# How to Assess True Branch Profitability in Mid-Market Banking

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## The Challenge

Traditionally in the banking industry, the branch where a customer opens an account receives credit for that customer's business. But what about these common scenarios?

- A customer opens an account, say near where he works, but primarily does transactional banking at a branch near where he lives.
- She changes employment and now banks at a different branch near her new job location.
- For longstanding customers, should business from a single human end up divided across multiple branches where accounts were opened?
- Should all business from the human be credited to the branch where the first account was opened?
- What about crediting each branch for the transactional work associated with that location?
- What about scenarios where two branches are used primarily by the customer – one for personal banking and a different branch for business?
- Should ownership of the customer remain with the first banker establishing the relationship or switch between bankers depending upon branch usage?
- What happens where a customer opens further accounts online? Does the online and mobile business get accounted for as a virtual branch?
- How does it factor into determining branch profitability where the online business may be attributed to personal relationships established at a branch location?

Branch profitability calculations can get mathematically complicated rather quickly. Because single branch balance sheets are often deposit-heavy or loan-heavy, they are unbalanced. Some branch calculations include a correction by FTPing the branch balance sheet to determine earnings credit on deposits and funding charges on loans, in order to allocate net interest income. Some include indirect expenses and overhead allocation on branch specific GL expense calculations on an asset risk weighted basis in an attempt to be more accurate. This works for brick and mortar but misses the mark on channel, product, and customer considerations that should be part of the analyses.

When trying to assess branch profitability to analyze locations where new branches should be opened or branches that should be closed, the transaction type and volume at that location should be considered. But due to the traditional industry norm of viewing business from a customer as if it all came from the branch where the account was opened, operational systems typically lack the ability to easily include transactional data in branch profitability analysis. The set-up is flawed unless the customer does all transactional banking business with the same branch where the account was opened.

As customers increasingly demand and use mobile and online banking, and banks want to encourage banking through e-channels to save on operational costs, the paradigm no longer works. But because systems and operations are based upon account origination, and are not dynamic as customer behavior patterns evolve, most banks are unable to include highly informative transactional data in analytics. In fact, most analytics solutions do not include transactional data due to its volume and complexity, yet some of the most important insights are derived from AI/ML data mining of transactions.

At the end of the day, spreadsheets aside, we seek the ability to analyze data about branches, customers, and products in a myriad of ways and the data all too often is not in the right form or format to answer the business questions posed. This creates a situation where executives are not set up to be able to optimize and lower operational costs or drive revenue with decisions backed by data.

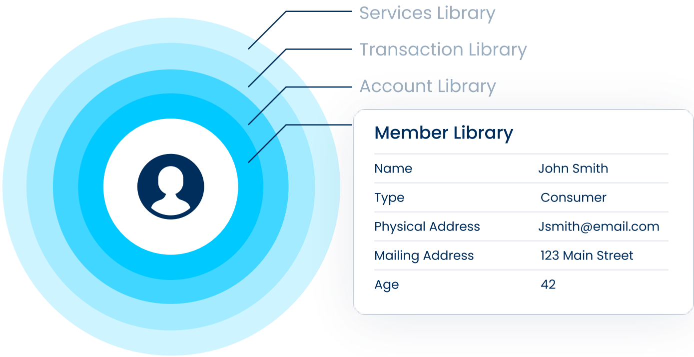
 

## Solution – Modernize the Paradigm and Approach

The profitability measurement should be changed to assess profitability by banking channel and take the focus away from brick and mortar location-based calculations. Given ATMs, ITM banking, online banking, mobile banking and the like, brick and mortar profitability becomes a dated way to assess success.

Other ways to analyze profitability include assessing product/service profitability and analyzing branch/channel by product saturation. In this manner, branches or banking channels selling a lot of a less profitable product can be identified and shifted to promote a more profitable product.

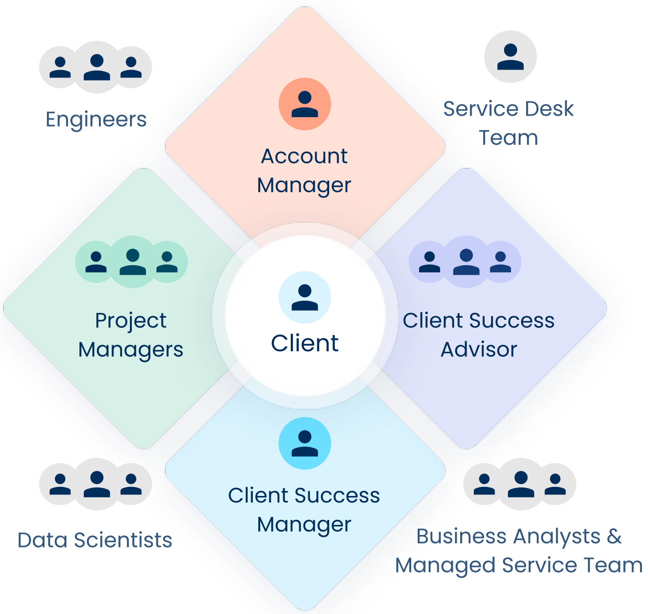
Another way to assess profitability is by creating a customer centric view of data to glean a 360 picture of the value of the customer to the institution and then analyzing customer value by banking channel to determine which channels are effectively growing customer relationships for added business. The customer's behavior patterns lead to insights on best outreach modes and methods for superior customer experience and the institution can target outreach to the customer to encourage banking by channels having higher profitability.




Yet mid-market financial institutions rely upon personalized customer service and relationships to thrive and grow business. This white glove service is key to success in competing against the big banks. The shift to digital banking channels has many cringing because the mid-market will never out-tech the big banks. In the current digital landscape, customers will never say that they do business with a community bank or credit union because they find the online banking to be superior to online banking with the likes of Wells Fargo, Chase or Citibank. But this does not mean that mid-market banks need to be left behind as customers demand digital banking, and mid-market financial institutions do not need to lag in the push for digital transformation.

In order to achieve this reorganization of data into dynamic relational models ready for analytics, mid-market banks need to invest in an end-to-end data analytics solution that includes access to data scientists, data engineers, business analysts and other financial industry technical specialists. Because community banks and credit unions will not typically have a data science department, or a team of data engineers to integrate, cleanse and manage bringing vast volumes of transactional data to analytics, there exists a gap between the technology and the ability for the mid-market to use it.

This is why an end-to-end solution with built in access to experts is imperative. With access to experts as part of an analytics platform subscription, mid-market financial institutions can level the playing field against the big banks to gain business outcomes from AI-enabled insights.




## Digital Transformation is Imperative

Digital transformation is not needed for the sake of offering a cool mobile banking platform. Digital transformation is needed to be able to analyze true branch profitability in the modern banking channel landscape. Mid-market financial institution digital transformation is needed to be able to leverage the data gleaned by years of personal banking relationships (that the big banks will never have) to provide superior customer experiences.

There is a massive volume of transaction-level data that must be analyzed to understand the customers each as a market of one so that personal interactions can occur. This volume of data cannot be processed in traditional data warehouses. Banks need access to a data platform designed to ingest, process, calculate and deliver insights at scale, every day. An end-to-end solution including the right technology and access to the right experts is needed to organize data into a form ready to answer the most important business questions, such as branch profitability based upon product saturation and customer behavior, of mid-market financial institutions.

## About Aunalytics

Aunalytics is a data platform company delivering answers for your business. Aunalytics provides Insights-as-a-Service to answer enterprise and midsized companies' most important IT and business questions. The Aunalytics® cloud-native data platform is built for universal data access, advanced analytics and AI while unifying disparate data silos into a single golden record of accurate, actionable business information. Its Daybreak™ industry intelligent data mart combined with the power of the Aunalytics data platform provides industry-specific data models with built-in queries and AI to ensure access to timely, accurate data and answers to critical business and IT questions. Through its side-by-side digital transformation model, Aunalytics provides on-demand scalable access to technology, data science, and AI experts to seamlessly transform customers businesses. To learn more contact us at +1 855-799-DATA or visit Aunalytics at https://www.aunalytics.com or on Twitter and LinkedIn.

## About the Author

Katie Horvath led a data management company as President & CEO, recognized as the only woman CEO of a big data company in North America, until 2021 when Aunalytics acquired her company. Katie has been recognized at U.S. Congress for innovative business models. She has a passion for leading and scaling tech companies, and making complex technology understandable and usable for non-technical business users. Katie is an IP lawyer and an engineer.

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