

The CFO's guide to performance banking



Your community bank's operating model is under attack. In today's challenging and dynamic economic environment, every basis point in your net interest margin (NIM) matters. CFOs who can harness their data faster and focus on performance will come out on top. The CFO who brings their organization through these challenges successfully will not only keep pace with this evolution but will increasingly fulfill a role as a performance leader within their financial institution (FI).

Performance — always paramount in the financial industry — is more critical than ever now. Even before COVID-19, FIs faced a challenging regulatory environment, rising consumer expectations and declining branch counts. CFOs need more than just new tools to navigate the current situation; they need a whole new approach to performance. We call it “performance banking.”

In this guide to performance banking, we highlight strategies CFOs can use to ensure their banks not only survive, but thrive, during challenging economic times. We focus on building a performance banking culture through the lens of current issues for banks, including the CFO's evolving role, performance management, net interest margin optimization, forecasting and more, and offer actionable strategies to combat today's banking challenges.



How to build a performance banking culture

Performance banking can not only help CFOs address today's business challenges but can give community banks a competitive advantage, enabling them to match the core performance of their bigger peers while playing on their strengths as smaller, more nimble institutions.

What is performance banking?

The concept of performance banking is based on the performance management model of open communication, growth orientation and personal accountability — applied to banking. Performance banking can be transformative, especially if your culture is steeped in tradition. Some hallmarks of performance banking include:

- » A mindset of optimism and growth
- » Viewing challenges as opportunities
- » Using data and technology to its fullest
- » Moving away from traditional methods and into the future of banking
- » Willingness to try new things
- » Open and honest communication at all levels of the bank
- » Ensuring employees know their value
- » Teamwork

Performance banking is especially important now, in this unsettled economy.

From concept to reality: Putting performance banking into practice

How do you turn the concept of performance banking into reality at your bank? Here are some concrete steps to take to create a performance-driven culture:

Encourage a growth mindset

It's business as usual in many banks that continue to rely on traditional processes and procedures. COVID-19 has changed everything, and what worked yesterday no longer does. The first step in creating a [performance banking culture](#) is developing a growth orientation for the entire team; change the perspective from one based on fear to one that faces adversity head-on and values change.

Involve all levels of your staff

A performance-driven culture needs to have buy-in at every level of the organization. Train and educate your staff on key performance indicators, what they mean, and what little things employees can do to move the needle. Employees need to understand the value of a one-basis-point change in NIM and how seemingly small steps can make a substantial difference. One bank implemented a training program on [the impact of incremental NIM changes](#) to help the institution recover from the Great Recession.



Focus on the employee experience

Your employees at all levels need to feel appreciated, needed and always respected for their contributions. As CFO, you may be driving the effort toward performance banking, but your people are the ones taking the day-to-day actions necessary to carry it out. Making sure they're happy, secure in their jobs and ready to contribute is critical. People's Bank in Marietta, OH created a professional development program to [formalize employee career paths](#).

Ask for feedback

Ask HR to survey employees about your bank's culture and use that survey as a starting point to change what needs changing. Finding out where you're starting is the first step to creating something new, better and more powerful for your bank. [United Banker's Bank](#) provides a centralized employee survey capability to their subsidiary banks that allow HR departments to correct cultural problems early and quickly capitalize on their successes.

Use technology to its fullest

You need the right tools to help your people make better, faster decisions. Many community banks are adopting an [open banking](#) initiative – partnering with peers and other suppliers to more easily integrate their technology – to improve and accelerate their business.

Involve the board

Your board members may be business owners in the markets where you operate and can bring in investment. They can also share new ideas and perspectives from their own diverse experiences. Fifty three percent of new CFOs [significantly increase their engagement with the board](#) in their new role.

Remain agile

All this work does no good if you aren't willing to adapt as your situation changes. This might mean adjusting how you manage reporting or how you structure your staff. Also, frequently monitor performance and make necessary portfolio changes quickly. The willingness to change, try new approaches and embrace the opportunities that surface is the essence of performance banking.

While banks come in all sizes, high-performing banks share some core beliefs.

Five beliefs of high-performing banks



Performance begins with culture

As leaders, you must build an environment that encourages a growth mindset. One of the hallmarks of a performance banking culture is a willingness to embrace new ideas in an industry that has been known for relying on traditional approaches. For example, many institutions are accelerating adoption of [faster payment processes](#) as the customer behavior shifts.

Performance is earned; it is not an accident

Intentional actions bring results. Build specific, measurable outcomes into each day, especially during times of flux, recession, rising interest rates and other realities that affect a bank's performance. If you want your institution to grow faster than the industry, it's time to make intentional decisions to get there. [Timberline Bank](#) is applying the Traction Model to help their teams set and advance business goals.

High performance requires an informed workforce

Everyone in the organization, from the board room to the teller line, directly impacts performance. Each employee in the bank needs to understand how they can make a difference. Just as important, team members need to understand how vital they are individually in the shared goal of boosting performance. [Northside Bank](#) training employees on priority metrics for their institution. Each person on the team learned how they contributed to the organization's success, increasing accountability.

The market rewards the agile institution

Banks that make better, faster decisions outperform the market. Source fresh data, quickly analyze trends, make rapid decisions and adjust your plan frequently. [Columbia Bank](#) formed a unit based on agile banking principles that increased productivity by 25%.

Data serves people (not vice versa)

Empower your staff to stop being "spreadsheet wranglers" and use technology to not only aggregate your data but put it into a more actionable format that will empower decision-making. John D. Steinmetz, CEO of [Vista Bank](#), says his institution is investing in automation and artificial intelligence (AI), but "never forget that it's people that get the job done."



How performance banking software can help

While every bank has unique issues, the underlying challenges are universal. There are solutions available to help you implement these important changes. Seek the assistance of an outside expert or provider to help you gauge your needs and find the right tools.

[Performance banking software solutions](#) like Deluxe Banker's Dashboard put financial data and key performance indicators at your fingertips daily, helping you analyze performance and make fast, informed course corrections to achieve the goals of your bank. These tools visualize information in a way that's easily understandable, and help you:

- » Track key indicators like asset yields, funding costs and net interest margin daily
- » Spot changes in performance immediately
- » See data in easily digestible formats
- » Access loan and time deposit pricing and maturity data daily
- » Facilitate transparency and accountability across your FI
- » Provide leaders with access to actual metrics in order to respond more quickly to changing conditions
- » Automate financial reporting and analytics
- » Forecast future results as conditions change

The CFO's role

The CFO plays an integral role in creating a performance banking culture. It's part of the evolution of the CFO role itself. Even before COVID-19, the role of the community bank CFO was beginning to shift. No longer looked upon as simply an accountant, new technology like mobile banking and performance management solutions was entering the market that broadened the role of the CFO.

Now, as we move forward toward whatever our "new normal" will be, the CFO's role is expanding into roles beyond finance and accounting. Today's community bank CFO will need to help navigate a new generation of customers and bank staff.

Critical actions for CFOs as performance banking leaders

CFOs have a critical role to play in driving a performance banking culture throughout the organization — both by encouraging performance-driven behaviors and supporting the acquisition and retention of top-performing talent. CFOs increasingly work alongside chief human resources officers (CHROs) to develop KPIs, provide transparent and relevant performance reporting, and manage to FI goals.

Your team's technology affinity is changing. Millennials now represent the largest generational group in the labor force, and Gen Z members are increasingly entering the labor market. Both of these groups have grown up immersed in technology, easy access to data and real-time changes. The appetite for immediate information, measurable progress and quick decision-making in your workplace will only increase.

You can help lead the transformation of your FI by changing the script. By reorienting your team and setting a positive direction for your organization, you can mitigate the risks of the dramatic changes underway and identify opportunities where your bank can best benefit from them.

Here are some critical actions for CFOs to take right now:



Become the CCO (chief communications officer)

Keeping the lines of communication open with your board, regulators, contingency funding plan (CFP) sources and especially your staff is extremely critical now. Nothing breeds discontent, suspicion and rumors faster than a vacuum of information.

Your staff, many of whom have worked remotely for the first time during the pandemic, have questions about their work and the stability of their roles going forward..

Prepare for staff changes

As CFO, you've been dealing with numbers, liquidity, CFPs and every other fire you need to put out daily. Many of these fires include [your staff](#). You may have furloughed some of your team; others are working from home. Your bank's business has still been going on because of their efforts.

However, your staff has been dealing with this pandemic on a personal level as well. Families have been impacted, members of your staff may have contracted the virus, personal finances may be in flux. Your staff may not be ready to return to the bank for some time. Or, they may have been looking for new jobs while they were furloughed and wondering if they will have jobs to return to. CFOs should prepare for this and make sure the chain of command for critical functions is intact.

Mitigate cyber risks

COVID-19 has brought [cybersecurity risks and threats](#) to the forefront for banks and consumers alike. Our sudden and dramatic shift to a more virtual business world in response to the pandemic has made the importance of cybersecurity undeniable. According to [Statista](#), 65% of consumers are afraid to use mobile wallets because of security concerns. Making sure your [security is bulletproof](#) is vital. Areas to focus on include identity theft, dark web transactions and increased online transactions. [Fraud restoration, mobile device protection and secure payment processing](#) are must-haves now. It starts with employees; training them in proper procedures is a vital piece of the cybersecurity puzzle.

Strategize and drive necessary change

All of this focus on your bank's operations can have a silver lining. With your broader perspective as an evolving CFO, you may find improvements and opportunities that you hadn't noticed before. This might mean bolstering your CD maturity ladder, increasing your non-interest-bearing deposits and even creating improved communication and transparency with your staff.

Create a plan for the future

According to a report by [McKinsey](#), “strong, steady leadership from the finance organization is critical” during the COVID-19 crisis and beyond. For the CFO, creating a plan that anticipates multiple future scenarios is the key to putting your bank in a position to thrive post-pandemic. It will be vital to bolster your team’s productivity, focus on rolling forecasts and look at how to better use technology.

Instilling a [performance banking mindset](#) will also go a long way toward positioning your bank and your staff for a positive future. Your role as CFO is not just about helping your institution get through uncertain times, it’s also about positioning the organization to thrive in the future.

What you should be doing for your board of directors



To continue to improve board engagement, here are three things CFOs and CEOs should be doing for their boards:

- **Eliminate the monthly “data dump.”** One of the biggest complaints board members have is that management tends to load them with reams of data right before a board meeting. It actually deters some of your board members from performing their strategic duties.
- **Increase your board’s knowledge of cyber threats.** Whether you bring in industry experts, your own people, or your vendor partners, your board should be spending time understanding cybersecurity threats and how your institution is (or isn’t) protected from them.
- **Bring up difficult topics.** Don’t let uncomfortable topics fester and grow under the surface. Bring them out in the open and set the ground rules for a calm, respectful conversation.

Net interest margin

NIM couldn’t be more important for a bank today. It accounts for 90% of a bank’s earnings and is a central measure of an institution’s financial viability.

The Fed’s initial rate cuts and the congressional stimulus packages are working; one sign is rising liquidity of many community banks. While the short-term impacts to banks will likely be lower asset yields and thinner NIMs, there will be opportunities in the coming weeks and months for you to position yourself for a sustainable, healthy NIM.

Focusing on two vital components for your bank — your funds and your people — is critical to boosting your NIM.

How community banks can improve NIM now

Here are some tips and tactics you can employ right now to maximize your NIM.

Focus on liquidity

Nothing will cause the failure of an institution faster than a lack of liquidity. Uncertain economic times can be fear-inducing for bank customers, and these fears can ratchet up very quickly. A lack of trust in the government and in the financial system can lead customers to irrational decisions like withdrawing cash and storing it under their proverbial mattresses.

To this point, COVID-19 aftermath has not resulted in these behaviors. Rather, many community banks are reporting an influx of liquidity as PPP loan proceeds have remained on deposit. These same banks are also reaping the benefits of the relationship banking model as customers frustrated by the lack of attention from larger banks are moving their relationships to community banks. The challenge for banks now is determining how to retain these funds and deploy this liquidity in a manner that will generate a positive return.

What can and should you be doing right now? [Focus daily on ratios and trends](#) that have to do with liquidity.

Work with your board to develop a target liquidity range that you're comfortable with. Shoot for a number that's a bit higher than the recommended minimum of 10%, to provide a cushion in case these trends reverse. Identify a number that fits the risk profile of your institution and provides you the ability to execute on your long-term strategy. Invest the excess liquidity to carefully balance the need for positive earnings with the risk of rising interest rates in the future.

Getting this liquidity aspect right will put you in a great place to have a soft landing and recover more quickly when this economic storm subsides.

Monitor cash and cash equivalents

Determine the level of cash and cash equivalents you need on your balance sheet to achieve that target liquidity range. Once you know that number, monitor it as closely as possible every day, acquiring additional funds as needed or letting higher cost funds roll off when opportunities present themselves. Your target may need to be readjusted over time as loan demand fluctuates or you experience early loan payoffs.

Performance management platforms allow you to set an alert to notify you if that number falls outside of your target range. Excess liquidity sitting on your balance sheet may be a drag on your margin, but right now you need the security, safety and comfort level liquidity provides.

Focus on three trends: Total loans, total deposits and loans-to-deposits ratio

Follow these trends daily and be ready to react to them. Any time there is a negative shift in any of those numbers, you'll want to know the day it happened. Forecast your sources and uses of cash at least on a monthly basis. If liquidity starts to get tight and funds are more difficult to acquire, you might want to consider going to a weekly forecast. Regulators may require this, depending on how long the situation persists. The key here is to avoid any unwelcome surprises.





Consider cutting deposit rates

It's true that cutting deposit rates too much, too quickly can result in a loss of deposits. During the prolonged economic expansion, many banks had to pay higher rates for deposits, especially money market and time deposits, to meet the increased loan demand. As a result, these banks have large blocks of time deposits maturing and repricing lower each month. Access a CD maturity report to analyze and understand the maturity schedule of your time deposit portfolio. Look for opportunities to allow hot money to roll off of your balance sheet or to extend the duration of your time deposits to protect against future rising rates.

Evaluate your contingency funding plan

When's the last time you reviewed your CFP? Review and revise as necessary to fit the current economic environment, as the current trends could easily reverse. Work with your board and update those plans. Update your cashflow stress test scenarios to reflect this current environment. Test those contingency funding sources and make sure they're in place and available. Also, review your collateral. Identify collateral available for pledging before it becomes necessary to do so.

Look for opportunities everywhere

Begin immediately looking for opportunities to lower your cost of funds, while balancing the need for liquidity and your asset/liability position; paying higher rates for longer terms will still likely lower your cost of funds but give you more protection against future rising rates, given the extremely low-rate environment we are operating under; and incent your depositors to move funds from money market accounts to time deposits to reduce the sensitivity to rising rates in the future.

Evaluate your loan portfolio

Calculate the effect the rate cuts will have on your loan portfolio. The impact will depend on the pricing structure of your loan portfolio and the extent to which the yield is protected by rate floors when you made the loans.

Also, look at the maturity schedule of your loan portfolio. How can you reprice these loans as they come up for maturity and renewal to increase your net interest margin? If the variable rate loans don't have rate floors, look for ways to insert those rate floors now. This may even mean the rate floor is higher than the current indexed rate.

Price loans appropriately. Make sure you are being paid for the risks you are taking. In this environment, you cannot afford to let your competition drive your pricing. Use a loan pricing tool like those found in some [performance banking solutions](#). It will determine the pricing you need to drive your desired results. Once you get your model set up, your lenders will likely embrace it. It will give them information to become better negotiators when they're sitting across the table from borrowers.

Begin reviewing your CD maturity schedule

Do you have a nice ladder spread out with relatively equal amounts of CDs maturing each month? Or do you have some large buckets all maturing at the same time? Twelve to twenty-four months down the road, rates may be rising, and you'll have to reprice those CDs again.

Give your customers incentives to go for longer terms. Paying slightly higher rates for longer terms now will provide protection against a sharp increase in your cost of funds in the future.

Analyze changes to NIM

Are your efforts working? See if you're gaining or losing basis points. Performance management tools have margin analysis capabilities that can calculate what the monthly impact of those changes will be. Drill down based on loan type to see where you may be gaining points and where you may be losing. That will help you determine where to adjust as needed.



Retail deposits

In a low-interest-rate environment like we're experiencing today, deposit products may lose some of their luster, especially when the [FDIC](#) tells us that banks are paying .06% for savings accounts and .04% for interest-bearing checking. Here are some strategies to combat deposit challenges:

- » Focus on the basics, like your website
- » Target your big and medium-sized fish with relationship pricing and services
- » Tell a compelling marketing message that sets your bank apart
- » Leverage social media by engaging online with your customers
- » Partner with fintechs to offer better options to customers
- » Find your "sweet spot" for deposit rates — the rate right for your bank, not the one down the street
- » Track what your competition is doing
- » Engage your board members and employees as advocates for your bank

Forecasting

While an annual budgeting and forecasting model is effective, there aren't many community bank financial leaders who relish the task of coming up with a forecast for the entire year. It's a time-consuming and often cumbersome process that can be fraught with flaws, not the least of which is the inability to set realistic expectations amid changing economic conditions.

There's an alternative solution: Rolling forecasts. They are flexible and agile, giving you more up-to-date information. In these current economic conditions, timely data is vital for banks to be able to "roll" with the changing tides.



Rolling Forecasts

The rolling forecast financial model is the best way to ensure that performance projections are based on the most recent numbers and time frame, which is critical in our ever-fluctuating business environment.

The rolling forecast, versus traditional yearly budgeting, is well aligned with a performance banking culture. By dropping a month as it passes and adding a new month automatically, this approach supports a continuous-learning environment and leads to timely, data-based decisions and rapid course corrections.

You can choose any time period, but one common approach is to use a model covering 12, 18 or even 24 months. This model allows you to plan iteratively, as it automatically updates the forecast period as the months progress. Some best practices suggest that you should be forecasting at least four to eight quarters past your current quarter's actual. Others suggest monthly forecasts extending at least 12 months past the current month. Regardless of the forecasting interval you choose, the important thing is that you forecast with regularity.

In this way, banks with rolling forecasts have the information they need to adapt to changing conditions, which helps them manage risk exposure. That's important when current market conditions are in flux. Right now, the ability to react in real time is crucial.

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Why rolling forecasts?

Improve accuracy

Many bankers say that by the time they've completed their traditional yearly forecast, it's already obsolete. The performance goals set in that budget are based on assumptions made months ago. The business environment will have changed. Variables like interest rate movement, competition, branch resizing, lending volume changes and other factors can come and go. The assumptions will become outdated. The practice of using a rolling forecast improves the accuracy of your financial planning by keeping you aligned with changes in the business environment.

Mitigate risk

A more accurate forecast means less risk overall. Market changes can and do happen without much warning, as we all know after the first quarter of 2020. That possibility of volatility creates risk. A rolling forecast will help you adapt to those changes quickly and allow you to reduce your exposure to risks.

Manage expectations

If you're straying from your original budget and forecast, the rolling forecast process will allow you to update expected results and reset expectations for all stakeholders. Perhaps your loan pipeline is weaker than you thought it would be. Or too many deposits are moving to banks with higher rates. You'll be able to account for this in your next forecast, make the CEO and board aware and more quickly take action to get back on track. This agility and the ability to react quickly is one of the most powerful benefits of rolling forecasts.



Identify untapped opportunity

If the business environment has changed in your favor since your last forecast, you can adjust your assumptions and see how your forecast would be affected if you make strategic changes. For example, you might find that deposits are higher than anticipated, allowing you to sufficiently fund more of your loans without obtaining more resources. The earlier you seize profit-making potential, the better. In this way, the rolling forecast allows you to stretch a bit, go after more opportunities and ultimately profit from them.

Access more current information

CEOs expect CFOs to help drive profitable growth. To do so, you must be accessing and analyzing up-to-date performance information. Consistently high-performing banks are intentional about [performance management](#). They follow a cycle that relies on frequent forecasting to drive strategy and future performance.

Shorten the budgeting process

Many people believe that the annual budgeting process is so fraught with flaws (and universally disliked by FI professionals) that it should be replaced with rolling forecasts. While you may not be ready to do away with your annual budget, know this: Rolling forecasts could cut your budgeting time significantly.

How to implement rolling forecasts

Get buy-in and participation early

It's hard for people to let go of traditional processes like annual budgeting and forecasting. If it has been a yearly process within your banking system forever, switching it up to a rolling forecast can seem like a sea change. Get your people to see the positives of switching from spending significant time once a year creating their forecast to dedicating shorter periods of time throughout the year on the process. It's likely they'll welcome the change.

Don't be afraid to identify flaws in the status quo

This goes hand in hand with getting buy-in from employees. If you, as the CFO, are convinced rolling forecasts are more efficient and effective, that will go a long way to getting employee buy-in. Another powerful way to get people on board with the change is to identify inefficiencies and inaccuracies in the traditional process.

Determine your timeline

Do you want to chart your budget course monthly? Quarterly? According to [Wall Street Prep](#), it depends on your business cycle. It's simply a matter of determining how far in the future your forecasts will stretch out.



Future Business Decisions

Consistently high-performing banks are intentional about performance management. They follow a cycle that relies on frequent forecasting to drive strategy and future performance.

Decide how much detail you need

The [Corporate Finance Institute](#) suggests the level of detail depends on the length of your forecast. You should also include scenarios for several different outcomes. New information, new trends and new economic factors can pop up. You can look out for the next 12 to 18 months and create scenarios based on trends like less reliance on lobby activity and more use of digital banking. But some factors simply cannot be foreseen. That's another reason for your forecasting to be nimble.

Consider future business decisions

What, if anything, may occur over the next 12 to 18 months that could help or hurt the institution's performance? For example, you should know if there are plans to open or close branches, sell or purchase property, launch a new product offering or grow or shrink the workforce. Review expenses to determine if you have any new one-time expenses, any new recurring expenses or expenses that will roll off the books. Also, your board of directors may have plans that will affect future financial targets. They could include strategically resizing the company, offering it for sale or moving forward with an acquisition.

Contemplate interest rates

It's important to think critically about how rates will move in the future. Historical data won't be accurate enough for your forward-looking forecast. Additionally, as rates change, what will happen with your loan portfolio? Are there large loans that will renew or reprice? What's in the loan pipeline?

Scrutinize your assumptions

Set numbers or percentages for metrics such as charge-off ratio, risk-weighted assets/total assets, minimum tier 1 leverage ratio, targeted ROA and ROE, and more. You can make these assumptions at a macro (consolidated) or micro (cost center) level and apply them to your forecast.

Use variance analysis

Variance analysis will allow you to compare your forecasts with actual results your bank has seen over time. Using a common variance analysis structure, you can see your results for last month or last quarter alongside your forecast and get a clear picture of how those real-world results varied from the forecast. Not only will it tell you how your bank has performed, it will tell you how accurate your forecast was. That gives you the information you need to tweak and change the process for future forecasts. You can dig into what led to the variances you see in your analysis and alter your forecast, which allows you to make better decisions about what's coming down the road.

Building an accurate forecast relies heavily on historical data. But it's the hands-on business knowledge you apply to the forecast that helps make it a more predictive and actionable roadmap for your institution.

Automate the process with a performance management tool

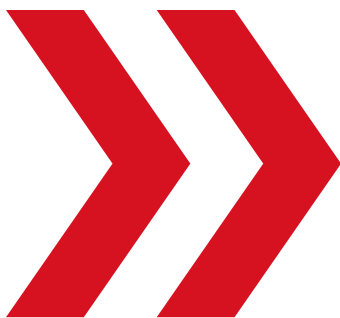
A cloud-based performance management tool like [Deluxe Banker's Dashboard](#) will provide the data and analytics you need to automate your rolling forecast. As you create forecasts, the software will help you analyze these factors:

- » Annual budget versus actual results (variances to budget)
- » Balance sheet (mix of loans and deposits)
- » Loan pipeline (its overall health and timing of loan closures)
- » Annual budget versus forecast (showing why they are different)

Use the forecasting tools to adjust your assumptions based on your most current performance and future expectations.



Conclusion



The current economic situation is a defining moment for your institution and for your team. It's not the crisis that will determine your future, it's how you respond. The economy will eventually settle in to a new normal. Those who adopt a growth mindset will be focused on capitalizing on every opportunity out there. That's why [performance banking](#) is so important. Keeping your "eyes on the prize" during difficult times, empowering your staff, fully leveraging data and quickly pivoting when necessary will make you a better CFO and your bank a more vibrant and successful institution.

**Want more information on Banker's Dashboard?
Contact us today.**

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