

De Novo Banks on the Rise: Understanding the mindset of a new bank

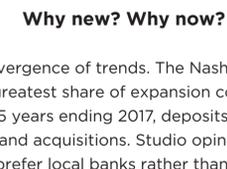


What if you had the chance to start again?

Start a bank from scratch, that is. If you're like the founders of Studio Bank, a de novo in Nashville, TN, you'd relish the opportunity to do some things differently this time around.

While it's too soon to call it a trend, there's been a small but notable uptick in de novo bank filings recently, ending the drought that followed the financial crisis. While only five new banks formed between 2013 and 2017, two have already opened this year and six more are in various stages of formation.

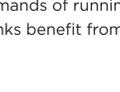
For the bankers launching new banks, this is an opportunity to take the best ideas from their former institutions, while using new capital to deploy the latest business models and fintech solutions to enhance profitability, productivity, and customer satisfaction.



Why new? Why now?

For Studio Bank, it was a convergence of trends. The Nashville area leads Tennessee's population growth, with the greatest share of expansion coming from people moving into the area. Additionally, in the 15 years ending 2017, deposits tripled while banks in the area consolidated due to mergers and acquisitions. Studio opined that there were now plenty of Nashvillians—who tend to prefer local banks rather than larger regional ones—who missed the intimacy their banks provided when they were smaller.

As the founders traveled around the community sharing their vision of being a hospitality-inspired, tech-savvy bank with a strong local presence, plenty of Nashvillians not only responded with promises to open accounts, but also with money to become investors.



"We are honored by such an overwhelming response from the Nashville community," said Aaron Dorn, chairman, president, & CEO. "This level of local support is an emphatic confirmation that Nashville needs a modern bank to serve its wide array of creators with a boutique approach to banking."

The benefit of time and money

The founders of Studio have had about a year to think through the moving parts of the bank's operations. Established banks don't have that luxury. Monumental tasks, like streamlining processes and upgrading technology, must be sandwiched among the daily demands of running the business. And then there's the obvious issue of capital. De novo banks benefit from the influx of capital needed to buy everything new.

What Studio will do differently this time around

The number of decisions that founders are making daily—from miniscule to major—can become overwhelming. However, when asked what came to mind as some of the most important decisions, Studio mentioned the following:



Do more with data - Studio's goal is to have the best technologies available for community banks, Dorn explained. For financial performance management, it chose Banker's Dashboard®. "Studio wants to be able to capture, aggregate, analyze, and apply the bank's wealth of financial data for daily performance management," said Barry Adcock, financial performance strategist for Deluxe's Banker's Dashboard. "I know they will be intentional about creating a performance-management culture right from the get-go."

"The finance and accounting role has evolved from one of generating financial schedules and reports to being crucial participants in business planning, risk management, and influencing business strategy," said Greg Barron, Studio's CFO. "To provide actionable value to the CEO, senior management, and the board, finance teams need to spend less time preparing reports and more time analyzing the data, interpreting trends, and proactively discerning implications to the bottom line. We feel confident that Banker's Dashboard will be the right technology to support our finance and accounting team."



Efficient processes - With time to be proactive, the founding team is designing the bank's processes to be as streamlined—and as paperless—as possible. This includes everything from retail teller capture to human resources systems to onboarding to financial reporting.

"Banker's Dashboard will be an important technology to help us collaborate digitally on the budget and forecast, deliver paperless financial reporting, create electronic board packages, and more," Barron said. "The ROI is high. We will operate more efficiently." By being intentional with efficiencies across the entire organization, Studio can focus more of its time on client experience.

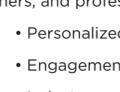


Core that drives digital - Studio Bank evaluated a handful of core system providers and ultimately chose the one that seemed to always be "one step ahead" of their competition in terms of developing new innovations and bringing them to market.

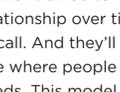
"It was refreshing for us to find a core partner that was forward thinking and matched the high-touch service model we want to provide to our own clients," said Dorn. "We are thrilled to bring the best of both worlds: the sophistication of the larger institutions and the unparalleled client service of a great local bank."



Well-defined niche - Studio has positioned itself as "the bank for Nashville's creators." Given the locale, what immediately comes to mind are singers, songwriters, musicians, and record labels. However, Studio's broad definition incorporates "doers, change-makers, leaders, and brilliant misfits" which also includes Nashville's other key industries, including commercial real estate, technology, healthcare, not-for-profit organizations, and the freelance community.



Board of ambassadors - "We intentionally sought out a diverse group of board members who are experts in the industries we'll serve, as well as deeply connected within the community," Dorn said. "We're confident that they will be powerful ambassadors for our brand and invaluable advisors for our company."



Connecting people - Studio Bank's coalition of well-connected local founders, board members, owners, and executives are like a microcosm of a chamber of commerce. "As bankers, we are in a unique position to connect and bring people together," Dorn said. "We'll add value beyond the traditional banking services by helping our clients meet the right people at the right times for networking, learning, business opportunities, fundraising—or just for something social."

Studio is keeping what clients expect from a community bank

The bank's founders want to preserve and honor the attributes that consumers, business owners, and professionals value in a community bank, including:

- Personalized, high-touch client service
- Engagement, leadership, and investment in the local community
- Industry-specific expertise by veteran bankers
- A unique in-branch experience with strong digital offerings

Additionally, Studio's founders will bring a hospitality-inspired banking model to their branches that will provide an even higher level of service than what's commonly known as "universal banking." When clients enter a Studio branch, they'll be greeted by a personal banker trained to handle all their needs—someone with whom they can form a trusting relationship over time. Clients will have direct access to their banker with no 800 numbers to call. And they'll experience an innovative and artistic environment that is inviting—one where people can come together for connecting beyond their traditional banking needs. This model leads to higher client satisfaction and loyalty and increases branch productivity.

Are de novo banks coming to a neighborhood near you?

With the FDIC returning to a three-year period of enhanced supervisory monitoring, and FDIC officials hosting information sessions about the application process, the uptick in de novo applications could continue. The prospect of new competition is yet another reason to assess your bank with fresh eyes.

What if you had the chance to start from scratch? What if you had both the money and time to purchase the latest technology, redesign your branches, re-think your processes, redefine your niche...?

Community banks and their boards can use the discussion questions following this article to help identify and prioritize what should be on the list to modernize or upgrade.

"Too often, leaders are forced to make changes in a reactive mode, like when technology is becoming obsolete or a contract is ending," Adcock said. "Be proactive! Strive to take your performance-management culture beyond the bank's fiscal health to a holistic view of its overall wellbeing."

THINK DEEPER:

Discussion questions to use during board, executive, and staff meetings

1

De novo banks have the luxury of approaching their formation with an entrepreneurial spirit. Although we are an established institution, what can we do to inspire fresh, entrepreneurial thinking?

- What entrepreneurial behaviors are we looking for in our people?
- How can we incentivize and reward these behaviors?
- What tangible changes should be evident to our customers, employees, shareholders, and the community?
- How would we measure success? Can we set quantitative goals?
- What level of funding would we need? Can we secure the money?
- What are our next steps to making this happen?
- Who should be involved in this effort?
- Who should be held accountable for progress and outcomes?

2

In your opinion, what is the most outdated aspect of our business? (Hint: Coach people to stick with the first thing that comes to mind, then, before asking them to share with the team, have them write down their answers to the following questions:)

- Why did you choose this aspect of the business?
- What detrimental effect is it having on our business?
- Who is affected by this outdated aspect of the business?
- What do you think would happen if we updated this aspect of the business?
- What would the update be/look like?
- Now that you've had a few more minutes to ponder this question, is this still your top pick for the most outdated aspect of our business? If other things came to mind, please list them.

(Once the group has shared its thoughts, you can guide them through a prioritization exercise. The goal is to identify which aspects of the business need to be on the short list to revitalize or replace.)

3

Many of the de novo banks in formation have well-defined niches, like the "innovation economy," or a growing ethnic population. How would you describe our current niche?

- Do we still have one?
- Do we need one? Do we need a new one?
- Are there underserved segments in our marketplace that we could attract?
- If so, what would be our value proposition to them?
- How would our institution benefit?
- Is this something we should investigate further?
- If so, who should be involved in this effort?
- Who should be held accountable for progress and outcomes?

4

With new tax laws in effect, our institution may have more money to invest in systems and technologies that create efficiencies. In your opinion, which of our processes is most inefficient? (Hint: Coach people to stick with the first thing that comes to mind, then, before asking them to share with the team, have them write down their answers to the following questions:)

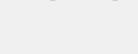
- Why did you choose this process?
- What detrimental effect is it having on our business?
- Who is affected by this inefficient process?
- What (in general) would it take to update this process?
- How do you envision this process working?
- If we updated this process, what would be the impacts on business?
- Now that you've had a few more minutes to ponder this question, is this still your top pick for the most inefficient process at our institution? If other things came to mind, please list them.

(The goal is to identify which processes are a drag on your business operations and understand what would be needed to improve efficiency. Lead the group through a prioritization exercise to decide which ones should be tackled first.)

6 Tips for competing with de novo banks in your market

1. Make long-term planning and strategic analysis a priority.
2. Create a performance-management culture with shared accountability.
3. Keep your customer service model aligned with consumer preferences.
4. Communicate your niche, i.e. "We are the right bank for you if..."
5. Improve the accuracy and efficiency of your key processes, including financial ones like budgeting, forecasting, and creating reports.
6. Strive to maintain an entrepreneurial spirit to keep your business relevant.

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