

Critical Competencies of Front Line Bankers

– Ingredients for Peak Performance –

Introduction

Banker competence is a central issue facing all financial institutions in the wake of the current financial crisis. But how do we define a competent banker? What are the key ingredients for peak performance of front line bankers?

Many banks are pursuing an intensely customer-focused relationship strategy as a means of differentiation. At the same time, financial institutions all over the world have a renewed commitment to a strong risk culture within their organization. These dual objectives – one customer-oriented and the other bank-oriented – naturally lead to the definition of a highly competent front line banker.

The critical competencies of these bankers can be distilled into three broad categories: customer competencies (*Problem Solving*), bank competencies (*Managing the Bank's Resources*) and interpersonal competencies (*Building Customer Relationships*). More specifically, front line bankers must have a thorough understanding of:

- (i) ***Problem Solving***
 - Client problems (from the customer perspective)
 - Financial products (from both the bank and the customer perspective)
 - Financial markets (their effect on deal structure)
- (ii) ***Managing the Bank's Resources***
 - Bank risk management (the optimum deal structure for the bank)
 - Bank profitability (how it will make money)
 - Bank's organization (for networking)
- (iii) ***Building Customer Relationships***
 - Earning trust
 - Effective communication
 - Sales skills, discipline and process

Importantly, a common thread running through all of these competencies is the need for front line bankers to have an acute sense of “Risk Awareness”. What are the risks facing my customer – both business risk and financial risk (very often, these risks define the customer's problems)? What are the risks facing the investor? What is the complete set of risks facing my bank and what impact is my customer portfolio having on these risks? How can the bank manage its risks through the structure of the deal? How can the bank manage its customers to maximize risk adjusted returns? How can front line bankers (whom often have a first-hand view of various bank risks) effectively communicate risk information to others in the bank. By developing “Risk Awareness” as a foundation for all competencies, front line bankers will better serve their customers, make more money for the bank and help to protect the bank from costly mistakes.

Problem Solving – Critical Customer Competencies

A problem solving mentality is the first step toward effective front line banking. This mentality sets the stage for the banker and the corporate customer to work side-by-side in partnership to solve the customer's problems. The pivotal question for the front line banker is "What is keeping my customer awake at night?" From the customer's perspective, what are the important and urgent issues that threaten the achievement of the customer's primary business objectives?

After developing an understanding of these problems, the front line banker can then assist the customer in developing an appropriate financial strategy. Most bank solutions can be segregated into several broad categories – funding the business strategy (with or without using the bank's balance sheet), hedging unacceptable risks, facilitating new business structures (for example, M&A) or providing investment solutions.

The important knowledge competencies for the problem solving role include:

- ***Knowing the Customer.*** The defining competence of front line bankers is customer knowledge. To ensure success (and differentiation), the banker must know their customer better than anyone else knows the customer. What is the customer's business strategy (growth, competition, etc.)? What are the dynamics of the economy and the sector which will impact this strategy? How well is the customer existing financial strategy supporting the business strategy? What are the specific criteria used by the decision makers at the customer to evaluate and select financial solutions? How does the customer view valuation? What changes in the client's business or shareholder composition might represent banking opportunities? These are just a few of the critical issues that front line banker's must explore with their customers.
- ***Knowing the Banking Alternatives and Markets.*** In addition to customer knowledge, front line bankers must understand the financial alternatives available to customers (products, markets and bank capabilities). The banker must engage in "strategic conversations" with their customers and be prepared to provide conceptual guidance to the customer on the entire range of bank solutions (which is quite distinct from the structural advice provided by the specialist, who is an expert on the product). The conceptual guidance must explicitly link the solution to the business problems of the customer. In the end, the solution will be measured by its ability to address the client's particular situation – and in many cases will be tempered by market conditions as well.

Managing the Bank's Resources – Critical Bank Competencies

Front line bankers must take a "bank-wide" perspective on how resources are used to serve customers. This function and its related competencies are an often overlooked, but critical, responsibility for front line bankers. Three key areas of resource management include "Managing Risk", "Managing Customers" and "Managing People".

- **Managing Risk:** The financial crisis has underscored a fundamental truth about banking – one of the most precious, scarce resources that the bank must manage is risk (which is the flip side of capital allocation). Front line bankers have traditionally begun their careers by learning to understand and manage credit risk. In fact, this initial training has often been the end of the bank’s formal involvement in the banker’s development of “Risk Awareness”. The evolution of the banking industry has created the need to understand and apply other risk disciplines, including: (i) assessment of market risk, liquidity risk (from a market perspective), operational risk, concentration/correlation risk, and even reputation risk; (ii) risk-adjusted return on capital; (iii) portfolio management; and (iv) many other forms of risk measurement and management.

Of course, the issue of risk assessment and management has become so broad and complex that most banks have carved it out as a specialty. However, this does not eliminate the need for front line bankers to understand the concepts and tools of risk. Indeed, with a hands-on view of their complex customer relationships (both individually and as a portfolio), front line bankers should be the first and most effective line of defense for controlling risk in a financial institution.

- **Managing Customers:** As the customer expert, the main role of front line bankers is managing customers. Internally, this role consists of two primary functions:
 - *Customer Action Plans.* An important function of front line bankers is the development of the overall marketing and credit strategies for customers. At their worst, these action plans are nothing more than a list of potential meetings with product specialists. At their best, the Customer Action Plan is strategically focused – demonstrating a profound understanding of the customer’s strategy, shaped by an understanding of the financial markets’ expectations and aligned with the bank’s strategic performance objectives.
 - *Customer Segmentation.* An important competency of front line bankers is the ability to establish priorities. Some customers will provide more value to the bank than other customers, both today and over the longer term. Clearly, more of the bank’s resources (time, capital, risk, etc.) should be allocated to those customers likely to provide the most value to the bank. While senior bank management will usually have a system in place for identifying preferred customers, front line bankers must take this to the next level. To maximize the opportunities for the bank, front line bankers must systematically sub-segment the preferred customers into realistic and very specific categories of business opportunity. In this way, the banker can very efficiently address the common needs, opportunities or threats of each sub-segment. And since a value can often be placed on the costs and benefits associated with each relevant customer group, sub-segmentation serves as a valuable planning tool for effective resource allocation.

- **Managing People:** While front line bankers do not typically have managerial authority over a large staff, a major role for these professionals is coordinating the multiple contact points between the bank and the customer. Given the conflicting priorities of these economic times, it will become more and more important (and challenging) to ensure that the bank team interacts with a client in a consistent and integrated manner. When formal “deal teams” are appropriate, the front line banker will usually assemble the team and coordinate the activity. Without formal authority, the competencies of trust and influence are the primary tools used by front line bankers to execute this coordination function (see following section)

Building Customer Relationships – Critical Interpersonal Competencies

While problem solving skills and resource management are important and necessary competencies, front line bankers will not succeed unless they are also proficient at building customer relationships. More than anything else, growing customer relationships depend upon the establishment of trust. Relationships simply cannot thrive except in the context of customer trust. Trust is developed through the actions of front line bankers and through the bank’s strategies and policies. There are sound ways to think about the trust-building process, which every front line banker should master.

Another important building block of strong customer relationships is effective communications. Communication covers a broad range of specific skills, including listening, negotiations, selling, influence and persuasion. Even the most knowledgeable banker cannot be competent unless they can: (i) first, effectively listen to another party; and (ii) then, and only then, convincingly communicate their insights to the other party in an interactive manner. These competencies are critical in every function performed by a front line banker, both within the bank (coordinator, team leader, customer advocate) and in working with the customer (advisor, marketer).

Conclusion

For the past two decades, FinQuest Partners ® LLC and its principals have been dedicated to equipping front line bankers with the knowledge, skills and competencies required to implement bank strategies at peak performance. FinQuest specializes in providing highly customized programs designed to meet your Bank’s unique situation and needs.

As an example, our flagship offering is the ***Strategic Relationship Banking Program*** for Corporate Bankers. This program is a comprehensive system for the development of effective front line bankers and covers all of the competencies discussed in this article. For more details on this program and others, see the [FinQuest Programs](#) section of our web site.