Independent Banker

Portfolio

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[tag] Innovation Station

[hed] Back-office innovation

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Community bankers are embracing innovation like never before—with impressive results. But with so much emphasis placed on customer-facing products and technologies, innovating back-office operations can fall to the bottom of the priority list. ICBA sees things differently. We believe operations is the “engine” that drives every aspect of banking and, ultimately, the bottom line.

Operations play a role across multiple facets of community banking, including account onboarding, payments and transactions, fraud analysis, compliance and regulatory guidelines. Without the finely tuned engine of operations, these critical functions could slow and possibly stall, delaying essential, customer-facing services.

On a practical level, what steps can community banks take to strengthen their back-office operations?

1. **Unbundle your end-to-end operations and conduct a SWOT analysis.** This can identify your operational strengths, weaknesses, opportunities and threats. You might also consider a gap analysis. Are there places where you can replace redundant manual labor with automated tools like artificial intelligence (AI), robotic process automation (RPA) and machine learning?
2. **Consider collaboration opportunities.** Community banks have always done what was necessary to meet the needs of their customers. Paycheck Protection Program (PPP) loans are just one example of how bank staff dug deep and rallied around their community to get the job done.
3. **Partner with a bank-enabling technology service provider.** Doing so can be tremendously beneficial in automating resource-intensive back-office procedures and processes. There is a plethora of options to help automate compliance requirements, including Know Your Customer (KYC), Bank Secrecy Act (BSA)/anti-money laundering (AML) and loan applications, as well as other back-office processes.

With increased automation, community banks can make meaningful structural changes to personnel. This can reduce costs and redirect employees to identify exceptions and serve in a post-task audit function.

[subhed] Minimizing friction

Community banks may also want to explore banking as a service (BaaS). BaaS uses application programming onterfaces (APIs) to enable nonbank entities to build bank offerings on top of their infrastructure. Using this model, licensed banks can integrate banking services directly into products created by nonbank businesses. This means that companies like Uber and Apple can embed financial services into their platform.

Take, for example, $7.1 billion-asset Metropolitan Commercial Bank in New York City, which launched its Global Payments Group (a pillar of its BaaS business) to support its middle-market commercial customers. This BaaS approach has been financially advantageous for the bank. In 2021, the [bank reported](https://s25.q4cdn.com/875579831/files/doc_presentations/2022/01/Investor-Presentation-12.31.2021-Final-Updated-Version.pdf) that its Global Payments Group processed over 90 million client transactions totaling $22.1 billion, which accounts for 69% of its non-interest revenue.

Perhaps you’ve heard the platform business model and motto “Maximize collisions and minimize friction.” <i>*Technology and Innovation<i>* explains it this way: "Simply, successful platforms increase the quantity (maximize collisions) and quality (minimize friction) of interactions between producers and consumers.”

As bankers, we learn this during our first day in management training. Our job is to remove barriers and friction for our customers. It’s up to us to walk the walk every day to improve back-office operations and collaboration between the back and front offices.

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