

# How Bankers Can Use Test Banks to Enhance Profitability

**Test banks can offer serious revenue opportunities, yet only about a third of banks are using them.**

Banks face several challenges while struggling to maintain profitability and shareholder value. Greater regulatory requirements, more aggressive audits, and a more competitive business climate have had a significant impact on banks' bottom lines in the past several years. In order to remain competitive, banks need to take advantage of every tool within their reach to increase their profitability. Often these tools are readily available, but are overlooked due to a lack of awareness. One such tool is the test bank.

Test banks are proven solutions that help determine the impact of changes to settings within the core system, or to business processes, or of the addition of a new product or technology. This underutilized tool functions as a virtual simulation of the bank's live core system, enabling bankers to understand completely the consequences of potential changes that could impact their bank's profitability. Surprisingly, only about a third of bankers are using this tool.

A test bank is basically a simulation of a live bank. Bankers can use it to anticipate different outcomes resulting from a system or product change. The bank needs to know a change's impact on the customer, as well as on the bank's revenue, before going live. Test banks are a great tool for new product testing, system-specification change-testing and earnings-impact testing, to name a few items. Bankers frequently view creating a "dummy account" in the live bank to perform simulations as an acceptable alternative. This type of testing can cause more problems for the bank than it is worth, because it does not provide a holistic view of a change's impact on all of a customer's accounts and can create regulatory issues for the banks.

When analyzing changes, banks should rely on test banks to give them an understanding of the full impact on a customer's accounts, and on the institution's revenue. The benefit of using the test bank is that it provides live-bank parallel modeling, which measures all transactions and how they affect a customer's accounts. For some products and services, the most accurate way to use test bank results is for bankers to combine them with an estimate of potential loss due to changes in customer behavior and compare them against the live bank to determine if there are any reductions or increases in the projected annual revenue. This is because test banks do not measure the impact of a change on human behavior.

Bankers need to know that some testing requires a minimum of seven to ten consecutive days of parallel simulation to reach accurate results on the true impact. This enables bankers to compare the impact of changes on all account types against the live bank and see the direct impact on the bank's general ledger. This gives bankers the opportunity to modify the change being tested, if they see a decline in revenue. Obviously, testing for consecutive days requires a daily upload of all transactional data into the test bank, including all customer electronic transactions. This takes some time, but is well worth the effort because it eliminates the uncertainty about the changes to the bank's revenue, and about the impact on the customers.

Many banks are missing out on this valuable tool, useful for measuring the potential impact of changes on revenues. Bankers should begin educating themselves on the benefits and most effective use of test banks. There are several factors which help make banks successful, so the test bank is an important tool.

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Shahin Clark is the CEO and lead consultant of Jamesville, New York-based Lodestone Banking, which provides specialized comprehensive revenue analysis for banks that tracks down and captures missing revenues that are lost through core system conversion, erroneous system settings, and mergers and acquisitions. In this position, Clark is responsible for directing banks' revenue improvement projects and leading the strategic direction of Lodestone.

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