

EFFICIENCY

# INSIGHTS



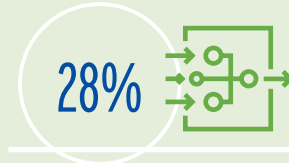
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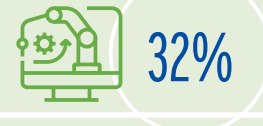
Driving efficiency is difficult for banks in an environment characterized by economic uncertainty and high interest rates. Financial institutions should look beyond cutting costs to understand how to drive the right strategic outcomes, enhancing the customer experience and making the most of employees' time and skills.

### KEY METRICS



**28% of bank executives listed efficiency as a top concern in 2023**

Source: Cornerstone Advisors survey of bank executives, "What's Going On In Banking 2023"



**32% of bank leaders reported that their bank uses robotic process automation to generate efficiencies**

Source: Bank Director's 2022 Technology Survey

### KEY TAKEAWAYS

- Growth constraints will likely challenge banks due to persistent high interest rates and economic uncertainty – leading organizations to seek out efficiencies.
- Technology can drive down client acquisition costs while enhancing the customer experience.
- Automation can help banks better serve customers while reallocating staff to higher growth opportunities.
- Digital account opening and lending processes are key areas where banks are automating today. Cloud and APIs give banks more flexibility in using various technology solutions.
- Every dollar invested – whether it's in people or technology – should aim to drive efficient growth at the bank.

**For years, banks could rely on growing income to improve efficiency. This has helped banks such as \$8.3 billion 1st Source Corp. become more efficient, according to Andrea Short, CEO of the company's bank subsidiary in South Bend, Indiana. But she's also looking to reduce expenses, including seeking out improvements enabled by technology.**

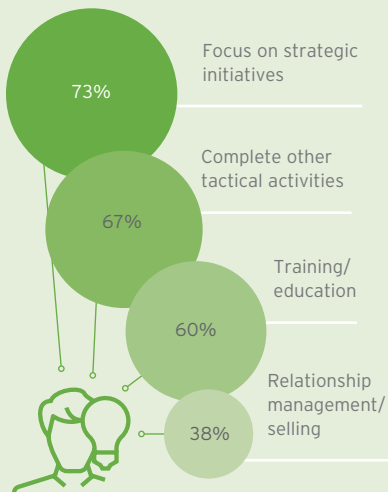
For financial institutions, efficiency is most often measured as a function of two variables: net operating income divided by noninterest expense. The lower the ratio, the better the efficiency. Many bank leaders approach this metric from a growth mindset – by earning more revenue while simultaneously keeping a handle on costs, a bank can maintain or even improve efficiency. But with a potential recession cutting into net interest margins and constraining loan growth, more banks could consider how investments in technology could help lower costs, too.

For community banks that often lack in-house resources, leveraging technology and services from external providers can drive innovation and efficiency, notes Jeffery Kendall, CEO of the bank technology provider Nymbus. "Where are the opportunities for scale? What makes sense to bring in-house, and what makes sense to partner on?" He recommends that banks focus on what they do best – building relationships and offering financial services to their clients.

### Engaging Customers

1st Source's Short recalls that it wasn't so long ago that banks could offer in-branch freebies to bring in an account. "Being able to open accounts electronically helps," she says, but attracting customers is proving more expensive than it used to be. "There's no quick fix for customer acquisition."

### Automation allows employees to focus on other tasks:

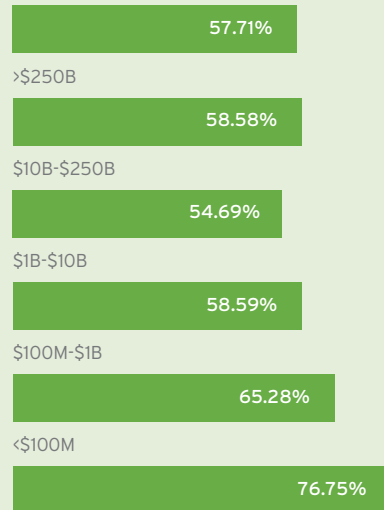


Source: West Monroe survey of bank executives and directors, April-May 2019

### Efficiency Ratio, 2022

By asset size

All FDIC-Insured Institutions



Source: Federal Deposit Insurance Corp.

Kendall believes that more banks should consider how to drive down customer acquisition costs. “People don’t think about efficiency in terms of their go-to-market strategy,” he says. “Your efficiency model is going to be dictated by how big your customer acquisition costs are versus how big your lifetime value is [for the customer]. And the name of the game in banking is to reduce the cost of acquisition.”

At Locality Bank, a \$122 million de novo institution in Ft. Lauderdale, Florida, the bank’s Cofounder, Chief Operating Officer and Chief Technology Officer Corey LeBlanc thinks about how to remove steps in the sales process so accounts can be opened and loans can be closed more quickly. That had his team reviewing and refreshing account opening procedures five or six times in the bank’s first year of operation. “What we did was to make it easier for our customers and our bankers to complete the process, and get to the outcome of opening a bank account [and] getting it funded,” says LeBlanc. Since Locality opened in January 2022, it has

fine-tuned its commercial account opening process so accounts can be opened in just 10 minutes. “There’s additional due diligence checks and reviews to make sure the accounts are legitimate, and all the documentation is in place,” LeBlanc says. Importantly, “there is still an interaction happening with the customer to create that relationship.”

### People Power

Reducing steps for the customer often means an employee’s time is freed up by removing manual or duplicate processes, says LeBlanc. That allows the bank to redirect talent to help the organization grow.

Short says 1st Source has incorporated automation into processes such as account opening and lending, but that hasn’t resulted in layoffs. Sometimes the bank opts not to replace departing staff; often, employees can be reallocated to growing areas, including the bank’s call center. “[Customers] may not be coming into banking centers, but they still have a

question, or they want to problem solve,” she says. “So, we’re seeing our calls to the call center increase.”

For banks without a dedicated call center, companies like Nymbus can step in to fill the gap. “I can have one full-time employee who might support six or seven different banks,” says Kendall. “Because I’ve got a unified tech platform, I can create inherent scale that a bank will never be able to do.” This would be a huge investment for a community bank.

LeBlanc says that automation tools, along with technologies like artificial intelligence and data analytics, are critical to building relationships today. Like many institutions, employees comprise the greatest portion of Locality’s budget. “We spend more money in salaries than anything else,” says LeBlanc. Combining people with the right tools is critical to success, in his view. “Hire good people, give them the right tool set and grow as efficiently as we possibly can — that is what creates a sustainable organization.”

Of course, technology can be expensive. As Kendall points out, every dollar invested should help improve the bank. “[Efficiency is] about optimizing where you’re investing,” he says. “It’s about how you stretch the dollar that you have to do as much as you possibly can.”

Outdated, inflexible technology can be a big barrier to making the most of a bank’s technology investment. Locality relies on application programming interfaces (APIs) to connect the technology it needs to its cloud-based core, Nymbus. “Everything starts with your platform,” says LeBlanc. “[Flexibility] makes a huge difference when we start to talk about efficiency, because that doesn’t limit us to the opportunities we can take a chance on.”

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