

Case Study

Retail Banking Fee Income and Expense Efficiency Project -- \$50 Billion Asset Size U.S. Consumer-Oriented Bank

The Challenge

A \$50 billion consumer-oriented bank was well behind competitors in their efficiency ratio, which is the relationship of cost to revenue. Efficiency ratios measure non-interest expenses as a proportion of operating revenue. Costs include salaries, technology, buildings, supplies and administrative expenses. Revenue includes net interest income (interest revenue less interest expenses) plus fee income.

As a result, the bank's return on assets (ROA) lagged competitors and that constrained their ability to make productive acquisitions. The retail banking division represented the major fee and expense organization within the bank.

Key Management Issues

- How do we bring our efficiency ratio into line with that of similar organizations?
- How do we quickly bring about improvements in fees and expenses without sacrificing customer satisfaction?
- What was the divisional management's process and deliverables?

The Action

Align FSC, in conjunction with management, began the process with active involvement of the senior division leader's senior managers and their direct reports. A collaborative process was developed with team priority setting and maintaining focus on both fee income and expense initiatives that could be implemented without major long term investments.

First, the teams recommended major realignment of the management structure with a focus on reducing administrative expense through an examination of span of control and management layers. This was completed before looking at changes in branch or call center organizations.

The team identified not only identified major opportunities for savings, but also set the tone that even senior management was included in areas for reduction.

Second, teams were established to review major processes for simplification, automation and standardization with a focus on efficiency and customer quality.

The processes were first changed and then reviewed for future automation opportunities. Quality process standards were established through comparison with "best in class" benchmarks. Departments were responsible for establishing goals, tracking and implementing the necessary changes.

Third, as the bank moved forward with branch acquisition and divestiture, the team focused on "best practice" even if that meant that the acquiring bank found better practices in the acquisitions.

This practice resulted in improving investment and insurance fee income by the best practice from the acquired, while imposing the successful control and compliance process of the acquirer.

The result was a significant boost to fee income while maintaining expense and reducing regulatory and control risk.

Fourth, the team developed an ongoing monthly process for reviewing both fee and expense results compared with the plan.

This accountability and review was pushed down into the organization to the front line managers.

The Result

This accountability for individual and team results lead to achievement of significant improvements in fee income and expense management and the resulting improvement in ROA.