



Drinking Up The Suds Of Innovation Teams

by [Steve Brown](#)

Leave it to the crazies out here on the West Coast to come up with a sustainable angle on beer. Don't get too grossed out when you hear a Southern CA brewery has launched a beer that is made exclusively from wastewater. The beer reportedly tastes just fine and the water has been purified to a level even higher than local water, but it just sounds nutty if you ask us. It seems the brewery in question adapted due to the water crisis in CA. This is very much like the way community bankers are adapting to deal with pressures in their own industry.

There's no question that banks need to innovate in large part because customer expectations are changing exponentially. Consider that 52% of financial professionals polled cited innovation as critical to their firm's success, according to a recent Celent study. By contrast, only 26% cited innovation when the firm conducted a similar survey 3Ys earlier.

Notably, a majority of banks still lag in their efforts to innovate. According to PwC research, roughly 80% of financial institutions rely excessively on making marginal improvements that focus on doing things in a manner that's "better, faster, cheaper" - instead of making comprehensive changes. PwC also indicates many institutions (much to their detriment) concentrate on "me too" initiatives vs. focusing on breakthrough innovation.

It's no surprise that since big banks have the deep pockets, they are often able to propel innovation faster than community banks. Several large banks in fact, have launched specialized centers around the globe dedicated to actively testing cutting-edge technologies related to blockchain, e-banking and more. However, this type of effort is just not practical for smaller banks. Therefore, to focus on innovation you have to go smaller.

For instance, community banks should create innovation teams within their bank dedicated to new initiatives. A number of large banks have already taken this approach in order to generate innovative ideas and turn them into real products and services. Community banks might be just as successful.

Certainly there's cost involved. The most successful innovation team efforts come with a sizable budget and require the freedom to establish a team filled with bright and eager workers who stay up-to-date with the latest trends. Community banks too can cultivate innovation using a team approach. Matching employees with complementary skillsets and giving them the liberties to think outside the box will bring you one step closer to creating your own "think tank" of innovation.

Before you can really encourage innovation within your bank though, you will have to step back and define an innovation strategy. Members of your executive team should be involved in these meetings, where the goal should be to develop a solid mission and vision of where you would all like to see the bank go. Teams require more than a simple directive to go innovate. They also need concrete directives and problems to solve.

Of course, having an innovation budget is essential. How much will depend on the level of innovation needed today and into the future. Make sure that it makes sense for your mission and goals.

Recruiting great minds is also important for innovation. Some banks may be able to pull from existing staff, while others will have to look outside. Creativity, passion and ability to execute are critical skills for all members. Training is also necessary so team members properly understand the innovation process and can develop the skills needed to succeed.

Importantly, innovation teams should be tasked with tracking both their successes and failures. This process

helps ensure that all new ideas are managed properly and can be accessed again when the time is right for further development.

Innovation teams are still a fairly new concept and there's a lot of flexibility sloshing around for banks to use to their advantage. For this reason, we think it is a perfect way to get started and take the initial sip to make greater innovation a reality.

ECONOMY & RATES

Yesterday

Yields swung down 8bp with persistent investor apprehension over international events.

Rates As Of: 04/19/2017 12:05PM (PDT)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.80	0.00	0.00
6M	0.92	0.00	0.00
1Y	1.01	0.00	0.00
2Y	1.17	0.00	0.00
5Y	1.73	0.00	0.00
10Y	2.21	0.00	0.00
30Y	2.87	0.00	0.00
FF Market	FF Target	Fed Disc	
0.00	1.00	0.00	
Prime	Unemployment	Oil	
4.00	0.00	\$0	

[More Market Rates](#)

BANK NEWS

Cyber Knowledge

A study by the National Association of Corporate Directors finds 60% of directors say dealing with cyber risk is challenging and only 20% say their board possesses a high level of knowledge on the subject.

Retirement Saving

Research by the Transamerica Center for Retirement Studies finds having automatic 401(k) enrollment results in 89% of employees making retirement contributions vs. 75% for those who have plans without automatic enrollment.

Change Passwords

CIO reports 50% of people surveyed have not changed social network passwords for over 1Y.

CECL Implementation

A Deloitte survey of large banks on CECL finds the most challenging implementation tasks are development of the model (29%), obtaining data necessary for credit modeling and loss estimation (23%), defining data requirements to support model development (16%), designing and implementing revised or new processes and controls (16%), overall systems architecture for calculation and reporting (10%) and enhancements to governance and to risk and compliance programs (6%).

Compliance Costs

Accenture reports 48% of compliance executives surveyed say they expect spending on compliance in the next 2Ys to increase 10% to 20%. Also of note, 18% predicted it would climb 20% or more.

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