By Anna Burgess Yang

Don't slow technology spend in a downturn

Anna Burgess Yang

I worked in fintech during The Great Recession and it was really unpleasant. The company's target customers were community bankers and their interest in technology dried up as they dealt with far more pressing issues within their institutions. Around late 2009, there was a huge rebound as banks came up for air and realized that they needed to get back on track with technology. By that point, many of them were playing catch up — having lost nearly two years from placing their technology plans on hold.

According to Cornerstone Advisors' "What's Going On in Banking 2022" report, more than 80 percent of community financial institutions reported increasing their technology budgets from 2021 to 2022. Of course, that report was released much earlier in the year and a lot has changed over the past few months.

The word "recession" has been hanging like a dark cloud for awhile now and no one knows what will happen. With such uncertainty, community banks may be tempted to cut back on spending for large projects. But doing so puts new customer acquisition and other bank growth at risk, especially if tabled plans include products that improve the customer experience.

Reprioritize if necessary

Community banks may have a technology roadmap (perhaps planned years into the future), but a recession may require a detour.

Foundational changes — such as selecting a core accounting system built for digital transformation — should stay the course. But other ancillary changes should be reviewed, prioritizing the customer-facing products over bank efficiency, as an example.

Your customers might be stressed during a period of economic recession. Products such as personal finance tools might have been lower on the list but make more sense to implement now, given the economic climate. And many technology vendors make it easy to get up and running.

A recession (like a pandemic) could last for years. It's time to have an internal discussion about changes in technology prioritization. And perhaps put a process in place so that your bank knows how to review and reprioritize in response to external events in the future.

Consider cost-saving measures

If your technology budget has to decrease, there are ways to stretch your dollars further without cutting back on your technology plans.

Many vendors offer "bundles" of products — and you don't have to buy the entire bundle upfront. Bundles often come with cost savings, but if you only need one product out of the entire suite now, you can opt to add more later.

You can choose a more cost-friendly vendor versus products with a lot of bells and whistles. This might include looking at some fintech startups with niche product offerings; they can be more affordable than established players in the market. Just make sure to balance choosing a more basic product against future needs. You don't want to save money today if it leads to changing products and/or vendors within a few years.

And if your budget shrinks, negotiate with new vendors. Chances are, they're finding it harder to sell as banks tighten their belts. Let the potential vendor know that your circumstances have changed and ask for pricing considerations or lower upfront commitments.

Renegotiate with your existing vendors and apply any savings to new product investments. This may not be possible if you're mid-contract, but most vendors would rather renegotiate an existing agreement than risk losing your bank's business.

Prepare to meet consumer expectations

It's well-known that the pandemic accelerated consumer demands for digital products such as mobile banking, online banking and online loan applications. No one expected a global pandemic, so the shift was more like a jolt.

If the United States enters a recession, we don't know how consumer expectations will change, but it's safe to say that they won't rely less on technology to do their banking. Expectations will keep marching forward, even if the economy slows.

At the onset of The Great Recession in 2007, neobanks were barely a concept. Today's consumers rely even less on physical proximity to a branch location, so their bank options are nearly limitless. Community banks can't afford another pause in their technology plans, or they'll find that they have an even tougher mountain to climb on the other side of a recession. ◆