BankThink Where Banks' Cost-Cutting Calculations Go Wrong

By *Lynn A. David*

Years of ultra-low interest rates have eaten into banks' revenue and forced them to focus on reducing costs. While the Federal Reserve is expected to raise rates at last later in 2015, many financial institutions still need to find ways to keep expenses down.

Controlling personnel-related expenses is one key way to keep a lid on spending. But many banks are missing out on opportunities to dig deeper into the data and determine the appropriate hours and staffing for their retail locations.

Most financial institutions have information on the number of transactions processed by the teller staff at each location and the number of deposit accounts opened and closed by the new accounts staff. However, this basic information is insufficient for making decisions concerning changes in the hours of operation and staffing.

The most important issue is how banks collect the data. Each type of teller and new account transaction requires a different amount of time to complete. For example, handling a $200 cash deposit for an individual requires much less time than handling a deposit that contains a significant amount of cash and checks for a commercial customer. It also takes more time to cash a check in the drive-up than in the lobby because the canister or sliding drawer must be used at least twice. The teller data should provide banks with statistics on the amount of time required to serve customers at 30-minute increments in the lobby versus the drive-up areas. If both areas can be handled by the same teller staff, then the data for the two areas can be combined to analyze the staffing requirements.

To acquire the necessary data on customer traffic flow in the teller area, banks must collect the number and type of transactions for a four-week period at each location. This may require a manual process because in most instances, the detailed data is not available from the core processing system.

Banks should also examine each new accounts area during the same four-week period. All of the activities of the new accounts staff must be taken into consideration. Then banks should compile information on the amount of time that each activity requires from each employee.

In my work with bank clients, the data has revealed that in many instances less than 20% of a new account employee's time involves working face-to-face with customers. Less than 10% of the new account employee's time involves opening or closing any type of deposit account.

This kind of information can help banks run their businesses more efficiently. Recent projects with clients that have between 11 to 45 locations have resulted in a reduction in hours at over 90% of the retail locations and staffing reductions that average over one full-time equivalent employee per location.

The results can be very significant. Assume that a bank has 20 branches, and that the cost of one full-time position per location is $35,000 for salary and benefits — a conservative estimate. Eliminating one position at each location would lead to savings of $700,000 per year.

Banks considering such steps should ensure that they communicate first with their own staff members and then with their customers. They can then move onto reducing a branch's hours of operation, adjusting the scheduling of the retail staff and — if necessary — reducing the staff.

Most organizations attempt to handle the majority of staffing reductions through attrition. However, in some instances it may be necessary to encourage retirements and even layoffs.

If the data is accurately collected and properly analyzed, and if the implementation of cost-cutting measures is closely monitored and effectively communicated, banks can adjust hours and staffing without having a negative impact on customer service.