

# New Product Development – A Big Challenge and a Potentially Big Reward

By Barry A. Abbott



**A**fter the Great Recession began, most financial institutions focused on survival and not on innovation. Now that the economy seems to be stabilizing, thoughts have begun to turn to new ways to increase the top line. New Dodd-Frank Act restrictions make this ever more difficult, but successful bankers continue to explore new product opportunities.

The development of a new product for a bank or other financial institution typically requires careful coordination among the bank's finance, marketing, systems and legal areas, and usually requires buy-in from senior management and the board of directors. The following are some of the areas a bank (and its holding company) should consider before proceeding.

## 1. Determine whether the product is new to the industry or only to the bank

Most independent banks will not be developing a truly new product, but will only be implementing, and perhaps modifying, a product used by other institutions. If there are other institutions that market a form of the proposed product, it is extremely valuable (if possible) to obtain copies of the other institutions' forms and to discuss the product's financial and legal aspects with those other institutions. Some product forms (such as credit card initial disclosures) are available publicly through governmental and other websites. However, it is important to recognize that the fact that other banks are offering a product is not assurance that they are doing so in either a legal or a profitable manner and that, to be in legal compliance, all of the product's disclosures, documents and marketing materials have to reflect accurately what your bank and its systems are actually doing. In the event that your bank is developing a truly new product, it is important to meet first with knowledgeable financial and legal advisors, who should be able to provide some initial advice as to the issues that your bank is likely to face before you expend a lot of time and money on an idea that may not work.

## 2. Make sure you have the answers to the initial basic questions

Be sure your bank has done its initial due diligence on the new product. What is the need for the product in your

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market, and what will it take to get the product widely accepted? What is the anticipated cost-return for the product for each of the next few years? What are the legal requirements or constraints? What will the new product require from your bank's computer systems? How much will legal and systems costs be to develop and maintain the product? What, if any, effect will the product have on your bank's capital ratios?

### 3. Pull together a strong team

Invariably, the quality, timeliness and ultimate cost of a new product depend on the quality of the team the bank has working on the development project. Extremely competent financial, legal and systems people usually are essential to develop a profitable and compliant product in a

timely manner. Moreover, early advice from knowledgeable advisors can help the bank design the product to avoid limiting regulations, even while still meeting the anticipated customer needs. With regulations being ever more encompassing and complicated, this is clearly an area where "the devil is in the detail" and where slight redesigns early on can save significant costs.

### 4. Monitor the product and customer feedback carefully after launch

It is important with any new product to monitor carefully the financial, legal and systems effects over a relatively long period of time and until the bank becomes completely familiar with the product, including

its margins and its compliance risks. Don't be afraid to cancel or modify the product if you discover issues or problems with it. ●

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