High-Impact Credit Training Blog

How to Reduce Credit Risk and Employee Friction at Banks

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Determined to increase sales and market share, banks continue to focus on external communications. They develop marketing and corporate communications strategies designed to reach target audiences and convert them to bank customers.

Undoubtedly, developing strong external communications programs to reach audiences continues to be critical to bank revenue growth. However, recent events in the lending community that led to significant losses for many banks prove that greater focus on internal communications is crucial.

In fact, regulators have charged banks with creating a risk management framework that meets a substantially increased array of new rules. Consequently, financial institutions have become focused on substantially reducing loan defaults related to poor credit policies. Increasingly, banks have made it their mission to build credit-driven cultures where all staff is responsible for managing credit risks.

But all too frequently, lending policies get miscommunicated due to lack of consistent internal communications. That leads to increased employee friction when staff make credit approval errors.

Those key employees then lose faith in those managers who are responsible for ensuring policies are regularly and correctly communicated to them. Banks can create and execute formal internal communications plans to prevent these issues.

Internal Communications Plans Are Now Mission Critical

Senior management and the board of directors, as a part of their risk governance obligations, have specific responsibilities related to internal communications. Naturally, they must establish goals, objectives, and strategies related to effectively managing credit risk. But management also must effectively express them as the bank's mission across all business groups and to each staff level.

To fully convey that mission throughout a bank, institutions must go beyond occasional memoranda about credit risk mitigation. Banks must create a formal, focused internal communications plan that routinely transmits this charge.

This strategic internal communications plan should become part of a bank's risk governance framework. Moreover, credit risk training that facilitates consistency in your bank's lending practices should drive the program's strategy and tactics.

The bank's communications team should also engage in that training so they gain a foundation in credit risk mitigation and conversational tactics related to closing loans. That way, they can develop messaging that incorporates the organization's credit risk language.

What Successful Internal Communications Plans Do

Senior management can closely collaborate with their corporate communications executives to create this mission-driven internal communications plan. By doing so, they can cultivate a plan that emphasizes bank-wide involvement in ensuring financial safety.

Below are several outcomes your bank can expect from using this strategy to both reduce credit risk to banks and decrease employee friction related to miscommunication while increasing employee engagement. Some insights and strategies for implementing an effective internal communications plan that supports your credit risk culture-building initiatives also follow.

Enhanced Employee Trust in Senior Management

An internal communications plan that includes regular direct messages from, and opportunities to connect with senior management increases employee trust. Use your internal campaigns to demonstrate the bank's top down commitment to supporting employee involvement.

Senior management's participation in ongoing advanced credit risk training customized to your bank's unique organizational structure aids in transmitting this pledge. Consider designating senior leaders as coaches who, through advanced training, keep the bank's workforce motivated to take their role in credit risk reduction seriously.

Because your corporate communications managers are experts at structuring messaging to achieve key objectives, senior management should take its cues on messaging from them. They will help you leverage their credit risk reduction focused communications plan to display your consistent, transparent leadership in this area.

Remember your communications team must execute this plan routinely with your complete support and involvement. That includes allocating necessary resources to make sure it succeeds.

Reduced Faulty Lending Decisions

An internal communications program that includes educational components based on your credit risk and conversation skills training reduces poor lending decisions that lead to financial losses. Your institution should include an employee newsletter or blog, podcasts or videos, and an employee forum in the program.

When implementing new technology, consider the different needs of your employees based on their career stage and level of technological sophistication. Consider security issues in choosing and using digital platforms and train those who need help to use them effectively. Further, be sure to implement specific policies for their application.

All these tools allow your bank to implement new policies and procedures quickly. They also offer ways to conduct ongoing coaching and training on new and current risk management practices. Moreover, these tools facilitate real conversations among employees *and* provide an opportunity to obtain feedback on bank loan programs. Leveraging this collaboration allows you to spot and resolve lending issues before they lead to adverse credit outcomes.

Additionally, promote enhanced communication between groups by designating managers in each unit as contacts for employees who need help with lending policies and credit applications. Rapid information transmission works well and face-to-face meetings, activities, and training to resolve problems and reward successes are crucial.

Increased Employee Confidence

Robust internal communications programs are as much about building employees' confidence in their understanding of credit policies as they are about conveying information. Do not only send missives or directives to your team; instead, consistently encourage two-way conversations.

Your employees are your internal customers, and they want to feel as important to your bank as external ones. They need to feel confident in their ability to apply the right credit strategies. They also must be assured of their value in implementing your credit risk policy framework.

A properly constructed internal plan will decrease the friction that results when this confidence is missing because of a lack of communication. That friction triggers fear and mutual distrust between management and employees. It also precludes meaningful conversations between staff and management that prevent credit-related losses caused by misunderstandings, mistakes, and fraud.

Thus, it is important to use your internal communication and training strategy as a way to maintain open and honest interactions between business units as well as your workforce and senior management. Building employee engagement this way increases both internal and external confidence and builds your bank's reputation among new hires *and* new customers. That leads to new revenue opportunities and reduced regulatory violations.

Improved Customer Experience and Trust

Customer experience has become the primary client retention strategy for banks. Your bank's internal communications plan and related collaboration tools provide opportunities for enhanced communications with customers. You can use the internal program to convey new conversation skills and strategies to employees for winning customer trust and business.

Additionally, because you have routinely disseminated consistent credit policies across the bank, you'll be able to answer customer inquiries quickly and accurately. Customers now also expect banks to use technology efficiently to serve their needs.

Through your internal communications program, you'll have implemented and trained your workforce to use the right combination of communication, technology, consistency, and efficiency to serve customers. Coupling that plan with credit risk and conversations skills training helps you "know your customer" which will improve their experience and build their trust in your organization.

By investing in a robust internal communications plan, you can maintain consistent bank-wide messaging about your credit risk reduction mission. Your bank will unify its workforce around your goals and objectives and reduce internal conflict and financial losses that poor communication causes.

Your bank will also be on its way to stronger employee engagement which leads to improved customer experience and healthier market share. To find out more about how your bank can gain the most benefits from being a credit driven organization, download our latest white paper.

BEST PRACTICES FOR A CREDIT-DRIVEN FINANCIAL INSTITUTION

Learn best practices for *building a foundation of credit skill and knowledge* among all employees and *creating a strong risk management culture* to protect the financial safety of your institution.

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