Creating the High Performance Regional Commercial Banking Model

Market Segmentation, Functional and Emotional Teamwork, and Process Improvement in Practice

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EXECUTIVE SUMMARY

Founded in 1913 in Kansas City, MO, UMB Bank, N.A. has focused throughout its history on serving the financial needs of individuals and companies in the communities it serves. Over the years, UMB has expanded far beyond its original confines of Kansas City such that the bank is now an integral part of the community in cities and towns within a seven state region.

UMB began operating in Oklahoma with the acquisition of The Oklahoma Bank in 1995, and has continued its growth in the Oklahoma market through acquisition and organic growth since that time. Regional strategic objectives include (a) doubling the size of the bank within five years (b) attaining recognition as the business bank in Oklahoma (c) creating a private banking business model and (d) increasing brand awareness.

The objective of this report is not to circumvent the existing strategic planning process, but rather to provide insight and analysis of a new high performing commercial banking model. The model is based on a few primary themes including (a) functional teamwork (b) emotional teamwork (c) market segmentation (d) rapid response (e) fee income enhancement and a (f) focus on achieving excellence. The focus on achieving excellence theme is based on the premise that excellent banks have a laser-like focus on their customers and therefore segment their markets where appropriate to get as close as possible to the customer.

The high performance commercial banking model proposed in this report is based on these well researched and analyzed themes. Generally, the model includes four relationship managers segmented by market (government/not for profit; healthcare; high net worth/professional/executive; and regional/agricultural); four metro generalist relationship managers; a commercial business development officer; a commercial marketing coordinator; and an experienced credit analyst. In order to provide for the benefits of emotional team selling, a regional commercial council is created to act as a process improvement engine and to keep all participants performing their roles in the process to the very best of their respective ability. Please see the Appendix for a schematic of the regional commercial banking model.
Creating the High Performance Regional Commercial Banking Model

The implementation of the model will occur over a period of several months which includes time for (a) the hiring of a commercial credit analyst (b) the training of those relationship managers that will transition to a segmented customer focus area (c) the establishment of one individual as the commercial marketing coordinator (d) the establishment of the regional commercial council and (e) the transition of roles. The expectation is that the entire implementation process would be complete by December 31, 2010.

The financial impact of implementing the model is expected to be profound with an incremental contribution (after applicable expenses) of $186 thousand in the first year, $556 thousand in the second year, $913 thousand in the third year, $1.283 million in the fourth year, and $1.699 million in the fifth year.

There are several issues that may arise internally with respect to getting the model approved and implemented. These hurdles may include (a) a historical aversion to segmentation (b) a requirement for additional analysis (c) concern about credit risk (d) a silo mentality (e) a change in mindset in the Oklahoma market and (f) concern about production variability during the early stages following implementation.

Overcoming these hurdles is important to the ultimate success of the project. Since the objective of the model is to maximize profitability, expanding the market is the most effective argument for overcoming the cultural obstacles that the implementation may encounter. Untapped markets within the state of Oklahoma, the regional commercial council, and the improved credit process all work together to make the proposed model a more effective means of delivering financial products and services to customers.

The recommended course of action is justified based on the financial considerations, the fact that the model is justified based on proven research, and that it involves everyone in moving the region forward.
INTRODUCTION AND BACKGROUND

Corporation History
The company began as a storefront bank in Kansas City, MO in 1913 and has grown into an $11.9 Billion (assets) diversified financial services company. Much of UMB's success can be attributed to various members of the Kemper family, who started the bank and remain in key leadership positions today, including the CEO position.

The early years of the bank include the following important milestones in the bank's history:

- The acquisition of City Center Bank in Kansas City by W.T. Kemper and Associates. While his father, W.T., provided much of the financing and liquidity necessary for the acquisition, Rufus Crosby Kemper provided the ambition and strategic direction for the bank during these early years. Under R. Crosby Kemper Sr.'s leadership (he became president in 1919); the bank began a period of steady growth driven by a dogged determination to solicit business in the community. Generally, banks during this historical period did not actively solicit business in the community, so Crosby Sr.'s willingness to take the bank to the customer was on the cutting edge during this time.¹

- The bank (at the time named City Center Bank) was a pioneer in the development of various staples of the banking industry today as a first adopter of several services rarely seen in Middle America. In 1926, the bank built a six story headquarters in downtown Kansas City, and quickly added a trust department, a bond department, and correspondent banking services. The bank also opened the nation's first drive through teller window in 1928.²

- In 1934, the name was changed to City National Bank and Trust Company, and a national charter was obtained. Ten years later, a growing international business community in Kansas City necessitated the establishment of an international banking department. It was

¹ UMB Financial Corporation “Our History”
² UMB Financial Corporation “Our History”
at about this time, 1950, that R. Crosby Kemper, Jr. joined the bank as the third generation of Kemper family bankers. Mr. Kemper Jr. became president in 1959, and led the bank to the forefront of the banking frontier again with the establishment of the first data processing center at a regional bank in 1960.

- In 1971, the company changed its name to United Missouri Bancshares Inc. to account for changes in banking laws and permit the company to undergo an aggressive acquisition strategy. Throughout the next ten years, United Missouri acquired several banks in Missouri and Illinois and grew to have assets in excess of $1 Billion.

- The company began its first moves into what has become one of the most profitable and highest volume business segments in the UMB portfolio of businesses in 1982 with the launch of the UMB’s offerings in the no-load mutual fund space (which has since grown to be known as the Scout family of funds).

- With additional changes in banking laws in the 1980’s the company was able to once again begin acquiring banks and expand its footprint throughout the middle portion of the United States. This included acquisitions and consolidations in St. Louis, Denver, Southern Illinois, and throughout Kansas. In the early 1990’s strategic acquisitions along the I-70 corridor were numerous as the company sought to take advantage of the geographic synergies from Kansas City to Denver. In 1994, United Missouri formerly changed its name to UMB in order to recognize its growing regional focus.

- Continuing its focus on developing and delivering the very best (and most timely) technology, UMB introduced PC Direct in 1995, making the company one of the first banks in the Midwest to offer an online banking product. Additionally, the company began the development of an operations and technology hub in downtown Kansas City that would

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3 UMB Financial Corporation “Our History”
4 UMB Financial Corporation “Our History”
prove to be one of the most state of the art for any regional bank in the country. In 1997, American Banker recognized UMB as the best at ATM coverage and convenience. Additional technology investments in the late 1990’s included (a) an electronic data interchange service for commercial customers (b) an online service inclusive of trading, account information, and stock and mutual fund information for investment customers and (c) a web based account reporting product for commercial customers which permitted viewing of transaction details, loan status, lockbox reports, and the origination of ACH transactions. In 2000, the company was recognized by PC Week magazine as one of the U.S.’s top 10 banks for PC innovation.

• In 2003, UMB, under the leadership of new president R. Crosby Kemper, III, opened trading on the NASDAQ under the ticker symbol UMBF. The company also focused on improving its efficiency ratio by divesting of noncore businesses including merchant bankcard and employee benefits services. The company renewed its focus on commercial lending, investment management and corporate services.5

• In 2004, the company again changed direction with the hiring of Peter DeSilva as president and chief operating officer of UMB Financial. Later that year, Mariner Kemper was named the Chairman and CEO of the corporation. One of the primary initiatives undertaken by the new management team was a focus on the brand image and this included the implementation of the “Count on More” brand promise in all marketing and communication materials. The company has invested significantly to enhance the product offerings in (a) asset management (via a proprietary family of mutual funds), (b) healthcare services (via a

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wholesale Health Savings Account and Flexible Spending Account) and (c) commercial banking (via margin expansion in Treasury Management and lending products).6

**UMB Today**
UMB delivers its brand promise “Count on More” through sound banking principles, a tradition of integrity, and a commitment to customer relationships. Associates are asked to go beyond the traditional “order taking” mentality of most banks, and to focus on anticipating customer needs, advocating and advising, innovating and surprising. The company asks all associates to (a) place the customer first by consistently exceeding expectations (b) demonstrate uncompromising honesty and integrity to everyone (c) share the commitment to remaining independent and maintaining financial soundness by embracing the credit culture and brand promise and (d) to understand that the company relies on its people to differentiate it from the competition.

UMB is located in seven states including Missouri, Illinois, Colorado, Kansas, Oklahoma, Nebraska, and Arizona. Product lines include (a) traditional retail, private banking, and commercial banking delivered through 136 retail locations and 600 ATM’s (b) investment and wealth management (c) institutional asset management (d) retirement services (e) brokerage (f) personal trust (g) corporate trust (h) commercial and personal credit cards (i) treasury management and (j) healthcare services, among others.

UMB is ranked in the top 25 ACH originators and processors in the country, and is the fourth largest municipal trustee and paying agent in the United States. The company is also one of the 15 largest banks for purchasing card services in the United States and one in eight banks in the United States use at least one UMB product through the correspondent banking department.

**Corporate Strategies**
The company generally focuses on the advancement of five core strategies that are essential to improving income and further strengthening the balance sheet. These strategies include:

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6 UMB Financial Corporation “Our History”
1. Growth of fee based businesses: UMB views the growth of fee based businesses as a key factor in reducing its exposure to changes in interest rates. Year over year, non-interest income was basically flat in FY’09 versus FY’08, and the company continues to focus on its wealth management, credit card, health care services, and payment businesses to drive growth in fee based businesses.

2. Focus on net interest income through loan and deposit growth: During 2009, the company managed to increase net interest income 10.2% over the prior year through increased average earning assets and a low cost of funds.

3. Focus on improving operating efficiencies: The company continues to emphasize enhancing the return from its existing network of 135 branches.

4. Focus on capital management: This has been a long term effective strategy for UMB and has generally promoted investor confidence, provided access to funding sources under favorable terms, and enhanced the company’s ability to focus on business growth and acquisition opportunities.

5. Focus on delivering the unparalleled customer experience. The business model of the company is focused on a high touch level of customer service, where associates exhibit pride, power, and passion each day.  

As a result of the effective implementation of these strategies over the past several quarters, UMB has successfully weathered the financial crisis and was recently named as the second best bank in the United States and the number one bank on the mainland (the bank ranked first is the Bank of Hawaii). The basis for the rankings includes indicators of asset quality, capital adequacy, and profitability. The eight measures included return on average equity, net interest margin, non-performing loans as a percentage of total loans, and two capital ratios. “Our standards have remained unchanged in all economic conditions,” said UMB chairman and CEO Mariner Kemper,
“This principle, as well as a focus on a diversified income stream from fee-based businesses, affords us steady growth.”

Financial Condition

<table>
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<th>12-31-09</th>
<th>12-31-08</th>
<th>12-31-07</th>
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<tr>
<td>Total Assets</td>
<td>$11,663,355</td>
<td>$10,976,596</td>
<td>$9,342,959</td>
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<tr>
<td>Total Loans</td>
<td>$4,383,551</td>
<td>$4,193,871</td>
<td>$3,901,853</td>
</tr>
<tr>
<td>Total Deposits</td>
<td>$7,584,025</td>
<td>$6,532,270</td>
<td>$5,716,202</td>
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<tr>
<td>ROA</td>
<td>0.89%</td>
<td>1.10%</td>
<td>0.93%</td>
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<tr>
<td>ROE</td>
<td>8.89%</td>
<td>10.51%</td>
<td>8.49%</td>
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<tr>
<td>Earnings per share</td>
<td>$2.22</td>
<td>$2.41</td>
<td>$1.78</td>
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<tr>
<td>Net Charge Offs to Average Loans</td>
<td>0.47</td>
<td>0.28</td>
<td>0.21</td>
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<tr>
<td>Fee Income</td>
<td>$310,176</td>
<td>$312,783</td>
<td>$288,788</td>
</tr>
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</table>

Market Share

UMB Deposit Market Share as of 6-30-09

<table>
<thead>
<tr>
<th>State</th>
<th>Deposits ($000)</th>
<th>Market Share</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Missouri</td>
<td>$5,349,149</td>
<td>4.32%</td>
<td>4</td>
</tr>
<tr>
<td>Kansas</td>
<td>$1,155,254</td>
<td>2.00%</td>
<td>7</td>
</tr>
<tr>
<td>Colorado</td>
<td>$755,004</td>
<td>0.88%</td>
<td>23</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>$215,969</td>
<td>0.32%</td>
<td>47</td>
</tr>
<tr>
<td>Nebraska</td>
<td>$51,373</td>
<td>0.11%</td>
<td>115</td>
</tr>
<tr>
<td>Arizona</td>
<td>$32,226</td>
<td>0.04%</td>
<td>78</td>
</tr>
</tbody>
</table>

9 “UMB, Commerce rank among America’s best banks, Forbes says” Kansas City Star (January 4, 2010)
As indicated by the table above, UMB’s history as a Missouri based financial institution continues to provide the overwhelming portion of deposits for the institution as a whole. What this chart does not show; however, is the significant rate of growth from the markets outside of the state of Missouri. The focus of this paper is on the Oklahoma market, but its general tenets could be applied to any of the markets outside of the company’s core market base.

**Maps**

**Oklahoma Region History**
In 1995, UMB expanded into Oklahoma by acquiring The Oklahoma Bank and its holding company, First Sooner Bancshares. Managed by Royce Hammons, who remains as Chairman and CEO of the Oklahoma region of UMB Bank, the Oklahoma Bank was a community bank located in Stockyards.
City, an enclave of Oklahoma City. A subsequent acquisition by UMB in Oklahoma, Charter Bancshares, on November 22, 1999, further expanded the bank’s holdings in Oklahoma City to a total of four branches. Additionally, the company began operations in Tulsa in the early 2000’s with one branch location. The map below shows UMB’s branch and ATM locations within the Oklahoma City metropolitan area.

Regional strategy
The process for development of the regional strategic plan has been refined over the years such that the process is now a corporate initiative supported by a dedicated group of professionals that work with regional leaders to develop their plan. Given the inherent differences in market presence, resource allocation, and community demographics, development of specific (and separate) regional strategic plans is an essential part of the overall strategic plan for the company. Generally, given the relative lack of a significant branch presence, the strategy in Oklahoma is focused on expanding the bank’s commercial customer base. This includes sales of commercial loans, deposits, treasury management products, and commercial card services. While there are
other products that the bank can sell regionally, it is necessary to partner with a product specialist, who is generally located in Kansas City. The most recent strategic planning process for the Oklahoma region resulted in the following strategic objectives and initiatives:

- Gain market share; double the size of the bank within five years
- Grow private banking and wealth management businesses
- To be recognized as the business bank in Oklahoma (small business and commercial)
- Increase brand awareness internally and externally
- Create a structured state-wide calling plan for commercial and business development officers
- Create a private banking; group banking; and small business model
- Improve utilization rates for commercial credit cards

**STRATEGY AND IMPLEMENTATION**

The objective of this report is not to circumvent the strategic planning process for our specific region (Oklahoma), but rather to provide some insight on a couple of major themes. A fully integrated customer and profit focused regional commercial banking model is the ultimate objective, and there are certain themes that are important to the strategic fit of the model in the Oklahoma region. The themes discussed are considered some of the critical variables important to regional profitability (and success), though the list is not comprehensive. Actions taken on any theme would be considered a strategic initiative for the region, and recommendations are made in this report to pursue certain initiatives based on the data discussed.

The important criteria in selecting the themes to be analyzed are (a) how the specific theme generally results in “excellence” as defined in the report (b) how the theme can develop into a sustainable competitive advantage (c) how the theme results in a total covering of the regional market and (d) how the theme results in a high quality loan portfolio.
Creating the High Performance Regional Commercial Banking Model

In Oklahoma, the current commercial model includes the following key personnel:

- **8 commercial lenders:** 2 are located in the downtown Oklahoma City office; 2 are located in the Tulsa office, one in the North office, two in the Penn Square office, and one in the Stockyards office. The lenders vary in experience (from 20+ years to less than one year), position in the company (EVP to AVP), and focus (syndicated lending to very small personal and business loans [less than $100,000]). The lenders are not limited in the types of loans that they can pursue by (a) industry (inclusive of real estate, healthcare, contractors, residential, and working capital) (b) geographic location (as long as in Oklahoma) or (c) size of loan or company. Generally, the lenders are responsible for underwriting the loans, relationship management, cross-selling other bank products and business development. The amount of external business development that a particular lender is engaged in can be limited by work requirements on an existing portfolio (including renewals, increases, new loans, and workouts). Generally, lenders carrying a sizeable portfolio exhibit inconsistent business development habits due to the work associated with keeping customers and the bank happy. The good thing is that none of the lenders in the Oklahoma market carry portfolios that would be considered large by the standards of other banks or markets within UMB. Lenders that are new to UMB generally do not carry much of a portfolio and are therefore freer to directly solicit external customers without any of the distractions that might otherwise be apparent. However, those with the most available time to solicit new business are also the newest to UMB, and may not yet have the knowledge of the bank, its products, or its processes to most effectively serve customers and prospects.

- **Four commercial lending assistants including one each in the downtown, Stockyards, Penn Square, and Tulsa branches.** The assistants are all highly trained and seasoned in commercial loan documentation and assist the lenders in a variety of tasks including filing, loan closing(s), and relationship management. The assistants are each very well known to
the respective customers that they interact with and can also handle deposit related requests quickly and effectively.

- Two business development officers including one in the downtown office and one in the Penn Square office. The business development officers are tasked with developing commercial banking relationships by partnering with the bank President, commercial lenders, or product specialists to deliver products and services to new prospects and customers. As was the case with the lenders, business development officers are not limited by size or scope and so they regularly refer home equity lines of credit, mortgages, and vehicle loans in addition to their core objective of developing commercial relationships. One of the business development officers has also been involved in the facilitation of certain corporate commercial marketing initiatives that come up from time to time.

- The Community Bank President of the Oklahoma region has other responsibilities in addition to his role in the commercial banking process; however, this could probably be considered his primary focus. Generally, the president is tasked with reviewing and opining on all credit requests put forward by the commercial lenders, communicating with credit approvers further up in the organization, managing most of the commercial lenders and business development officers, and managing the credit and business development process. Additionally, the president pursues middle market commercial lending relationships (partnering with a commercial lender) as appropriate to keep the marketing wheels turning throughout the year.

- The Chairman and CEO of the Oklahoma region, as it relates to commercial banking only, has the ultimate authority as to which loans will be booked (based on his lending authority) or escalated for a higher level of approval. He is also actively involved in soliciting and managing corporate banking relationships.
A local treasury management officer, who reports up through a divisional (rather than geographic) reporting structure is also an integral part of the commercial banking team and has intimate knowledge of both customers and prospects.

The existing model does not include local credit analysts and relies on the commercial lenders to get their credit reports, monitoring reports, and other documents necessary to the process completed in a timely fashion. Additionally, there is very little “process” to the existing model and more of a focus on individuals and, as such, their respective strengths and weaknesses play into the bank’s credit and relationship management decision-making process.

The model described below will drive profitability from commercial banking Oklahoma over the next five years. The goal is to create the model, get it implemented, and then focus on executing it with only minor tweaks as necessary. The recommendations include some changing roles and added responsibilities for some participants in the process, but the ultimate reward will be a more profitable region.

**Themes**

In shaping a process, a primary objective is to maintain the synergy of the process with the corporate strategies and objectives described in the sections above.

The resulting themes are as follows:

**Best aspects of Team Selling:** In an effort to combine the best aspects of functional team selling and emotional team selling, the process proposed includes many of the tenets of teamwork in a selling environment as formulated by Keith Ferrazzi, one of the foremost experts in building relationships to add value for organizations and one’s career.

Functional teamwork: This type of teamwork has two dimensions:

*In one, product or solution experts lend their expertise and knowledge to help create greater value for the customer. This can happen in front of the customer or behind the scenes, but the*
end state is a far richer and more robust product offering, with the client-facing experience based on the strongest attributes of each team member.¹¹

This can be implemented fairly easily at UMB (and is currently practiced to a large degree); though there are some additional challenges at the regional level since there are not the product experts in market versus the availability at the home office. The Commercial Council discussed below largely overcomes this obstacle.

The other dimension of functional teamwork is effective

where the mutual leverage is not the product or solution but the sales experience for the customer, emphasizing specific selling skills along the sales cycle that some possess better than others.¹²

Basically, those individuals with the best closing skills, credit skills, relationship building skills, and prospecting skills (among others) are relied upon to a greater degree in that portion of the process where their skill set best matches. The Oklahoma region of UMB practices some form of this level of teamwork now, though the relationships are undefined and the process somewhat unclear.

Emotional Teamwork (emotionally integrated teams): In essence, emotionally connected teams have the primary purpose of providing a support network to move the team along throughout the process. The team (a) tells the truth (b) faces the facts (c) exhibits positive peer pressure to get everyone moving (d) holds everyone accountable and (e) provides encouragement. The process proposed will substantially improve the emotional aspect of the commercial banking system and create a competitive advantage for the Oklahoma region.

**Rapid Response:** Generally, defined as “service” or in UMB “delivering the unparalleled customer experience” is here defined more specifically as rapid response to customer requests (including loan and other decision based customer interactions). That is, how good is the bank at getting its work done quickly and efficiently such that customers and prospects who deal with the bank would

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conclude that regardless of the specifics of the response (positive or negative), their experience was positive. The data to support this report's contention that this is a key aspect of excellence in banking is somewhat light due to a lack of specific data to analyze though communication with customers through surveys (and through personal conversations) reflects this theme's importance to customers. Several conclusions are drawn as to how UMB Oklahoma can create a rapid response environment and how that will create a sustainable competitive advantage.

*Commercial Banking Fee Income Enhancement and Product Distribution:* Given UMB’s focus on generating the maximum possible amount of fee income from each commercial relationship, consideration must be given to the effect of the process on the amount of fees generated. Generating additional fee income is the result of a persistent cross-sale culture. Since UMB focuses extensively on commercial banking success, regional availability of products and services specific to commercial customers is of the utmost importance. There exist several issues in the process for delivering these products and services effectively including (a) the lack of a local product specialist in many cases (b) education of relationship managers and (c) the difficulty in defining the market. Through market segmentation, group discussion of best practices and better relationships with product partners improved results are possible.

*Coordinated officer calling program:* The region has developed a comprehensive officer call program for 2010 that focuses on developing commercial banking business throughout the state of Oklahoma (in addition to the historical focus on the major markets of Oklahoma City and Tulsa). Additional focus in this area will be placed on the allocation of available resources to that plan as well as the ongoing sales process. An effective strategy for working with available business development officers and commercial lenders is discussed as a critical competitive advantage for the region.

Additionally, the coordinated program must include a plan for calling on existing customers as a means of enhancing relationships. As a company, UMB has focused substantial resources on the
development of sales tools and strategies. These tools provide the means by which results in these areas can be monitored and measured.

**A focus on Achieving Excellence:** In *Excellence in Banking*, Steven Davis analyzed sixteen high performing banks to determine “what are the fundamental characteristics of today’s excellent banks.” While his analysis focused on an entire bank’s system, there are several takeaways that apply specifically to the regional application of a commercial model as discussed in this paper. The characteristics include:

An open culture: “An open culture is essential to sound and effective decision making, to the communication system which unites a large and complex organization, and to the healthy resolution of the inevitable conflicts which arise in the allocation of scarce resources.”

Profit Performance as a value: “The distinction between numbers driven and value driven is not a fundamental one for most excellent banks. For them, explicitly or implicitly, it is the bottom line that constitutes the relevant value.” By accepting profit maximization as the ultimate goal of the commercial model developed below, value is thereby brought to the organization as a whole.

Customer driven orientation: Excellent banks have generally oriented themselves around their customers. Excellent banks “segment their markets and restructure their organizations and delivery systems to deal with the needs of a particular segment.” In application, a customer orientation means taking solutions to clients before they ask for them, delivering true relationship banking, and appreciating the differences in customer business models through appropriate segmentation.

Strong and Consistent Leadership: More than anything this means a leadership team that focuses on consistently enforcing the game plan and agreed upon model (and processes).

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14 Steven I. Davis, *Excellence in Banking* (New York: St. Martin’s Press, 1985), 120
15 Steven I. Davis, *Excellence in Banking* (New York: St. Martin’s Press, 1985), 121
Creating the High Performance Regional Commercial Banking Model

Commitment to recruit the best people: This means recruiting the best people to fit into the bank’s model and process, not necessarily a focus on recruiting the “best and brightest” which may not fit the system.

Investment in training and career development: Generally this attribute is driven by the head office.

Strong and balanced credit culture: While the overall corporate credit culture is maintained by the head office, on the regional level it is important to get the credit process in synch with corporate objectives and to provide answers to customer and prospects quickly and effectively.

**Commercial Banking Model – Functional Teamwork**

What follows here is proposed commercial banking model for maximizing the profitability and performance of the regional commercial banking team over the next five years. Discussed below are the various roles in the model.

Chairman and CEO: The Chairman of the Oklahoma region has overall responsibility for the credit quality of the loan portfolio and works with commercial relationship managers as appropriate to manage relationships in the marketplace on behalf of the bank as a whole.

President: The President of the Oklahoma region coordinates the commercial process and ensures that each member of the team performs their role to the best of their ability. This includes working with the regional commercial council (discussed below) on process improvement as necessary. The President will also augment the process to “fill in gaps” and create the mutual leverage which Ferrazzi discussed above. The President’s knowledge of each individual’s strengths and weaknesses (presumably discussed in performance reviews) will allow him to insert himself into the sales process as required to maximize results.

Relationship Managers: Segmenting four of the eight existing relationship managers will further create a customer driven organization. This segmentation will allow the particular relationship manager to become an industry expert in their particular market segment and thereby enhance
their ability to deliver financial products and services effectively. The specific assignment will depend on the individual relationship manager’s experience and skill set. There are currently eight relationship managers in the Oklahoma market, more than adequate to fill the four segmented RM positions. The remaining four relationship managers will work as generalists and would focus on (a) business banking (including real estate) (b) middle market and (c) corporate customers in their respective metropolitan areas.

Government/Not for profit: A statewide calling effort on government (including state and local) and not for profit entities will include prospecting for loans, treasury management products and services, and commercial cards. Additionally, the relationship manager responsible for this area will work with UMB Investment Banking in Kansas City to increase opportunities for municipal financings and bond underwritings.

Healthcare: A statewide calling effort on health care entities including hospitals, physician groups, surgery centers, acute care facilities, and other senior living centers will be undertaken by the relationship manager who takes this role. Additionally, this relationship manager would focus on developing relationships with individual physicians that are associated with the entities on which the RM calls upon. There are also opportunities at several hospitals throughout the state for bond underwritings and other investment banking products and services.

Region-wide (including correspondent lending relationships and agricultural): This position includes calling on commercial and corporate banking clients and prospects in cities and towns outside of the two major metropolitan areas of Oklahoma City and Tulsa. There are innumerable opportunities for UMB to grow its commercial client base both directly and in partnership with smaller community banks in the cities and towns throughout the state. This position will include training in agricultural lending and involve ongoing consultation with agricultural and cattle lenders in Kansas (where this model has been effective). The UMB correspondent banking group in Kansas City already has some relationship with over 150 of the banks within Oklahoma, and so
discussing partnership opportunities on those larger relationships where UMB can take the lead lending position makes sense for both banks. Additionally, UMB Commercial Cards has a program wherein UMB can work directly with other banks to deliver commercial credit cards to their customers, and the other bank can enjoy some fee revenue from this arrangement.

High net worth individuals/Professional/Executive: UMB has developed a corporate program for this position that effectively permits the individual that occupies this position to offer a range of personal credit, deposit, and investment services to customers and prospects at various stages of their professional development. At least initially, this position will only be focused on the Oklahoma City market, where there are four branches, a more substantial base of existing customers, and where the executives of the region are located (who have relationships with several prospects of this area).

Classified as generalists, the other four relationship managers will focus on developing commercial relationships (including business banking, middle market, and corporate) within their specific geographic metropolitan area. The actual location of the other generalists would be determined based on available space and other factors. Generalists would actually refer opportunities that develop within the segmented areas to the specified RM for that area.

Business Development Officer(s): BDOs are focused on developing opportunities for new commercial relationships (including all of the segmented areas described above) through their individual prospecting efforts. The BDO works with the President, and a particular RM where applicable, to get the relationship on board. The individuals occupying these positions should have clear direction to focus on commercial business development through the use of prospect lists and a high level of calling activity to insure that there is a steady stream of new commercial business coming in for consideration.

Commercial Marketing Coordinator: This position focuses on developing opportunities for customer and prospect entertainment, ensuring that all regional customers are regularly
Creating the High Performance Regional Commercial Banking Model

entertained as appropriate, and for assisting commercial relationship managers and BDOs in developing comprehensive calling plans for their particular area of emphasis. At least quarterly, these calling plans should be reviewed with the President to ensure that the resources necessary to effectively carry out the plan are readily available.

Credit Analyst(s): In order to facilitate the credit approval process, the hiring of a credit analyst experienced in the underwriting of a wide range of commercial credit would be a top priority. This individual would work independently of the relationship managers, under the direction of a senior relationship manager or President, to quickly underwrite credit requests and get an answer to customers and prospects as quickly as possible. Generally, the process should include an initial two page memorandum that outlines the characteristics of the loan for review by the President and the Chairman/CEO. If the opportunity is determined to merit additional consideration, then a complete credit package will be prepared in consultation with the customer and the relationship manager. While each credit request varies in its level of complexity, generally, requests should garner a response within one week. While the occupant of this position is a seasoned analyst, over time, there may be more junior analysts that are brought on board either through direct hire or after completion of the management training program. Generally, all new relationship managers should have some real time experience as a credit analyst on the front lines working with relationship managers to underwrite and manage commercial relationships.

Product Partners: Relationship managers will work with a wide variety of product partners both locally and in Kansas City to deliver financial products and services to commercial customers throughout the region. These functional partnerships are the key to developing the team selling model at the core of this process.

**Regional Commercial Council – Emotional Teamwork**

At the core of the commercial model is the regional commercial council which is comprised of several members (perhaps all) of the regional commercial banking team. The council focuses on
process improvement (including credit process), enhancing internal relationships with product partners, product education, product distribution, and the general culture of the regional commercial organization. The council will also focus on how individuals are working within the process, and what actions may be necessary to get team members to the point at which they are operating at their highest potential within the process.

The Council will meet monthly for one hour and the agenda items will be set by the Chairman/CEO or President, who will chair the meeting. The goal of the council is to get all members of the model working together to maximize the inherent profitability of the model. As demonstrated, the model effectively covers the entire Oklahoma market, and if everyone is doing their respective jobs well (and the other elements of the model are also working), then positive results are sure to develop.

**Expectations**
As a “learning” organization, UMB is committed to education and change and this project is completed with the expectation that it will be read and pondered by the executives in charge of the region. While the corporation as a whole has several strategic initiatives ongoing at any one time, on a regional level, we have very few ongoing strategic initiatives. The regional leadership has established a comprehensive strategic plan that includes a significant number of action items which we all endeavor to complete at a high level of performance. While this model contemplates change in many individuals roles within the organization, as a strategic initiative (and with the commercial council), it can be implemented with minimal disruption and with apparent benefits to the individuals involved.

The regional leadership’s expectations are for investments to have quick payback periods (i.e. 2 years). Projects are not funded until they are fully analyzed with supporting data and rationale. The bank has historically moved cautiously on process changes, new capital projects, and hiring decisions. This conservative approach has served the bank well in making sure that capital is protected and invested where it can generate the highest possible returns.
As the author of this report, my expectation is that I will have the opportunity to help implement and monitor the model within the framework approved by the region’s executive leadership. My involvement in the project is intended to provide professional growth for me as a member of the team and is in addition to my regular daily activities.

**Implementation**
The implementation of the model would occur on the following time table:

<table>
<thead>
<tr>
<th>Event</th>
<th>Completed by</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hiring of commercial credit analyst: Once hired, the commercial credit analyst will be introduced to the UMB credit process, and have adequate time to acclimate to the credit documents and procedures.</td>
<td>July 31, 2010</td>
</tr>
<tr>
<td>Training of those relationship managers that will transition into their respective segmented customer focus area</td>
<td>July 31, 2010</td>
</tr>
<tr>
<td>Establishment of one individual as the commercial marketing coordinator</td>
<td>July 31, 2010</td>
</tr>
<tr>
<td>Establishment of the Regional Commercial Council (meet for three consecutive months thereafter before next implementation step)</td>
<td>August 30, 2010</td>
</tr>
<tr>
<td>Continuing discussion of the regional commercial council regarding changing roles for relationship managers and business development officers, development of prospect lists, and establishment of calling plans</td>
<td>November 30, 2010</td>
</tr>
</tbody>
</table>
All participants in the process transition to their respective new roles and responsibilities in the model | December 31, 2010

As mentioned, the process improvement engine is the regional commercial council, and the council will also serve as the primary mechanism for implementing the commercial model.

**FINANCIAL IMPACT**

*Total Investment*
The upfront investment cost of implementing the commercial model is relatively limited and is focused almost exclusively on (a) some additional personnel costs associated with adding the experienced credit analyst to the team and (b) the training costs associated with transitioning existing commercial relationship managers into new roles.

Since the objective is to add a credit analyst with a minimum of five years experience, the budget should include a salary expense of $60,000 per year (plus benefits) plus a bonus opportunity of up to 5% of the salary based on the performance of the commercial team as whole.

As for training expenses, the budget should include up to $5,000 for each position that will be transitioned. Since there are four planned transitions [government/not for profit, healthcare, high net worth/professional/executive, and regional], the total upfront investment in training should total approximately $20,000.

Therefore, if we assume that the total annual investment in the credit analyst is approximately $80,000 in incremental annual expense (with annual three percent pay increases) and that there is an additional upfront cost of $20,000 in training, the total investment will cost:

- **Total Cash Outflow over five year period for credit analyst:** $424,731
- **Discounted cash outflows (at 4% DF) over five year analysis period:** $377,290
- **Upfront training cost:** $20,000
Total Value of Investment $397,290

**Five Year Analysis of the Implementation of the Commercial Banking Model**

The following analysis makes some assumptions about the incremental revenue to result from implementation of the new regional commercial banking model. The method for determining revenue is an internal client management system called Clientlink, which can have some input errors associated with it, but generally produces a solid result. Expenses are assumed to remain at basically the same level, though (in addition to the credit analyst and training) there will be some incremental travel expense associated with the statewide calling positions. Each relationship manager and business development officer has a different revenue goal for the year based on their level of experience and position with the organization. In 2009, the group produced a total of $3,568,256 in annual revenue, which resulted from a total of seven active relationship managers and business development officers. This amount can be discounted for duplicative entries where a business development officer and a relationship manager listed the sale and where a retail specialist listed a sale, and making this discount (based on business development entries into Clientlink) results in a total revenue amount of $2,107,251 or $301,035 per relationship manager and business development officer on average. The amount of incremental revenue expected to result from the new model increases over the five year period, but assumes that each relationship manager and business development officer with a title greater than SVP (there are four) would generate at least $400,000 in revenue on average in the first year (primarily from the new credit process and their ability to market more), with 12% increases thereafter. The other four positions would begin with the expectation of a $200,000 annual revenue amount with first year increase of 20% second year increase of 15% and 12% increases thereafter.

There was one unfilled position during FY’09 (already budgeted for) that has now been filled, so incremental expense from moving to the proposed commercial model would not result in an additional FTE.
Discounting back the cash flows from this project at a 4% weighted average cost of capital results in a discounted cash flow of $3,997,666, and since there is very little upfront cost associated with the change, the return on the investment is over 900%.

**Financial Risks from Implementation**
There exists very little financial risk from implementing the strategy on the expense side of the ledger. There may be some fluctuation in the incremental revenue that would result since that is dependent on the success that a particular relationship manager or business development officer has during a certain year. In the non-financial considerations below, a case is made for each of the segmented markets, though there is likely some variability in the amount of success ultimately possible due to market factors. However, on the whole, the combination of the functional and team selling components would overcome these risks.

**Recommendation based on Financial Analysis**
Based on the strong return on the upfront investment and the limited amount of financial risks, which are largely mitigated, the project appears justified.

**NON-FINANCIAL IMPACT**

**Logistical and Organizational Hurdles**
1. UMB has historically avoided specialization of its commercial banking group, believing that a generalist approach allows for relationship managers and business development officers to "spread their wings" and develop whatever business that their personal relationships

<table>
<thead>
<tr>
<th>Incremental Revenue</th>
<th>$ 292,749</th>
<th>$ 644,749</th>
<th>$ 1,003,789</th>
<th>$ 1,377,114</th>
<th>$ 1,795,238</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training Expense</td>
<td>$ 20,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Analyst Expense</td>
<td>$ 80,000</td>
<td>$ 82,400</td>
<td>$ 84,872</td>
<td>$ 87,419</td>
<td>$ 90,040</td>
</tr>
<tr>
<td>Incremental Travel Expense</td>
<td>$ 6,400</td>
<td>$ 6,400</td>
<td>$ 6,400</td>
<td>$ 6,400</td>
<td>$ 6,400</td>
</tr>
<tr>
<td>Net Contribution</td>
<td>$ 186,349</td>
<td>$ 555,949</td>
<td>$ 912,517</td>
<td>$ 1,283,295</td>
<td>$ 1,698,798</td>
</tr>
</tbody>
</table>
may generate. There may be some push back from some individuals who believe strongly in the existing system.

2. A thorough analysis of the respective markets (government/not for profit; healthcare; high net worth; regional) may be requested by decision makers.

3. Some may express concern that simply training a relationship manager in a particular area of lending and then asking that person to immediately begin generating loans could lead to additional credit risk in the loan portfolio.

4. Some of the silos within UMB may not want Oklahoma relationship managers and business development officers calling on customers and prospects that have historically been considered “owned” by that particular product silo.

5. The model requires a commitment to process and process improvement at the regional level. Historically, the home office has operated through processes, but the regional offices, at least in Oklahoma, have operated more based on individual merit and personal relationships among co-workers.

6. Concern may exist that production within the group will decline initially due to the adaptation time of adjusting to new roles within the organization. And, that such a decline is not acceptable due to strict budgetary requirements.

Overcoming the Objections
What follows is a summary response to each of the objections put forth above:

1. The areas identified for segmentation require a devoted relationship manager for several reasons, but from a sales standpoint, the main reason is that each is a statewide endeavor. Additionally, each of the areas has a proven market of a size and scope sufficient to justify a full time calling officer. The State of Oklahoma is the largest employer in the state and is located in Oklahoma City, there are innumerable non-profits in Oklahoma City and Tulsa and the 2010 Book of Lists, published annually by
the Journal Record, indicates that there are more than 44 large non-profits in the state. Regarding healthcare, there are over 22 hospitals located in the Oklahoma City area, 18 within the Tulsa metropolitan area, 15 behavioral clinics in Oklahoma City, 16 medical groups in Oklahoma City, 12 home health agencies on Oklahoma City, over 20 medical laboratories in Oklahoma City, 14 occupational health centers and 21 rehabilitation centers in the Oklahoma City area.16

2. The simple fact is that the opportunities in these segmented areas are almost limitless, and the present commercial banking model is not adequately covering the companies and individuals in these areas.

3. The credit culture of UMB including management involvement, the senior loan committee, and a tough review process, will not permit marginal deals to get through. As relationship managers gain experience, they will have more success in getting their deals through the process, but the process will not bend to accommodate opportunities that do not meet the credit culture.

4. The regional commercial council will specifically address any issues that arise with other lines of business. The objective of the council is to keep the process working well and to affect process improvement initiatives when required.

5. The implementation of effective processes can have a dramatic and often unanticipated positive impact on the bottom line. The regional commercial council will serve as the sounding board for all process issues and provide a means for individuals to effect process change when necessary.

6. While there could theoretically be some initial decline in productivity among some relationship managers as a result of this change, since there are no other UMB officers

16 2010 Book of Lists, The Journal Record, 42-52
CONCLUSION
The regional commercial banking model creates processes and safeguards to bring about needed change to the Oklahoma commercial banking function. The model outlines the means by which market coverage is increased, teamwork enhanced, and the credit process improved. Additionally, the model provides a means for effecting process improvement through the establishment of the regional commercial council. As the Oklahoma region moves forward, the time to create processes to handle increasing amounts of work is now. Everyone agrees that improving market coverage of commercial clients throughout the state must be a part of the strategic objectives moving forward, and the proposed model accomplishes this worthy goal.
Creating the High Performance Regional Commercial Banking Model

APPENDIX

Chairman and CEO

President

Credit Analyst

Government /Non Profit RM
Healthcare RM
High Net Worth/P&E RM
Regional RM

Metro Generalist RM
Metro Generalist RM
Metro Generalist RM
Metro Generalist RM

Commercial Business Development Officer
Commercial Marketing Coordinator

Regional Commercial Council
Process Improvement
Participatory Accountability