Kevin Mummau on Non-Interest Income and Program Development

"Right now the industry is in an environment where financial institutions start to lose sight of the importance of non-interest income or start to view their investment programs as competition or a sideline item," says Kevin Mummau, EVP of Program Development at CUSO Financial Services (CFS) and Sorrento Pacific Financial (SPF). "This is very normal, we've seen this before, and as a broker-dealer that specializes in financial institutions, we help programs stay on track and even improve their program during cycles like this. We coach them on best practices for managing their top line and their bottom line, and we make sure we're offering the best support resources possible."

Mummau, a 30-year veteran of the industry, recently discussed in a phone interview the company's multifaceted approach to ensuring the longevity of non-interest income and investment program profitability in the industry, as well as the reorganization and expansion of CFS/SPF's program development department in order to offer more breadth and depth of resources to their financial institutions.

"Non-interest income is always a continual focus, and as far as investment programs, that's become a bigger focus over the years…I see it as probably the most non-core, but synergistic offering institutions bring to the table from everything else they're doing," he says. "When [institutions do] a profitability evaluation of their clientele or members who are utilizing their investment and insurance offerings, including the loan balances and deposit balances, on average, it's generally a high multiple of those that are not utilizing their investment solutions." He cited individual studies done at the institutional level that found users of investment programs were 8 to 10 times more profitable than non-users, and that deposits by such users were at least 3 times higher than those by non-users. He also noted that investment and insurance programs help build a more loyal client base as well. "The problem is, when the interest income environment eases, as it is now, many financial institutions stop focusing on non-interest income like investment programs, and that's a mistake because you lose out on that profitability," he said.

When considering the most beneficial steps companies can take in order to ensure that investment programs reach their optimal profitability in today's environment, Mummau and his team have several insights. First, they emphasize taking care of the top line. "Understand what that top line potential is, that's the big thing," he said. "Keep your program goals visible and highlight their importance. Continue to build the awareness with all of your staff. Make sure they know that offering investments makes you a holistic, full service institution, and that it's for the betterment of all of your clients. Look at the data – when you know how much more profitable, loyal, and "sticky" your investment clients are, that will cement in your team's mind how important the program is. That keeps it active and contributing to your top line."

However, he went on to say that solely focusing on this aspect of the company would not lead to the same kind of success a more comprehensive approach could. "All the top line in the world does nothing for you if you don't mind your business model to get a good bottom line. And that's where a lot of mistakes can be made. Minding the bottom line often comes down to structuring the business model."

The Program Development team's strategy, therefore, is to break down company expenditures into the simplest possible categories to see where exactly the business is spending money. "Your biggest [number] is always going to be your representative cost – your production cost for their salaries, commissions, however you're handling that. You have to be careful of how you put that together. And then comes your assistant costs which can be the biggest area to cause you a problem." Mummau explained that the representative cost is generally somewhat variable, as it is tied to a business's level of production, but the assistant cost is often a "true fixed cost…to that production. We help our programs determine the right assistant costs for their situation." Then there are the management costs. "Those are your three big costs that you have to address as far as salaries and cost of production…but you have to then marry that to your benefit package. It becomes easy for businesses to make mistakes if they are too liberal with their assistant costs, or if they forget to take into consideration the cost of benefits, which can eat into your profitability," Mummau said. He also noted the miscellaneous expenses a business might have, and urged that owners remember to mind those as well, before addressing the cost of marketing. He said that while "it'd be great to market like crazy and spend all kinds of money," banks and credit unions should think about the toll such a tactic can take overall. "Overall, to keep their programs profitable, institutions should make sure they keep focusing on both the top line and the bottom line."

Mummau also discussed the recent reorganization and expansion of the company's program development department to help programs address such complexities. "The timing is right because institutions need the reasons and extra support to push forward instead of pulling back on their investment program. In addition, we've recognized that many programs are plateauing at a certain level. Great jobs out of the block, but growing to a certain level and hitting roadblocks. So we decided to really beef up our involvement and what we're bringing to the table in program development." The decision to expand the department was intended to help banks and credit unions gain a better perspective on what they could improve, understand the potential they have, and learn the best practices they need to reach that potential. "We hired some people who have very successful backgrounds in building programs to be the champion and the coach with a wide level view, and we're backing that up with additional new hires for the day-to-day details as well," Mummau said. "Program Development will double in size by the end of the year."

CFS/SPF has also created two entirely new sub-departments to help its program clients push past the traditional branch network that the industry was founded on. The two new departments will focus on investment program marketing and technology training and utilization. To address the continual dissipation of branch traffic, banks and credit unions are turning to big data for more information. "They're all talking about the phenomena of less people coming through the branches and how to rely on data…So we're going to be able to jump on that bandwagon," Mummau said. "We have rolled out a dedicated program marketing department to help these institutions better market including coaching, building turnkey marketing campaigns, and more." Technology is also a huge focal point of the new strategy, especially since there are less people coming through the branches. Remote delivery – "remotely working with and servicing the clientele," as Mummau said – has become an important priority. "We have developed a mobile or online option for every step of the investment process. From our electronic profiling tool, to mobile apps, to online reporting and more, our technology platform enables banks and credit unions to keep up with their sophisticated clientele" he said.

Moreover, the company is not solely focused on just developing new technology. The technology training and utilization department takes it a step further to teach programs and reps to use and integrate the technology tools into their regular services. "Representatives need to know not only how to push the buttons and how to use a new tech tool, but more importantly how to integrate it into their practice and change their ways of doing business for the better. So we decided to make a whole department on technology support and training…We want to train them on how to incorporate it into their day-to-day process to create more efficiency; or in a planning process, how to use that to gain a more holistic view, consultative approach and get a broader wallet share."

This effort to engage from a more well-rounded perspective seems to be the crux of the new initiatives, all of which are geared towards helping programs achieve maximum profitability. "Our job is to help banks and credit unions build better investment and insurance programs," Mummau said. "As the interest environment eases, we help our banks and credit unions continue to focus on investments so they can be full-service financial institutions to their clients. Our significant new program marketing and technology support resources will help our programs come out on top."