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fresh ideas...

Too Many Cooks

The expression "too many cooks spoil the broth" was considered a proverb as early as 1575. The saying alludes to a situation where too many people involved in managing an activity can result in disaster. For example, an orchestra with no conductor can lead to every player having an idea about how a certain piece of music should go. A disorganised cacophony in the making for sure. Of course, the original expression alludes to a multitude of cooks adding something to a soup, which, in the final analysis, tastes awful.

Consider the most literal example of how not to fall into this trap. I attend a fine restaurant wearing the attire chosen for me by the Managing Director and bearing the sunny disposition also demanded by she who must be obeyed. The person who took our booking seats us and explains the menu. Drinks are ordered and arrive poste-haste, as is the MD's want. A food order ensues, is presented to the kitchen and magically the culinary delights appear. In the entire process there is scant room for error or miscommunication.

Now, imagine if the person who took your booking never spoke to the floor staff. Imagine if the person who took your order passed that order to a third person who reviewed it, made clarifying amendments and took it to the kitchen. Imagine if the junior chef then commenced to prepare the meals and, upon some form of completion, presented the faire to the head chef for review. Imagine that the Master Chef wannabe was less than impressed and sent junior back to have another crack. Time passes and the MD becomes restless.

All the while the drinks order has been outsourced to a third party beverage presentation manager who has no idea what food you've ordered or when. While I think we can all agree that the chilled Dom Perigon '95 should arrive in concert with the recently deceased crustaceans there is zero timing coordination and the whole sorry saga ends in a culinary debacle of epic proportions. Setting aside that somehow this will end up being my fault, it's clear that any process with too many steps is fraught with danger. This is particularly true of processes that demand some sense of timing and urgency. The really good food and beverage professionals have this down pat, the banks less so.

To be fair the sad and sorry state of credit decisioning and service delivery within our banking sector is not entirely of their own making. The mountain of industry legislation and compliance combined with pressure from the consumer protection lobby has created a near perfect storm. Throw in the resources required to manage Covid driven borrower support and implementation of half thought through government backed business lending measures and the category 4 cyclone moves to category 5.

Then, just as the storm can get no worse the regulators put the absolute frighteners up the lenders by dishing out punitive punishments for minor infractions just to keep the baying mob of offence seekers and consumer protectors happy.

Within this framework the banks have adopted processes that make the previously mentioned culinary train wreck seem like a well-oiled machine. For some perspective let's take a look at the life of a typical business finance application.

Your broker prepares an invitation to tender for the business and sends said invitation with supporting documents and analysis to a range of lenders. The invited lenders react in various time frames demonstrating a range of service attitudes that go from encouraging to no reaction at all. Finance proposals start arriving while those lenders that have failed to communicate are chased….and chased…and chased.

A lender is chosen and a formal application is lodged with the bank's relationship manager. The manager, depending on the bank, reads the application and supporting documents in a timely fashion and asks any clarifying questions. That's the best scenario. The worst scenario and a popular option is to read nothing and wait for the verification report / due diligence / valuation to arrive. By then finance is looming and the bank have done zero in preparation for submitting the deal to credit.

The due diligence and verification reports turn up and the bank instructs a valuation. In a perfect world the valuer has already been briefed and provided with contracts. Best to have a head start but this level of file management is rare. In the interim various levels of work are being completed at the bank. These range from a full credit submission waiting to go as soon as the valuation lands to absolutely no pre-work pending the valuation.

In many cases the file is passed on to a support person. That person may report directly to the relationship manager and be in the same office. They will probably know something about the industry and be able to make a reasonable job of assisting with the file. Sadly, in some cases the support person is part of a remotely located team and it's pot luck in terms of who picks up the file.

At some point the proposal lands on a credit managers desk. Depending on the banks it's been through up to five sets of hands with no guarantee that those hands communicate well or understand the specific industry. The credit manager's knowledge of the file will range from having been fully briefed from the outset to zero. As is the way of credit managers there will be questions. Those questions will be posed to a bank employee who's industry knowledge, credibility and courage to argue the point will range from hero to zero.

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With any luck, after finance extensions and much stress, an approval will be forthcoming. Sometimes it looks like the original bank quote, sometimes we wonder if we 've had the right deal ticked off. The approval gets discussed and sometimes amended but mostly it stands regardless of what undertakings were made at the outset. Our client accepts the offer and goes unconditional. With a bit of luck the bank don't surprise us with a whoops, need to get our lawyers to review the agreements after our client is unconditional. It happens.

The file now heads off to the bank's loan documentation area and at some point, documents arrive. They are executed and head back to the bank where they are checked by the securities and settlements team. At last, settlement can be booked in. Now, provided the outgoing bank haven't lost any original documents that are required at settlement and haven't dragged their feet on preparing security releases we are half a chance of actually settling. It's a miracle !

Not all of this is the fault of the poor buggers on the front line. What we are witnessing is the outcome of a combination of factors. Certainly, Covid has impacted workplaces and the banks are no exception. That said, business lending managers in many banks have long been under-resourced and have insufficient authority to make things happen. There seems to be a growing tolerance at senior management level for poor service as those same senior managers cut staff in a quest for so called efficiencies. Lenders are terrified of offending the law makers and vested lobby interests and have implemented policies and systems in an attempt to make lending as compliant and risk free as possible. The problem is that no one seems to have thought of the end user in the implementation plan.

Back in the day when I worked at the bank we met the client or broker, took the application, read everything as it arrived, briefed our locally based credit manager if the deal was outside our authority to approve and kept a very very close eye on the finance date. We each had a support person in the next office and we worked the files together. We knew the industry back to front and our credit manager knew that. If we missed a finance date that was a serious matter and my boss didn't hesitate to let me know of his displeasure.

It's not the cheapest service delivery model but it's the best. I wonder if any of the lenders implementing efficiency strategies will have the courage to offer a full service guarantee option and charge for it. I wonder if the average Aussie borrower would pay for it. I would.

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