization. If it's a commercial bank that's focused on small to medium size businesses, or large commercial, or wealth management, they may not need to be innovating in consumer. Actually, I don't think it's reasonable to expect that a bank is an innovator across all areas of the bank. It's mainly important that they be managed or an innovator in their chosen area that's important to their business model. Ron, any thoughts on that?

Ron: Totally agree. The only thing I'd add is that, to me, it's more important that you know where you are, and have the conversations at the management level because not everybody's going to agree. Not everyone at the executive team level, even management level is going to agree on this, but having the conversation airs out the perceptions, the opinions, and gets the thoughts out onto the table, but totally agree that you can't really be at the top on every one. It's really driven by the strategy. I think it's important to have the conversation.

Christine: Thanks guys. A couple more here. I think we have a few more minutes, so we're on schedule here. We're asked how can the bank be future ready in something like digital banking, marketing, or payments, but not in analytics? I'll just extend that question to be also how that would apply to credit unions.

Ron: Yeah, Sam, I'll take that first, if you don't mind.

Sam: Yeah, please do.

Ron: You actually kind of addressed it in the thing, to a certain extent. I think the answer to that is that there are fundamental capabilities that drive the other capabilities. That was a surprising aspect to us, the finding of the survey, was to see such a high percentage of respondents say that they thought they were ready from a digital banking and IT perspective, and specifically from a marketing perspective, and not on an analytics perspective.

I will tell you, I think, a of couple perceptions of this. I had worked with a particular credit union on a strategic planning effort, and I asked them to rate themselves, and consistent with our overall survey results, they thought that they were fairly high on digital banking but not on things like contact center and analytics. When I asked them about it, they said well, you know, we just kind of follow along with what our vendor gives us from a digital banking perspective, so we kind of assume we're sort of future ready because we're staying along with the update.

I don't think they're looking at this from a business capability perspective. It worries me also especially from a payments perspective. We've got no clue what's coming down the line from a mobile payments capability over the next few years – how you can think you're very future ready from a payments perspective with so much change that will be coming down the line. I think this reflects more of a perspective of executives in terms of where they think they are that was kind of surprising to me. Sam, anything else that you want to add to that?

Sam: Yeah, I think it's a little bit of a definitions issue too. What I find, and I would love the perspectives of the audience today on this, and Christine, you and the Harland Clarke team. What we find when we start talking about digital banking with bank and credit union execs, is they oftentimes define that as transactional digital banking, meaning transferring money, paying a bill. They don't define digital banking as something like how do I open up an account online, or how do I have a better dialogue from a marketing or sales perspective with the bank on my mobile app.

They don't define digital banking that way yet in many circles, so I think if you're just looking at it from a transactional digital banking perspective, I can see where a lot of people think they're okay. I think what we're seeing as a struggle is that most banks and credit unions still very much view mobile and digital as a service delivery platform, and most of the transactions are there now, so that makes sense. They still very much view revenue generation as being something that happens in the branching and contact center. That's where I think that's headed.

Christine: Yeah, and just from my perspective and what I've seen here at Harland Clarke, it does dovetail what you're saying. I think people are moving towards this idea of digital being the be all end all, so where is that taking us in terms of our relationship building? Where is that taking us in terms of convenience? As you see branches changing in the way that they're interacting with account holders, I think it's moving in that direction, but obviously with all of the technology requirements and regulatory requirements that burden every financial institution, I think those types of things might be on the later edge of the work that they're trying to do, so first, trying to keep up and connect with all of the transactional requirements and then seeing how to make that a more deeper component of their offering, if that makes sense.

Ron: It sure does.

Christine: We've got a couple more questions. We have just two more minutes. I think I'm just going to grab one of these questions, so that we can be fair and end on time as we try to. Let's see. We're asking what do we do to move from a defensive data strategy to a more offensive data strategy? No, offensive, not offensive.

Sam: Note to self, don't bring up offensive data strategy with the board of directors. We don't want to go there. You know, let me take a first stab at that just real briefly and say I think the main thing that we're seeing here is business model alignment, so aligning with the business model of the bank or the credit union. If it's predominantly an auto lending credit union, that's going to mean one thing. If it's predominantly a wealth management generating bank, that's going to be very, very different. The second most important thing is heavy focus on big ticket cost redirects as opposed to just real fine-tuned cost management, and revenue generation using data versus just cost management, financial management, and risk. That would be my take. Ron, what do you think?

Ron: You know, the thing I would add to that is I think for some organizations, it's going to have to make a tough decision from an organizational perspective around whether or not there's a need for a role like a chief data officer. I'm generally not real supportive of those kinds of roles because I don't like creating organizational bureaucracy where you shouldn’t need it, but I think the part of the challenge from moving from defense to offense has a lot to do with who owns the data today.

When I see a lot of organizations, it’s that it's the folks in fraud and risk management who've got a lot of great data that could be used by marketing, but the mechanisms aren't there for marketing to access that data or the rest of the organization. There's a data ownership issue or challenge that has to be addressed in being able to move from defense to offense.

Christine: It looks like that's all we have time for today. Ron and Sam, thanks again so much for sharing with us. I'd also like to extend a really sincere thank you to the financial services professionals who made the time to be with us today. I hope to see you all for the next Future Ready Informed Banker presentation in September and the following in November. Nathan, do you have any closing notes for us?

Nathan: No, I'm just going to remind people about the brief survey we're going to send out, and we will have invitations forthcoming for Future Readiness Part 2 and Part 3. With that, I will close out.