Article

financial performance – it keeps the lights on and enables innovation

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Banks have been in business for a long time – the first U.S. bank opened its doors 230 years ago on December 12, 1791 in Philadelphia. And the first U.S. credit union welcomed its first member 112 years ago on April 6, 1909 in New Hampshire.

Making the ultimate understatement, a lot has changed during the 230-year history of banking. But two things have remained the same:

1. The fundamental mission of our first bank, The Bank of the United States, and our first credit union, St. Mary's Cooperative Credit Association, is shared by today's financial institutions – to improve the financial wellbeing of the consumers, businesses, and communities they serve. Banks and credit unions support that critical mission by providing safe places to save money, reliable ways to move money, and fair loans when there isn't enough money.
2. Effective financial management keeps the lights on. Since the 2008 financial crisis, 445 banks and 66 credit unions have failed. And each of these financial institutions failed because the value of its assets fell below the market value of its liabilities or obligations to creditors and depositors. At the root of each failure you'll find inadequate asset/ liability management.

The great recession was a dark chapter in the history of financial services, but we recovered with time, new regulations, and a new commitment to financial management. But here we are today with some other big challenges facing banks and credit unions and impacting their mission-critical financial performance.

- **Revenue Growth** – There are industry-wide revenue challenges caused by extreme competition for consumer and commericla loans and declining interchange and non-interest income.
- **Fierce, New Competition** – The competitive landscape is unprecedented and changing by the day. Fintechs and big techs have been extremely successfully developing point solutions that disenfranchise banks and credit unions. With their foot in the door, many of them are now offering consumers and businesses traditional financial services with the ultimate goal of becoming the primary providers of financial services. Digital reinvention has also caused the phone in almost everyone's pocket to evolve into one of today's biggest competitors, since a new banking relationship or credit union account is just an app away.
- **Banking as a Service (BaaS)** – And here comes BaaS, which enables any company in any industry to embed financial services into its customer experience. This is an interesting one. It will either be a new revenue stream for banks and credit unions that decide to get in the BaaS game, or it will further threaten traditional banking by moving financial transactions and relationships out of banks and credit unions.

Diverse banks and credit unions will have diverse strategies for responding to these headwinds, and converting them from challenges into opportunities will take three things:

- An unrelenting focus on the fundamental mission to improve the financial wellbeing of individuals, businesses, and communities. Today's sea of non-traditional fintech and big tech competitors don't share that commitment and passion.
- New forward-thinking strategies to diversify revenue streams. New channels will require new technology partners and solutions, and the banks and credit unions that have embraced open banking will have a material advantage with this one.

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- To better manage anything – including financial performance – it must be accurately and consistently measured. And improving anything – including financial performance – takes data-driven actionable insights.

The essence of financial management is simple – know where your money comes from, where it goes, and when. But financial management for banks and credit unions is extremely complex, with lots of variable components ultimately adding up to long-term assets and liabilities, short-term assets and liabilities, and shareholder/owner equity. There's mission-critical organizational, product, and customer profitability to determine and consider. There are regulatory requirements, like Regulation D, and accounting standards, like CECL, that must be modeled and met. And financial management is never steady-state, since financial positions constantly change. Efficient, effective asset/liability management takes the right tools for the right job.

The bottom line (pun intended) is that it's impossible to optimize financial management without automated and integrated aggregation, analysis, and forecasting solutions. After the great recession, lots of fintechs sold lots of financial management solutions to lots of banks and credit unions. But the financial management game has changed significantly during the past 10-ish years, so now is the time to objectively determine if yesterday's financial management tools can support today's demands.

Solid financial management doesn't just keep the lights on. It enables the strategic and ongoing innovation that empowers banks and credit unions to attract, serve, and retain accountholders. And if you need more proof about the importance of financial management on financial performance, October has been officially deemed "Financial Management" month.

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