

The Evolution of Community Banking: An Idiosyncratic View

I hate to disclose to how long I have been working in the banking business, but since my website admits to over thirty years, let's leave it at that. Over that time, I have seen significant changes in some areas of community banking coupled with remarkably little change in other places. I will focus this article on two areas that show the contrast — technology and customer knowledge.

Yes, they did have electricity in those days.

Contrary to what my children believe, they did have computers when I started in banking. However, those computers were all either housed in the bank's "data center" or run by third parties on a service bureau basis. The idea of a personal computer to run analysis or produce reports would not come for years. Nevertheless, even at the dawn of the computing age, banks, including community banks, were at the cutting edge in using the technology of the time.

This has continued to be the case over the last few decades. Banks have been pioneers in using technological advances in order to efficiently process the huge volumes of paper covered with even greater volumes of symbols representing numbers. And that is the key. Because computers are uniquely qualified to manipulate numbers rather than words, they took over areas that were number-oriented.

Banks initially believed that they could lower costs faster than competitors by adopting technology. This proved to be false, as all banks relatively quickly adopted the same cost-saving technologies. Then even when banks used technology to differentiate themselves, they found that all money is green and competitors quickly adopted service improvements as well.

At the end of the day, most bankers have concluded that adopting technology did not really save any dollars, it just allowed the same number of employees to process more work. Alternatively, service improvements did not result in permanent gains, but rather in raising the expectation level of customers across the board.

Let's look at the contrast of then and now in two very specific areas. If you wanted to find out your checking account balance or whether a particular check had cleared, you would have been forced go to or call the bank (most likely between 9 AM and 3 PM weekdays) to talk with a bookkeeper who could look up your account and provide the information. Today, using either the internet or telephone banking, this information is available 24/7.

What about accessing your cash? In the old days, you had to rush to the bank on Friday afternoon if you wanted cash for the weekend. And if you were taking a trip out of town (or out of the country), you had to purchase and sign a stack of travelers' checks. Today, ATMs are ubiquitous and few give a second thought to "cashing a check."

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Serve yourself.

One of the unintended consequences of banks providing better technology, and through it lower costs and better service, is that the personal interaction between banker and customer has been reduced. This is not unique to banking by the way. Virtually all service industries have dramatically less personal interaction with customers today than they did even ten or fifteen years ago. America has become the land of the self-served.

I believe that bankers were able to gather information about customers before the advent of reliable self-service technology through the day-to-day interactions that took place in routine transactions. The simple give and take of casual conversations was enough to set the local banker apart from the big bank employee who might only be in the branch for a short tour of duty. In the past, bankers knew when someone went on vacation because they bought the travelers' checks. Today there is no telltale event.

Now here is the curious disconnect. If I ask a community banker whether they know their customer, they answer as they always have. There is a strong belief that they know the customer better than the big banks and can serve them better. So there you have it. Technology has dramatically changed the customer interaction, especially for casual encounters, but community bankers still believe that they are gathering customer knowledge as effectively as they did in the past. I would ask, however, whether is this true. Hasn't the move to self-service severed the link that drove the knowledge advantage?

Adapting to new circumstances

How does a bank gain customer knowledge in the land of self-service?

I believe that there are two things predicate to answering this question. First, there is the need to recognize that the information that you thought you had because you were a community banker is no longer there. You don't see the customers as frequently, and when you do the transaction is likely to be more complicated and focused. There is little chance here for the casual information gathering of the past. Once you understand what you have lost, you can take steps to recover information. Technology, the beast that has caused the problem, must be part of the solution.

I have a pretty set habit about how I use ATMs. They need to be near where I am going for another purpose, and I almost always (95%+) withdraw the same dollar amount. Why can't my bank figure this out and ask me when I put my card in and enter my PIN, do you want to withdraw x? Just think how much time that would save me and how it would distinguish the bank from others, especially foreign ATMs that would not have the data to do this.

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Remember those calls about checks clearing that are now handled online or by telephone banking? Why not turn these to your advantage? Any customer who accesses the system more than once a day is a prime candidate for overdraft protection. Use the system to generate an automatic marketing inquiry. Similarly, if you have a human-powered call center, the casual conversations that used to take place in the branch are now occurring at odd hours. How many marketing managers have debriefed call center personnel? Have you asked these folks what the customers are talking about?

I obviously cannot go through every opportunity that might be available to community bankers to replace the customer knowledge that came naturally in the old days. However, I hope this article has highlighted some of the ways technology has separated the customer from you, and some ways you can make the reconnection.

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