

How to Add \$1 Million in Additional Income for Every \$1 Billion in Assets

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Typically, profit improvement means fee increases and staff cuts. However, there are other ways to increase annual interest and noninterest income without doing either.

Before we talk about the four major components to an integrated profit improvement analysis, it is helpful to understand the importance of utilizing an integrated approach, which is capable of digging deep into areas of the bank on which internal eyes usually do not have the time to perform the analysis. Whether a financial institution performs this work internally or decides to use external resources, for any project to be successful it is necessary for those performing the analysis to have bank-wide knowledge. I must emphasize: With over 25 years consulting to institutions ranging in assets from \$30 million to \$400 billion, I am certain that possessing a total understanding of the bank's cross functional responsibilities is the single key element in eliminating the obstacles that are causing a bank's products, services and departments to under-perform.

The four major components are:

1. Benchmarks of best practices combined with the ability to track results in both general ledgers and system reports
2. Understanding the most profitable way to perform each function
3. Utilize the most profitable system set-up for each product
4. Integrating these three components into every phase of your bank's operations, including the strategic plan, general ledger (GL), systems, the customer base, operations and the competitive market

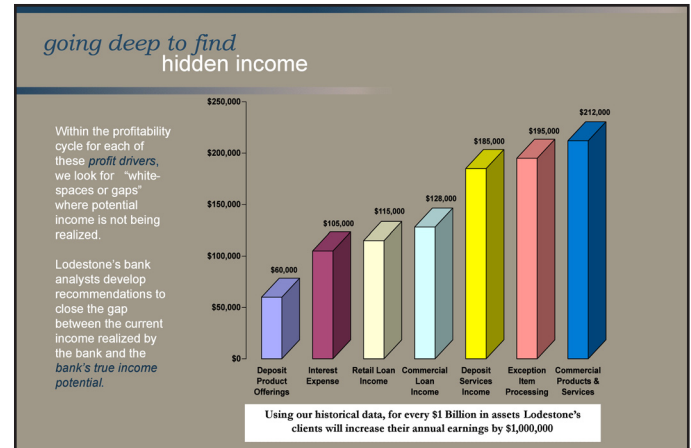
The importance of profitable system settings

In August of this year, a Lodestone white paper, "Is Your Bank Held Hostage By Your Core Banking System?" was featured on the American Bankers Association's banking journal's Web site under the Tech Topics Plus page. Every one of your products and services are dependent upon your core system. It's where each product is set up. It's where the fee structure is established. It triggers customers to be charged fees. It reports your income and expenses. And, finally, you depend on it to track the bank's performance and to provide you with information to make daily management decisions.

Reviewing income opportunities that we have identified over 15 years indicates that over 50 percent are directly a result of the core system's unprofitable settings. Also known as parameters or system specifications, these settings vary by system but govern all manner of bank functions.

Banks that undergo a core system conversion or have one or more mergers represent a significant challenge to bank's staff to complete on schedule. Errors are common. We have found that there is little time to double-check everything that was done during the conversion and/or merger. Looking at our most successful projects reveals that banks that have had considerable merger and acquisition activity within a core conversion also have the largest potential to improve earnings.

To underscore the importance of checking for profitable system



settings, is an article in the September 2009 *Community Banker* magazine, titled "Enhancing Profitability Without Taking Additional Risk," in which one client stated, "We recently engaged Lodestone Banking to conduct a forensic diagnosis of our core operating system to discern ways to meaningfully improve our operating efficiency."

Detailed documentation

Ultimately, everything must come together in the final recommendation report, which includes:

- The bank's current practice (exactly how and where the bank is losing income)
- How to improve on the current practice (comprehensive explanation)
- Going forward, the future annual increase in income
- Providing the tools for tracking (GL and systems tracking methods)

Every change to improve earnings should be tracked. The bank's GL can be set up so that at a glance it will depict the bank's earnings and provide you with the ability to enact "what-if" scenarios with the bank's products and services.

Where to look for income?

Analyzing profit improvement projects of the last 15 years, Lodestone's historical data shows that distribution of income opportunity at your bank could look like the chart on page 6. If you want to improve earnings without increasing fees or cutting staff, you must have bank-wide knowledge of sound banking practices that uses an integrated approach to include systems, operations, and regulations, with the ability to then incorporate the bank's strategic plan in a detailed recommendation report. ♦



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