

New Directions: Four Areas Ripe for Process Redesign

With the economic and regulatory environment creating great challenges for financial services companies, efficiency improvements must remain a top priority. There are many areas ripe for process redesign, including these four:

1. Retail Delivery: From fraud detection systems to kiosks that enable branch customers to meet face to face with remote sales specialists, **technological innovations create opportunities to refocus human resources towards activities that create value for the bank.** For example, at the teller window, deployment of devices such as cash counters, recyclers, and scanners free tellers from data entry, balancing and other time-consuming non-customer-oriented tasks. This can dramatically reduce back office servicing, shorten transaction times, and create potential sales, referral, and relationship enhancement opportunities. Financial services companies need to reevaluate retail delivery work flows to ensure that they get the greatest lift possible from new technologies.



underwriting processes based on risk and relationship profitability thresholds, bolster loan risk-rating methodologies to include both a borrower and a facility rating, and improve routine loan portfolio reporting capabilities. **In addition to improving efficiency and credit risk management,**

these changes will enable better risk-based pricing decisions and give business bankers more time to improve the cross-sales of treasury management and other services to their clients.

Financial services companies should also build differentiated underwriting processes for specific industry segments or business types – for example, small service-sector businesses that do not need equipment financing and can no longer count on credit cards.

4. Customer Information Management: By communicating with customers in a more timely and targeted manner, financial services companies can... *continued on back*

2. Deposit Account Fulfillment: This function remains paper-based at many organizations. Integrating application, processing, underwriting, and other systems enables electronic transfers of data, thus eliminating rekeying and the likelihood of errors and delays that can drive negative customer perceptions and impact customer loyalty. **Additionally, reducing fallout from on-line account opening and funding processes can drive significant increases in new account volume.**

3. Commercial Lending: In today's economic environment, commercial lenders must continue to find ways to improve operating efficiency and better manage credit risk management while simultaneously improving the ability to compete for loan opportunities in a post-recession environment. To do so, financial services companies should establish differentiated

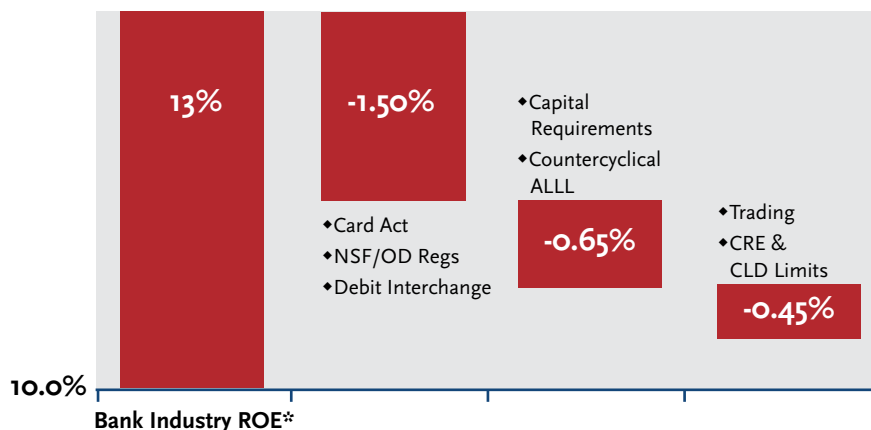


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Big Hits to Bank Profitability

The various proposed regulatory changes entail – implicitly or explicitly – imposition of higher capital requirements, higher compliance costs, and restrictions to operating powers. CPG analysis shows that regulatory changes, absent an increase in revenue, will cause average ROEs to fall by 260 basis points. This figure does not reflect the likelihood of higher FDIC insurance assessments and compliance costs.

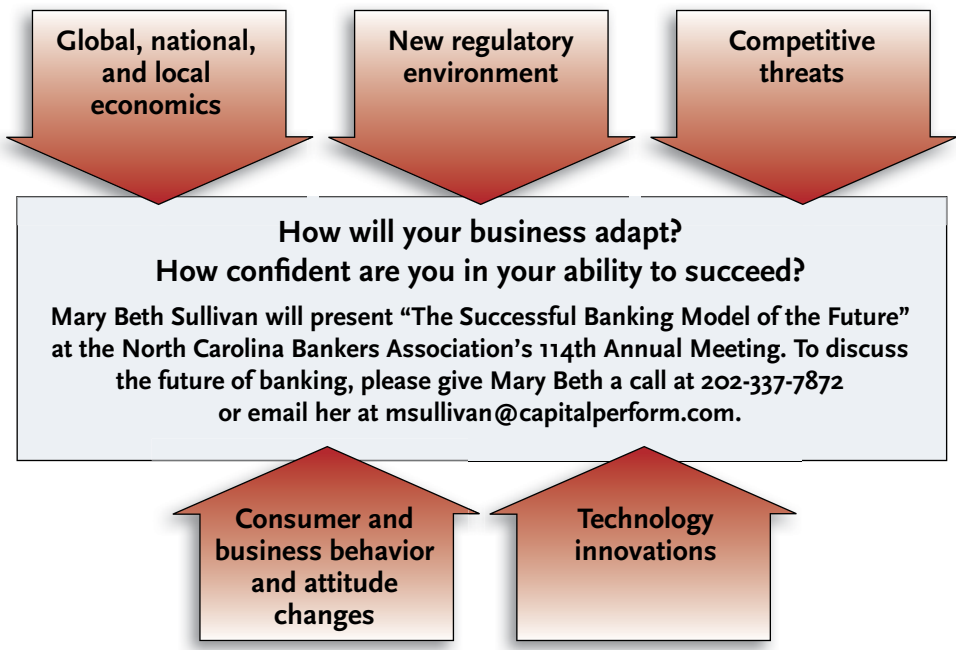
Changes to regulations and banking statutes will reduce industry ROE by over 2.6%



Source: CPG Analysis

* Will not reflect the performance of recent conversions of Goldman Sachs and Morgan Stanley.

The best way to predict the future is to create it. ~ Peter Drucker



Process Redesign, continued

cial services companies can generate more primary household relationships that exhibit higher average balances and lower rates of attrition. **To accomplish this, processes must be redesigned to capture more (and more relevant) customer information both during account opening and at other points of customer interaction.** Data management processes that consolidate this information across business lines must be built, analysis tools deployed, and results made more readily accessible. For example, analysts that have ready access to relevant customer information can create proactive refinancing models that improve the retention of the bank's most profitable borrowers.

CPG has recently undertaken a redesign of its own. To learn more about process redesign, check out the "Featured Solutions" section of our new website at www.capitalperform.com/featured-solutions.

Potential Assisted Transactions: Lots of Minnows, Few Whales

Region	Institutions Deemed Likely to Fail	% of All Institutions	Distribution of Institutions Likely to Fail by Asset Tier				
			<\$0.5B	\$0.5B to \$1B	\$1B to \$5B	\$5B to \$20B	\$20B+
Southeast	188	10.9%	144	25	18	1	0
Great Lakes	68	5.1%	48	8	10	2	0
Great Plains	59	3.3%	42	10	5	2	0
Southwest	46	4.3%	36	1	9	0	0
Northwest	32	16.4%	20	7	4	1	0
Pacific	25	9.0%	18	4	3	0	0
Mid-Atlantic	21	3.3%	12	4	4	1	0
Northeast	5	1.7%	4	1	0	0	0
TOTAL	444	6.1%	324	60	53	7	0

Source: CPG analysis of data from SNL Financial, LC 2010. An institution was deemed likely-to-fail if it had a Texas ratio of 100% or greater as of March 31, 2010. The Texas ratio is defined as the ratio of NPAs to tangible equity plus the allowance for loan and lease losses.

CPG estimated the population of institutions likely-to-fail. Several observations can be made based on the estimate:

- There will be a lot of opportunities for community banks to expand their franchises via assisted deals. Most of the likely-to-fail candidates (384 institutions and 87 percent of the population) have less than \$1.0 billion in total assets.
- There are far fewer likely-to-fail candidates with assets greater than \$1.0 billion, and they are concentrated in certain areas. Most are located in the Southeast and Great Lakes regions. There are none in the Northeast.
- Given the limited supply, bidding will likely be aggressive for the larger institutions. Buyers may wish to preempt the FDIC assisted sale process altogether to secure their desired targets.
- Buyers looking to affect a transformative acquisition should not restrict their sights to FDIC-assisted transactions, but should also consider traditional M&A transactions.

Announcements

CPG has just launched a new website!
Visit us at www.capitalperform.com.



Vanessa Mambrino and Nick Robin review the performance of banks and thrifts with assets over \$3B in the May issue of the *ABA Banking Journal* and banks and thrifts with assets under \$3B in the June issue.

Read Claude Hanley and John Barrickman's article "Seven Steps for Making your Bank's Commercial Lending Process More Efficient" in the July issue of *Independent Banker*.

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