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A REGIONAL BANK'S SURVIVAL SAGA

Last spring, Western Alliance CEO Ken Vecchione stared down every banker's worst fear: the threat of a deposit run. Here's an in-depth look at the company's playbook.



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FROM THE EDITOR



By Jackie Stewart

It's been almost a year since, on a Sunday in March, I happened to see the news that Signature Bank had failed, spurring me to utter a four-letter word I can't print here. I knew that event would upend my well-laid plans for this magazine.

This month's cover story commemorates the one-year anniversary of the banking crisis that unfolded last spring. Silicon Valley Bank failed on March 10, 2023, which was followed by Signature just two days later. First Republic Bank was taken over by regulators in May. Those three failures represent three of the four largest bank failures in U.S. history.

But this month's cover story doesn't seek to rehash what led to the demise of those institutions. Instead, it looks to tell the tale of survival.

Western Alliance Bancorp. in Phoenix was particularly hard hit by fears that consumed the industry last year. Its stock price plummeted on the Monday after Signature's failure and it lost about \$8 billion in deposits in that single day.

At that time, Western Alliance's management team was fighting to quell market contagion and prevent a run on its deposits. It's hard to imagine a more significant challenge for any bank to face.

But the \$70 billion-asset Western Alliance pulled through when some of its once-venerated peers didn't. Why? Veteran American Banker reporter Kate Fitzgerald met with the company's management team at its headquarters on the 14th floor in the CityScape building in downtown Phoenix to learn about the key decisions it made that likely meant the difference between its survival or it becoming another addition to the list of the biggest ever bank failures.

The company's management team said the experience meant stressful days, working long hours and drinking too much Coca-Cola. But the bankers also learned important lessons and are now able to move more quickly to respond to any potential threat. All of that was tested just months after the initial crisis when reports came out in May that Western Alliance was looking to sell. Management was ready to squash any doubts about its gumption.

"We're not the bank we were before the crisis. We're more prepared and we can react as quickly as events unfold," one Western Alliance executive says. **AB**

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What will the impact of the CFPB's open banking rule be if implemented?



John Pitts
Global head of policy,
Plaid

This fall, the Consumer Financial Protection Bureau will finalize its 1033 rule to accelerate open banking and give consumers more control over their financial data.

With these new requirements around the corner, financial institutions and fintechs may disagree on the fine print, but there is strong support for the significant consumer benefits and protections the rule will create. For forward-thinking institutions, the 1033 rule can also drive opportunities to better serve their customers and meet ever-growing expectations for digital finance.

The 1033 rule would ensure consumers are guaranteed the right to access and share their financial data. Financial services companies would be required to allow consumers — and third parties they authorize — to access account information such as transactions and account balances.

These changes make sense. Consumers' preference for, and adoption of, digital services has revolutionized most of the economy. People communicate via Slack, order their groceries on Instacart and access health care via Zoom. Consumers expect financial services to work the same way.

For many, visits to local bank branches have been replaced by digital banking and mobile apps. Services like Venmo, Zelle and CashApp are substituting for cash

and checks. Digital tools have made it easier for consumers to access financial advisory services that used to be exclusive to wealthier clients. In order for any of this to be possible, people must be able to easily and securely share

their financial information with apps or services they choose. Some banks are already embracing this and have begun to meet these consumer expectations; those banks that don't adapt quickly risk losing customers to those who do.

The rule could also be a much needed boon for small banks and credit unions lacking billion-dollar tech budgets and struggling to meet the demand for digital finance. If a customer can link all of their favorite apps to one bank account, the customer doesn't need to switch to a different institution in order to access the digital financial services they want to use — from investing apps to digital payments to budgeting tools to buy now/pay later services and more.

In fact, Rohit Chopra, the director of the CFPB, has referred to open banking as a business opportunity for com-

munity banks to “steal the lunch” of bigger competitors. Once the CFPB's rule is finalized, customers at community banks and credit unions would have a right to share their data to access a range of digital financial services. Likewise, smaller institutions can also leverage data to offer their own personalized products and services as well as

Pitts (continued on page 38)



Ryan T. Miller
Vice president and senior counsel of innovation policy,
American Bankers Association

Financial services firms should view the pending implementation of Section 1033 of the Dodd-Frank Act as a business opportunity. However, some details still need to be worked out, including ensuring that consumers are protected.

Whether you know it as open banking, Section 1033 or personal financial data rights (if you're not into the whole brevity thing), the Consumer Financial Protection Bureau is about to shake up the way consumers access their financial information.

Stakeholders scrambled the jets to provide their feedback on the bureau's 299-page behemoth of a proposed rule before the Scrooge-esque deadline of Dec. 29. Even the CFPB's sister agency, the Small Business Administration, asked more than once for additional time for small-business owners to comment. The rush job was unfortunate; not only because the 12 days of Christmas turned into the 12 days of writing comment letters, but also because it detracted from a foundational exercise in creating a new regulatory regime. The proposal was far from perfect and the CFPB still has a lot to do to make sure consumers are protected and market participants aren't set up to fail. There's the lingering question of what API specs to build around, how to balance access to information with fighting fraud and even something as basic as which account types are in scope, for instance.

While a handful of nonbanks might be subject to some form of scrutiny by the bureau, the vast majority are fintechs that fly under the radar. The Federal Trade Commission has retrospective enforcement powers, but this is unable to catch and prevent ongoing consumer harm.

All the lofty principles in the bureau's rule count for little if they are only enforced selectively. Consumers deserve to be protected consistently, regardless of whether the entity is a bank or a nonbank.

While we wait for the CFPB's next moves, we can start to think ahead about what the regulation might mean for banks. One of the most interesting concepts of the data sharing ecosystem is that entities can play different roles depending on the situation. In other words, they can wear many hats. It's very easy to fall into the trap of thinking that a bank is always going to be a data provider, and they do generate nonpublic personal financial information in the course of their business operations.

Therefore, it is true that they will have to send out financial data to third parties based on their customers' consent. However, banks can just as easily obtain the consumer consent necessary to bring in data.

There is a steep learning curve for 1033 — developer interfaces, qualified industry standards, authorization/authentication/revocation — it's a lot to take in. But it's important to remember that as significant as the compliance costs will be for the personal financial data rights rule, it also presents potential opportunities.

In short, banks can use consumer-permissioned data

Miller (continued on page 38)

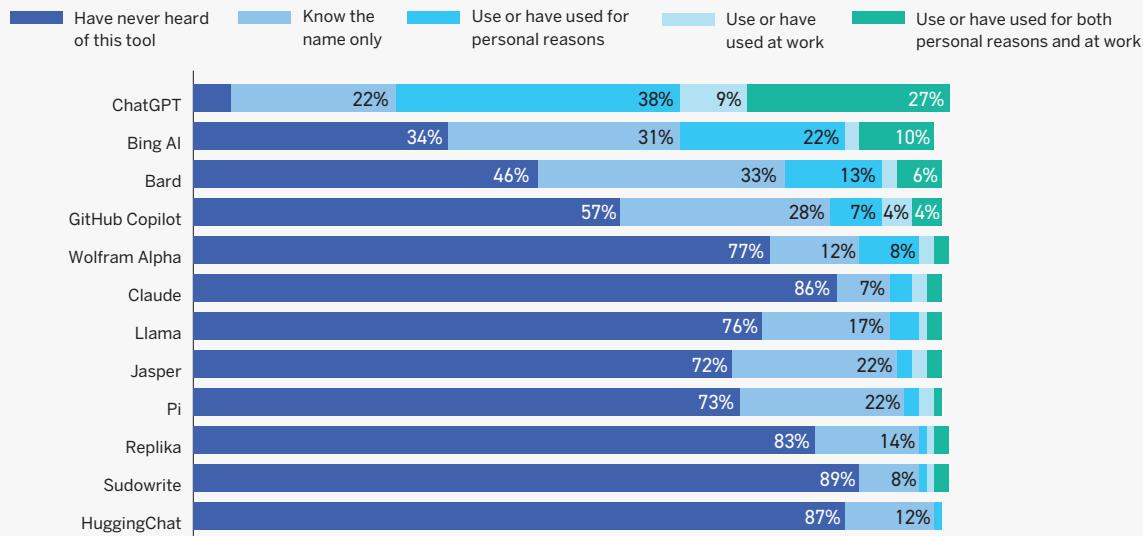
“[I]t's important to remember that as significant as the compliance costs will be for the personal financial data rights rule, it also presents potential opportunities.”

Harnessing the potential of artificial intelligence

Interest in generative artificial intelligence exploded in 2023 as the capabilities of some large language models, such as ChatGPT, took many by surprise. But the banking industry is still grappling with how to implement these tools.

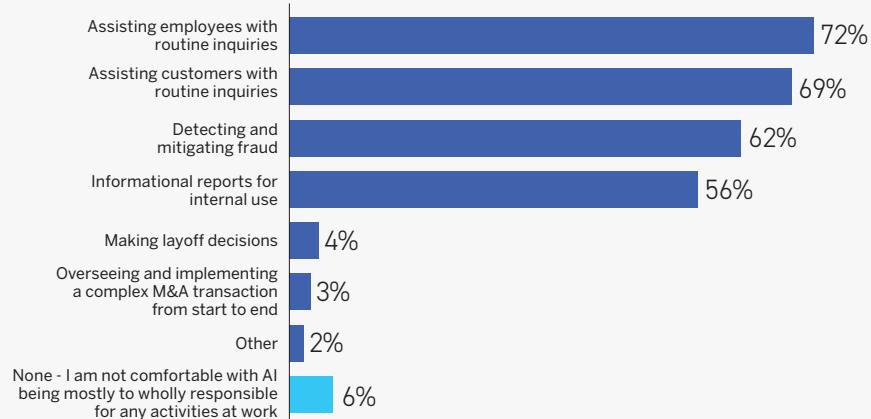
The great unknown

Bankers were most familiar with ChatGPT, a chatbot launched in 2022 by OpenAI that garnered significant attention last year, for its ability to provide seemingly detailed answers to users' questions. But experience with other AI platforms fell off significantly, according to the research report, "Unleashing the Power of AI in Banking" from Arizent, which is American Banker's parent company.



The possibilities

Bankers are considering ways that AI could be used in the workplace, with assisting employees with routine inquiries being the most cited in the Arizent research. Assisting customers with routine inquiries and detecting and mitigating fraud were also high on the list. Implementing a complex M&A transaction and making layoff decisions were ranked at the bottom.

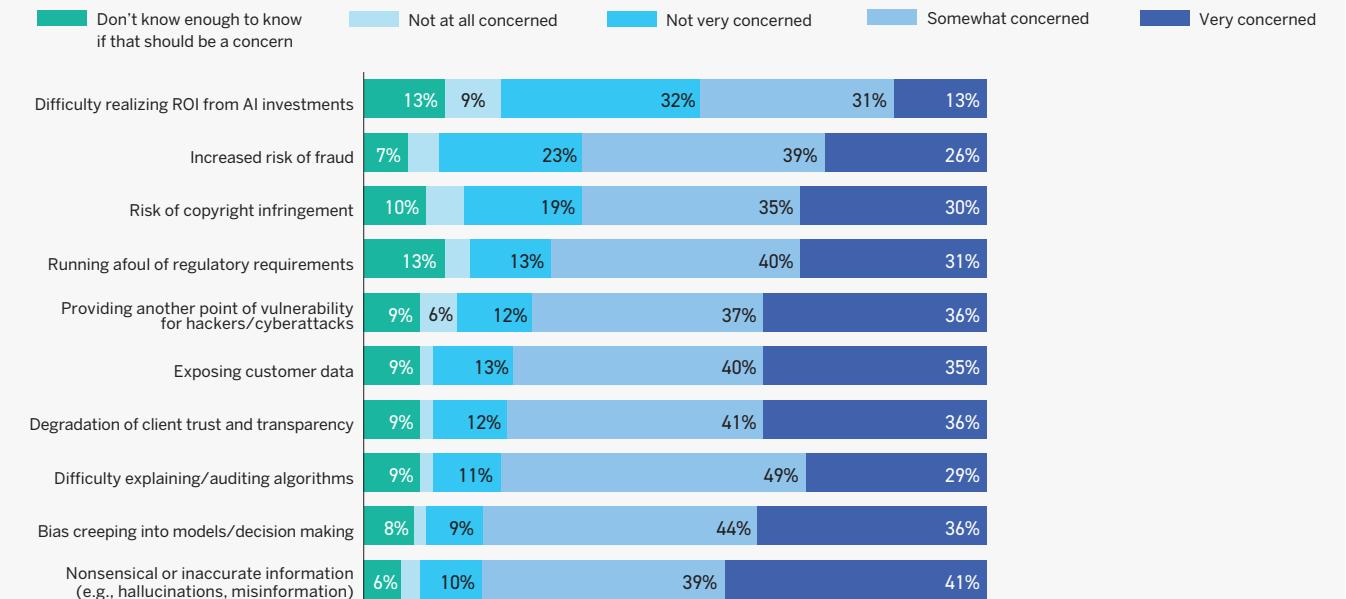


Source: Unleashing the Power of AI 2024, Banking sample

The pitfalls

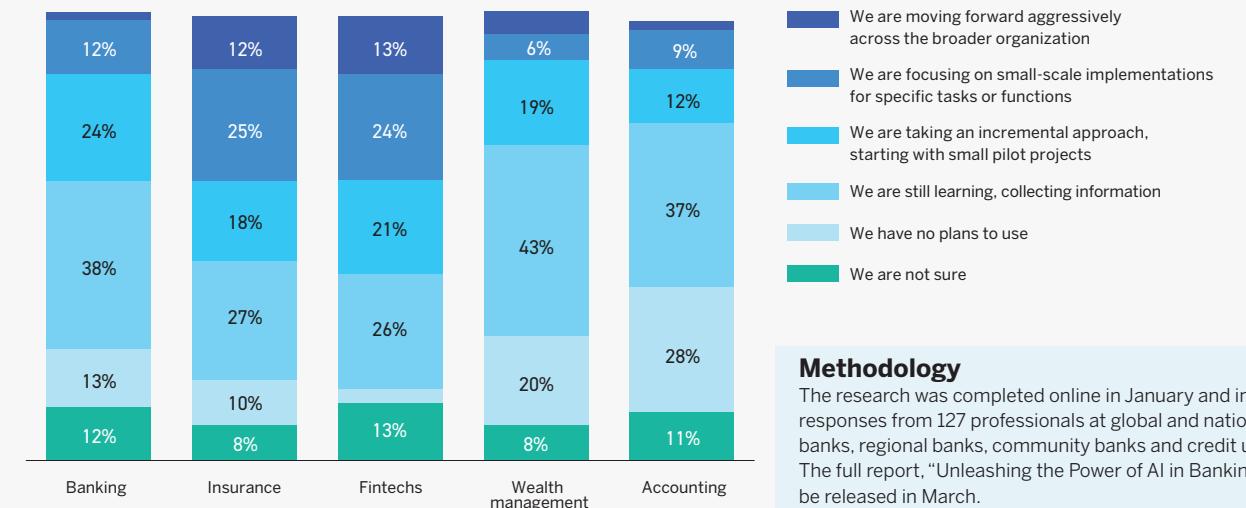
Despite the potential for AI to help bankers in a number of ways and across different functions, there are still widespread concerns. The potential that AI could provide nonsensical or inaccurate information topped the list of risks bankers outlined. That was followed by bias creeping into decision making.

Please scan to view the research report



Who's in and who's out

Banks were in the middle of the pack when it comes to adopting generative AI tools in the next year to 18 months. Fintechs were the most enthusiastic, with 58% of these respondents saying they were moving toward implementation in some way.



Methodology

The research was completed online in January and includes responses from 127 professionals at global and national banks, regional banks, community banks and credit unions. The full report, "Unleashing the Power of AI in Banking," will be released in March.



The Justice Department has secured \$122 million from a dozen banks and mortgage companies in redlining cases since Attorney General Merrick Garland announced the agency's Combat Redlining Initiative in 2021.

Photo: Bloomberg News

Racist emails becoming focal point in redlining settlements

The Justice Department and the CFPB are increasingly relying on emails among employees that contain discriminatory comments to strengthen their hand in cases against lenders.



By Kate Berry | March 2024 | 10 Min Read

When the Justice Department alleged last year that American Bank of Oklahoma had engaged in redlining, emails containing racial slurs became a focal point of the allegations. One bank executive forwarded an email that proclaimed "Proud to be White!" and used the "N word" in

its entirety and other racial slurs.

In another separate redlining case against Trident Mortgage, the Justice Department described how loan officers, assistants and other employees received and distributed emails containing racial slurs and content that used racial tropes and terms. The communications sent

on work emails included a photo showing a senior loan officer posing with colleagues in front of a Confederate flag, and pejorative content related to real estate and appraisals and content targeting people living in majority-minority neighborhoods. Trident, which is owned by Warren Buffet's Berkshire Hathaway, settled the DOJ's complaint in 2022 for \$24 million.

Since the Justice Department launched its Combatting Redlining Initiative in late 2021, racist emails have received more attention from both the DOJ and the Consumer Financial Protection Bureau in an effort to show racial bias has permeated a company's culture.

Discriminatory emails on their own have not been used to allege redlining. Rather they are combined with key lending statistics that show how lenders compare with their peers in making loans in minority communities and whether a lender has avoided locating branches or hiring loan officers in minority communities. All of that, taken together, is then used to show intentional discrimination. In some cases the emails help regulators differentiate among lenders that are not providing equal access to credit.

Banks rarely push back against redlining claims and typically choose to settle such cases, often citing the cost and distraction of protracted litigation as the reasons for reaching an agreement with authorities. But some legal experts say that financial institutions have little control if a racist email is sent to an employee from outside a company. A distinction is being made when discriminatory emails are sent by a company's employees, or are forwarded to others even without comment.

"Holding a company accountable for an employee's views or statements, even when those statements are inconsistent with the company's values and culture, places a burden on that company to censor its employees to avoid the risk of being branded as a discriminatory lender," said Andrea Mitchell, managing partner at Mitchell Sandler, who represented American Bank of Oklahoma.

"There are limits on an employer's ability to prevent staff from receiving racially insensitive emails or sharing personal views to exercise their right to freedom of expression," she added.

Still, legal experts are quick to point out that discrimination is against the law. Employees have no First Amendment rights to assert when using a company's

communication system.

"If there are racist jokes or an employee saying they're proud to be white, they're not going to have much of a case on free speech grounds because no one is punishing the employee for saying it. They're just using it as evidence to bolster claims of discriminatory intent," said David E. Bernstein, a law professor at George Mason University School of Law.

Lisa Rice, president and CEO of the National Fair Housing Alliance, recalled working at the Toledo Fair Housing Center nearly two decades ago and routinely sending requests for emails, text messages and audio and video recordings that included a list of specific racial slurs.

"We've always been able to use public statements, verbal or written, as evidence in fair housing and fair lending cases," said Rice. "You can request for emails to be turned over and those emails can be used as evidence and as evidence of discrimination. And they might even be used as evidence of discriminatory intent."

She added that regulators "may not have gone full throttle" in using emails in the past to bolster claims of intentional discrimination.

To be clear, racist emails are found in a minority of redlining cases currently being brought by the DOJ. Though searching hundreds of thousands of emails or texts is a ponderous task, sophisticated tools, including those that utilize artificial intelligence, can make it much easier to root out racist terms. In some cases there may be just a handful of racist emails out of hundreds of thousands.

"This is old-school redlining using new techniques," said Ken Thomas, president of Community Development Fund Advisors and an expert on the Community Reinvestment Act, which requires that banks lend to low- and moderate-income communities. Among the LMI population, about 60% are minorities, he said.

Thomas said regulators are searching for the digital-age equivalent of a smoking gun.

"They are checking emails, Instagram and text messages, looking across the board at all communications, period," said Thomas. "It's more than a smoking gun. It's a gun with fingerprints and blood stains on it."

Bernstein agreed, adding that the emails typically are used as supplementary evidence to get a bank or lender to agree to a settlement rather than have a case go to trial.

“If there are racist jokes or an employee saying they’re proud to be white, they’re not going to have much of a case on free speech grounds because no one is punishing the employee for saying it. They’re just using it as evidence to bolster claims of discriminatory intent.”

David E. Bernstein,
Professor,
George Mason University
School of Law

“Some of the emails may actually signal a racially charged environment where you wouldn’t really trust the people not to be discriminatory and some may just be from a few adolescent-types sending silly or stupid jokes that they really shouldn’t be sending, but either way it’s not gonna look good to a jury or the public,” he said. “If it ever got to a jury, the government says, ‘Look, here are these five emails that show the racist environment people are working in.’ That’s a very effective tactic.”

Since Attorney General Merrick Garland announced the Combat Redlining Initiative in 2021, the department has secured over \$122 million from 12 banks and mortgage lenders to resolve redlining allegations. The Justice Department is working with its civil rights division and U.S. attorneys’ offices in coordination with the Office of the Comptroller of the Currency and the CFPB. Garland has said the DOJ has 25 redlining cases in its pipeline.

Garland has spoken about how lenders are breaking the law by redlining and he has put a priority on cracking down on lenders to redress past wrongs. He also has highlighted how the gap in homeownership rates is wider today than in the 1960s. The homeownership rate for whites currently is 74% compared with 45% for Blacks, a 29-point gap, according to the U.S. Census Bureau.

In 1960, the homeownership rate was 65% for whites and 38% for Blacks, a 27-point gap.

The gap in homeownership is wider now than before the passage of the Fair Housing Act of 1968, which bans discrimination in home lending. That’s the law that the DOJ typically uses to bring discrimination cases against lenders. Additionally, the CFPB has jurisdiction over the Equal Credit Opportunity Act, which prohibits discrimination in any aspect of a credit transaction.

“Redlining remains a persistent form of discrimination that harms minority communities,” Garland said at a news conference in 2021, when the DOJ first announced its redlining initiative.

He also has stated that “redlining is a practice from a bygone era, runs contrary to the principles of equity and justice, and has no place in our economy today.”

Rice said that the increase in redlining cases suggests that lenders need more training in compliance management and fair lending.

“Every single year the federal regulatory agencies conduct fair lending training and HUD provides all kinds of training on best practices in fair housing to learn about what are the best practices and what you should and shouldn’t do,” she said.

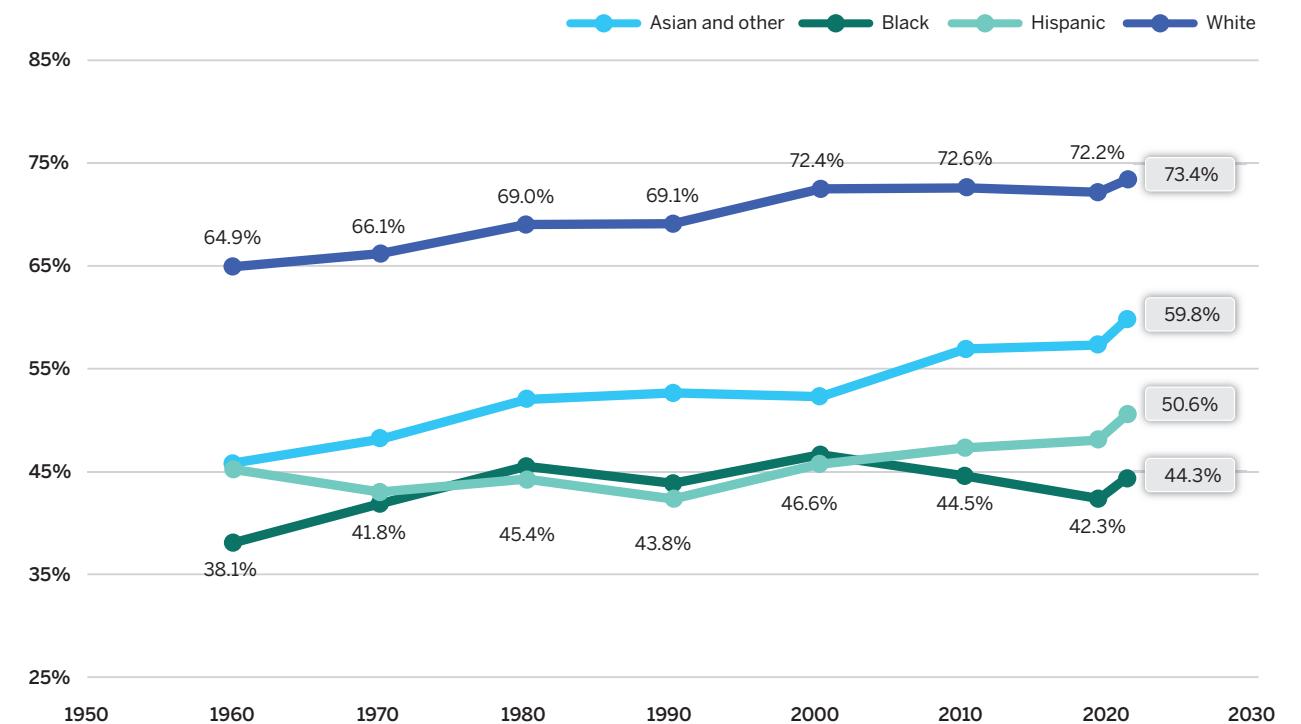
Still, some experts have voiced concerns that incendiary emails have become a centerpiece of some fair lending investigations.

“Federal regulators have effectively investigated and pursued redlining claims for decades without the need for combing through emails and text messages that are entirely unrelated to lending and branching,” said Mitchell, the attorney for American Bank of Oklahoma.

She also suggests banks push back against claims that are false and inflammatory or that harm a bank’s reputation.

Falling behind

The gap between homeownership for whites and Blacks is larger today than it was in 1960. The Fair Housing Act was passed in 1968.



Source: Urban Institute

In the case of American Bank of Oklahoma, the Justice Department made a reference in a complaint filed with the courts to the 1921 Tulsa Race Massacre in which white rioters killed as many as 300 people, according to some accounts. The tragedy destroyed the city’s Black business district called the Greenwood District.

The \$313 million-asset bank in Collinsville, Oklahoma, vehemently objected to any link between the current redlining allegations against it and the massacre given that the bank was founded in 1998 — nearly 80 years after the massacre occurred. A magistrate judge sided with the bank, and struck the two paragraphs from the complaint that mentioned the massacre. The rest of the order remained intact.

There also is a concern that the use of racist emails

has the effect of branding a company as racist even as settlement agreements require that lenders build relationships and extend credit in minority communities.

In the case of American Bank of Oklahoma, its settlement requires it to lend \$1 million in Black and Hispanic communities in Tulsa.

“There’s obviously all sorts of unintended consequences,” said Bernstein, the law professor at George Mason University.

“It’s an interesting paradox. We’re going to announce you’re racist and said now go lend to people who we just told shouldn’t trust you. They’re making it much harder for these companies to lend and get people to borrow from them, or to recruit members of minority groups on their staff,” he added. **AB**

A regional bank's survival saga

Last spring, Western Alliance executives stared down any banker's worst fear: the threat of a deposit run. Here's an in-depth look at their playbook, including a seven-day window that likely determined the bank's fate.



By Kate Fitzgerald | March 2024 | 25 Min Read

For most of its 30-year history, Western Alliance Bancorp. has stayed under the radar.

But that all changed during the banking crisis of March 2023, when the Phoenix-based regional bank's survival appeared to be in question for several nail-biting days.

Western Alliance's asset mix and characteristics were fundamentally different from those of Silicon Valley Bank and others that collapsed last spring. But some investors were worried that the \$70 billion-asset bank's higher-than-average exposure to Bay Area technology firms put it dangerously close to succumbing to the same fate as SVB. Those fears invited market contagion.

Within hours of news breaking about the failure of SVB on March 10, 2023 — followed by Signature Bank on March 12 — word spread on social media, digital news and word-of-mouth that Western Alliance was also in trouble, triggering a sudden

Phoenix-based Western Alliance Bancorp. was a quiet, regional bank that mostly stayed out of national headlines for three decades, until last year's banking crisis.

Photo: Getty Images

“With SVB, we saw what a modern bank run looked like with the power of social media, versus what happened to Washington Mutual in 2007 that took weeks.”

— Ken Vecchione,
CEO,
Western Alliance Bancorp.

outflow of funds and causing the bank’s stock price to plummet.

Over several dramatic days and nights, Western Alliance’s leaders raced to reverse the damage, stabilize the bank’s deposit losses and bolster its stock price.

The experience left the bank’s seasoned management team with frayed nerves and invaluable new lessons.

“With SVB, we saw what a modern bank run looked like with the power of social media, versus what happened to Washington Mutual in 2007 that took weeks. This time, over 48 hours, cash was flying out of treasury management systems that are so attuned to real-time transactions that you just point and click, and the money’s gone,” said Ken Vecchione, Western Alliance’s longtime CEO.

The crisis has permanently sped up Western Alliance’s ability to coordinate strategies across departments and make decisions. “We weren’t ready for the social media threats against us, and we quickly got ahead of things, listening and ready to react very quickly with facts,” Vecchione said.

At the peak of the banking crisis on March 13, Western Alliance produced its fastest-ever 8-K in just a few hours. The filing reassured investors and customers that the deposit outflows had been “moderate” so far, and detailed the firm’s deep cash reserves.

The move marked a shift in the firm’s willingness to churn out press releases and statements on a dime, versus its previous, more measured approach. The bank initiated aggressive surveillance of social media so executives could react to rumors with fact-based documents.

Western Alliance also took steps to further enhance its existing “flat” organizational structure, which played a key role in its survival, according to Vecchione.

“All of our 3,200 employees have met top management and they know who to ask and what to do. We don’t have any layers preventing people from taking action when needed and there is complete transparency, so we can move in lockstep in any crisis,” he said.

Another alarm came for Western Alliance in early May after San Francisco-based First Republic Bank was taken over by regulators. A news report hit the headlines on May 4 indicating that Western Alliance was up for sale, causing the bank’s stock price to tumble once again. But now the team was ready. “We never, ever discussed putting the bank up for sale. But by this time, we had learned how to react incredibly fast and factually to every rumor. So that crisis went away fast,” Vecchione said.

Ultimately Western Alliance lost \$6 billion of deposits in the first quarter of 2023, but because of swift actions taken in the wake of the crisis, the bank began regaining its lost deposits within weeks. By the end of 2023, the bank had more deposits than at the end of 2022, and its loan growth was back on track, Vecchione said.

Here’s an insider look into how the bank survived the crisis.

Storm clouds

Western Alliance’s management team didn’t necessarily foresee the 2023 banking crisis. But in the months leading up to it, Vecchione and Chief Financial Officer Dale Gibbons noticed some troubling financial trends that helped the bank prepare for what was ultimately to come.

At the time, every division at Western Alliance was thriving. In fact, the institution was listed as American Banker’s top-performing bank with more than \$50 billion of assets for 2021 and 2022. That ranking is determined by averaging the banks’ last three years of return on average equity.

But during the second half of 2022, Western Alliance’s price-to-earnings ratio was lower than other regional banks, according to Vecchione.

“Our price-earnings ratio was below banks like Signature Bank, SVB and [First Republic Bank] but we were outperforming them. We had a higher net interest margin, a higher return on equity and higher return on average assets, but we weren’t getting paid for the growth we were showing,” he said.

In November 2022, Gibbons and Vecchione headed to a meeting of institutional investors in Boston hoping to feel out where the bank stood in relation to competitors.

“At a dinner in Boston a bunch of analysts and institutional investors came together and peppered us with questions. Then we asked them, ‘What’s the one bank stock you wouldn’t own?’” Gibbons said. According to him, everyone at the table said the same thing: Silicon Valley Bank.

“It was clear that if you looked at SVB’s balance sheet, you could see they’d need to sell their held-to-maturity portfolio at a huge loss if they needed to raise liquidity,” Vecchione said, noting that at the end of 2022, SVB data showed its held-to-maturity portfolio represented over 40% of its total assets, with an unrealized loss exceeding its capital.

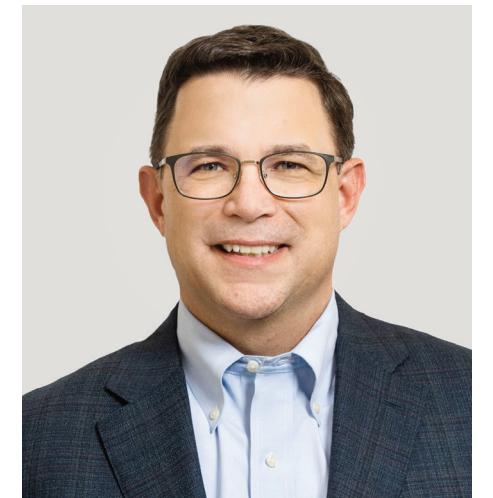
At that same time Western Alliance’s held-to-maturity portfolio was less than 2% of its assets, he added.

SVB’s situation underscored potential danger in the financial services ecosystem. “Any time you start seeing a potential risk like this, even with one bank, it overlays the possibility that something could happen across the industry,” Gibbons said.

The fact that the U.S. was in the middle of a steep interest-rate rise created further uncertainty. Western Alliance now felt an urgency to rapidly build up deposits, and it already had some specific levers to anchor them to the bank.

“SVB had the unique skill set to underwrite tech loans, but they seemed to have the mistaken belief that because they were the banking gorilla in the tech space that all of these companies that had zero-interest-bearing accounts with them had to keep those funds at SVB indefinitely,” Gibbons said.

“That was obviously not true,” he added.



Dale Gibbons, top, Western Alliance’s chief financial officer since 2003, previously held the same position at Zions Bancorp. Steve Curley, Western Alliance’s chief banking officer in charge of national business lines, joined the bank in 2009.

Pivoting

Once back in Arizona, the executives announced plans to cool Western Alliance’s growth and pushed every division at the bank to raise capital and liquidity levels. “At our internal management conference in early 2023 we urged departments to use every tool to grow deposits, using technology and APIs and any other creative ideas,” Vecchione said.

Western Alliance also had another advantage heading into the turmoil of 2023 — it was far more diversified than SVB and the other banks that failed.

The company has several regional bank brands that operate under the Western Alliance charter. They include San Jose-based Bridge Bank, which has a presence in tech hubs across the country; San Diego’s Torrey Pines Bank; Bank of Nevada; another Nevada-based operation called First Independent Bank; and Alliance Bank of Arizona.

Additionally, Vecchione’s experience in developing payments businesses helped to deepen the roots of the bank’s deposits. When he rejoined Western Alliance in

2017 after a stint working at a specialty finance company, he encouraged the company’s various banking brands to develop “narrow but deep” specialties that often include recurring payments.

One example is the banking services Western Alliance provides to homeowners associations across the U.S., enabling these organizations to collect monthly payments from millions of homeowners. Western Alliance has \$8 billion in deposits associated with HOAs, and the business is growing at more than 10% annually, said Steve Curley, chief banking officer for national business lines and president of its HOA-focused Alliance Association Bank.

“HOAs are the dominant form of housing in the southern part of the U.S., which is growing fastest, and we have a dominant position providing banking services to this niche,” he said.

Western Alliance is also seeing strong growth with its new settlement services business, which enables law firms and claims administrators to manage payouts in class action, mass tort and bankruptcy settlements

through its Digital Disbursements subsidiary. The bank also has a growing business escrow product offering, Curley said.

“These services anchor customers to the bank, and they were just beginning to take off in early 2023,” Vecchione said.

The war room

Two days before SVB’s March 10 failure following a catastrophic run on the bank, Vecchione knew things were about to get bad. On his way to get a root canal in the late afternoon of March 8, Vecchione received a worrisome call about SVB’s crumbling balance sheet from an investment banker.

As the dentist prepared to inject Novocaine near his tooth, Vecchione offered a dark quip: “Don’t worry, I’m already numb, and I’m going to be numb for the next few weeks.”

A series of high-velocity meetings and developments began later that evening and continued for the next three

weeks, centered within the 14th-floor boardroom at Western Alliance’s headquarters in downtown Phoenix. As the anchor tenant in the 27-floor CityScape building, the bank’s spacious meeting room looks out on Arizona’s scenic South Mountain. The building is a stone’s throw from the city’s sprawling convention center and near the hulking Chase Field baseball stadium where the Arizona Diamondbacks play.

Every day at 6 a.m. throughout March, top executives, who had little sleep, reported for duty to prepare for the day ahead. They convened again at 4 p.m. to strategize for the next day.

“The rules were that any client that wanted their money would get it, and we were not going to stop our business. Any loans scheduled to close that week would go forward,” Vecchione said.

Vecchione was never off duty during the first half of 2023. At home he put in about five miles a day pacing while talking on the phone, powered by Coca-Cola, he said.

Managers kept employees and customers apprised of

Timeline of a bank’s survival

Wednesday, March 8, 2023

3 p.m.:

Driving to a late-afternoon dental appointment, Western Alliance Bank CEO Ken Vecchione receives a phone call from an investment banker alerting him to the news that SVB has just taken a \$1.8 billion after-tax loss from selling mostly long-term investments including Treasury and mortgage bonds, without issuing any equity to cover the loss. The news jolts bankers across the country, with particular reverberations for firms like Western Al-

liance with technology industry-based depositors.

6 p.m.:

Vecchione, Western Alliance Chief Financial Officer Dale Gibbons and other top managers begin an around-the-clock exchange of phone calls and texts tracking SVB’s developments and weighing the Arizona bank’s next moves.

Thursday, March 9:

After a nearly sleepless night, Western Alliance executives learn SVB has

failed to raise equity funds critically needed to offset the previous day’s losses. Western Alliance executives worry about market contagion and that their institution may also be hurt by investors and depositors, given its own exposure to the technology sector. About 13% of Western Alliance’s deposits are tied to tech firms, through its Bay Area-based Bridge Bank brand.

Friday, March 10:

SVB is closed by regulators around midday Eastern time. Panicked customers pull about \$42 billion in depos-

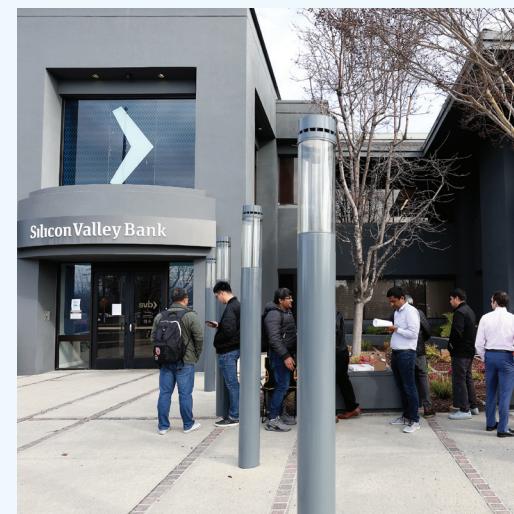


Photo: Getty Images/Justin Sullivan

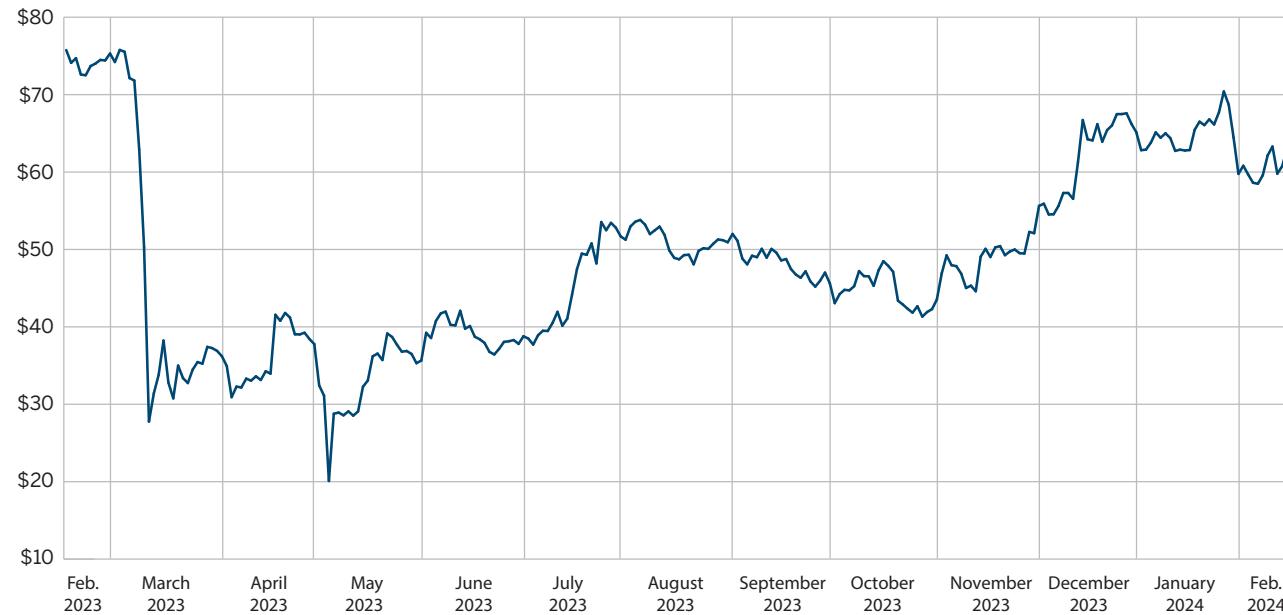
its out of SVB and Treasury Secretary Janet Yellen says during a House Ways and Means Committee meeting that she’s monitoring “a few” other banks that could be at risk. Western Alliance sees customer requests to withdraw funds begin to increase. Around noon, Western Alliance issues a press release with updated financial figures, and bank managers hit the phones. In the course of the day, Western Alliance contacts hundreds of corporate customers with at least \$20 million in deposits, reassuring them of the bank’s strong capital position.

Saturday, March 11:

Vecchione and Gibbons activate the bank’s long-established contingency funding plan, moving significant collateral to the Federal Reserve Bank in order to receive an influx of emergency funding as a proactive measure. Western Alliance requests \$25 billion in funds to arrive first thing Monday morning, more than double what bank leaders estimate they would need in the worst-case scenario. The amount still falls below Western Alliance’s \$30 billion available credit line from the Fed.

A wild ride

Western Alliance's stock price plummeted as events unfolded during the banking crisis last March. It dipped again in May when there were news reports that the company was looking to sell. Since then, its stock price has been climbing back to its pre-crisis levels.



Source: Yahoo Finance

every development and announcement across the bank's 39 branches, based mostly in Arizona, California and Nevada, plus an office in Manhattan and non-branch offices in cities that include Dallas, Atlanta and Boston.

"In between meetings — even if it was 8 p.m. at night — we ran the bank as usual, and our customers were never inconvenienced," Vecchione said.

Despite the concern in the conference room, Western Alliance leaders were never worried about the bank's core health due to its solid capital structure, deep connections to borrowers in niches like media and entertainment, biotech, homeowners associations and hotel finance, as well as various granular payments-based businesses, said Tim Bruckner, the bank's chief banking officer for regions and its former chief credit officer.

"It wasn't fair to lump Western Alliance in with SVB last year because we're a multi-line diversified bank. We've always had the option to dial up or down any one of the areas where we invest. When venture capital started drying up like it did in 2021, we pulled back," Bruckner said.

To be sure, Western Alliance had significant exposure to the tech sector — 13% of its deposits were tied to technology firms through its Bridge Bank division in March 2023. But it was essential to note that 40% of those

deposit accounts were tied to the bank by loans, meaning borrowers' interest rates would rise if they moved their deposits out of the bank.

"Many of our deposits were firmly anchored," Bruckner said.

The diverse industries represented among customers and the various proactive steps the bank took in 2022 to build liquidity were key to the bank's survival in 2023, said David Smith, an analyst at Autonomous Research. Additionally, Western Alliance's decision to proactively borrow \$25 billion from the Federal Reserve also set it apart from the banks that failed that month, according to Smith.

"The fact that management was thinking about the capital it might need ahead of time, and it was top of mind, made it much easier for them to act decisively.

"In contrast, SVB and Signature Bank seemed kind of flat-footed when the crunch came, and they weren't able to fully utilize some of the same capital facilities like the Fed's discount window or the Federal Home Loan bank," Smith said.

As the days wore on and investors and customers were increasingly reassured of Western Alliance's stability despite the ongoing banking crisis, executives breathed a sigh of relief.

Timeline of a bank's survival

Sunday, March 12

5 p.m.:

During a late-afternoon emergency board meeting, Western Alliance executives are stunned to learn that Signature Bank has failed. Executives at Western Alliance's headquarters said they suddenly felt "a chill down the spine."

9 p.m.:

Vecchione calls bank treasurer John Radwanski, fretting that some technol-

ogy glitch could prevent the \$25 billion from being available to the bank via the Fed the next day. He asked: "What if you push the button and the money isn't there?" Radwanski calmly replies: "I'll push the button again." (The funds arrive in Western Alliance's accounts the moment the Fed's discount window opens the next day.) JPMorgan Chase later reaches out to offer Western Alliance an additional credit facility as a backstop, which provides some relief to the anxious team.

Monday, March 13

5 a.m.:

Western Alliance's stock plunges in pre-market trading, coming in at \$12 per share, a 75% drop from Friday's \$50 closing price. At midday, CNBC covers the story of regional bank stocks, including Western Alliance, being hammered.

2 p.m.:

Western Alliance issues a quickly produced 8-K detailing its expanded capital and liquidity status. Bank ex-

ecutives immediately sense a positive shift in bank customers' moods. The firm's stock, which had bottomed out at about \$7 a share earlier that day, rises to about \$26 a share by day's end.

5 p.m.:

The end-of-day tally shows about \$8 billion in deposits have left Western Alliance.

Tuesday, March 14:

Western Alliance loses another \$1.25

billion in deposits but the deluge of outflows has stopped. The bank's stock price begins to stabilize and the phones stop ringing.

Wednesday, May 3, 2023:

Noon:

Rumors begin to circulate that Western Alliance is in trouble and seeking a buyer. Western Alliance suspects short-sellers and other opportunists are testing the bank. Just before 10 p.m., Western Alliance issues a

press release reaffirming its financial strength.

Thursday, May 4

7:30 a.m.:

The Financial Times reports that Western Alliance is for sale.

11 a.m.:

Western Alliance issues a statement denying the Financial Times story, calling it "categorically false," swiftly ending the rumors.

A crisis-tested bank CEO's path to leadership

Over his diverse coast-to-coast career, Western Alliance Bancorp. CEO Ken Vecchione has continuously moved toward bigger challenges, and some of those were major economic downturns.

"The Silicon Valley Bank crisis was rough, but the 2008 economic downturn was far worse, and you learn strategies to survive," Vecchione said. "What we learned in March 2023 was how to do it all faster."

Business strategy is second nature to Vecchione. Growing up in Queens, New York, in the 1950s, his father was a truck driver-turned-entrepreneur who bought and sold retail operations, including dry cleaners, a liquor store, a car rental outlet and a messenger service.

His mother paved the way for other women working at a local office-furniture store by first asking to work flexible hours, then negotiating to receive equal pay when she became the top salesperson at the store.

"It was all business at dinner every night. My parents would talk about what happened that day and analyze how external events like the weather affected sales," Vecchione said.

With the distant goal of running a business himself, Vecchione majored in accounting at the State University of New York at Albany, working first as an auditor at Chemical Bank in Manhattan, then at a small accounting firm that handled finances for Broadway productions.

He spent another year as an accountant for a garment manufacturer before Citibank's merchant credit card services unit hired him as a financial analyst.

Vecchione spent the next 17 years advancing up the ladder at Citi, eventually becoming chief financial officer of Citigroup credit cards for Europe and North America, as credit cards and payments became a bigger factor on banks' balance sheets.

Credit card processing firm First Data Corp. next hired Vecchione in 1994 as CFO of its mer-

chant payments group, where he led acquisitions of independent sales organizations, selling credit card acceptance services to small businesses. First Data's share of the ISO market went from about 2% to 50% during his tenure there, according to Vecchione.

Two years later Vecchione was recruited to be CFO for the AT&T Universal credit card, which was fading after a splashy launch in 1990 as the first major rewards-based credit card with no annual fee. Vecchione's team rejuvenated the business and in 1997 AT&T Universal sold it to Citi for \$3.5 billion.

Credit card marketing giant MBNA Corp. promptly hired Vecchione in its finance department. Between 1998 and 2006, he rose to vice chairman and CFO at MBNA, staying through Bank of America's purchase of the firm in 1997 for \$35 billion.

Vecchione's next gig was CFO at private equity firm Apollo Global Management, and in 2006 Western Alliance asked him to join its board for his expertise in credit cards and payments.

"I joined Western Alliance's board in January 2007, and we soon found ourselves in the middle of the great financial crisis. This was a \$5 billion bank, and I was used to bigger banks," he said.

"But I got to know [Western Alliance CFO] Dale Gibbons, who had been CFO at Zions Bank. The two of us bonded over our joint experiences and our desire to create and grow things at banks," Vecchione added.

Western Alliance named Vecchione president and chief operating officer in 2010. He left in 2013 to become president and CEO at Encore Capital Group in San Diego, also serving as chairman of the firm's Cabot Credit Management arm.

Vecchione returned to Western Alliance in July 2017 as president and in early 2018 the board also appointed him CEO.

"You have to know everything to be a CFO," Vecchione said. "But I'm happier having a hands-on role in running a company as CEO."



Photo: Bloomberg News

Western Alliance's headquarters is located in the 27-floor CityScape building in downtown Phoenix. The bank's spacious meeting room looks out on Arizona's scenic South Mountain.

"After about three weeks, the pace of pre-dawn meetings relented," Curley said.

Curley was rarely around the house during March and April, and he told his family why. All three of his daughters had recently downloaded a stock-tracking app to their phones to show their support for his hard work.

But the relief was relatively short lived.

One day in May, Curley was just back from walking his dog — a practice he had only recently resumed — when his oldest daughter, 17, popped her head around the corner while he was shaving to ask: "Hey Dad, why is the bank's stock down 40%?"

His stomach dropped to the floor and he raced to the war room downtown.

But this time the damage caused by a specious rumor was quickly contained.

"We're not the bank we were before the crisis. We're more prepared and we can react as quickly as events unfold," Curley said. **AB**



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Photo: Bloomberg News

Is short selling a symptom of a bigger problem for regional banks?

Though regional banks' stock prices recovered somewhat on Friday, sharp sell-offs last week sparked complaints about short sellers' role in driving down prices and ignited a broader discussion about steps that policymakers might take to restore confidence in the industry.

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Why the money laundering fight is going to the next level

Wars in Ukraine and the Middle East. Fiercely polarized U.S. politics. Rapidly multiplying payments options on social media networks and elsewhere. Those factors and more are making it harder than ever for banks to combat illicit financial transactions.



By John Adams | March 2024 | 20 Min Read

The new year began with a flurry of news that's just a sample of the crimes that financial institutions must help battle.

Nasdaq reported in early January that there were \$3.1 trillion in illegal transactions made in 2023. More than \$800 billion was connected to drug trafficking, \$350 billion was tied to human trafficking and \$11 billion from terrorism. Another \$500 billion was lost to fraud.

Less than two weeks later, at the beginning of February, the Financial Crimes Enforcement Network issued an advisory against illegal financing being used to fund Israeli extremists that the U.S. had sanctioned for targeting Palestinians. That came at nearly the same time as the Anti-Defamation League warned of anti-Israeli extremists using cryptocurrency to fund terrorist operations. And in late January, new U.S. sanctions were issued against Russian interests connected to the country's two-year-old war against Ukraine.

In short, financial institutions' job of preventing money laundering and other illicit money movement is getting harder as they work to comply with U.S. sanctions against countries and parties the government has connected to such activities.

Destroyed buildings near the Al-Maghazi camp in southern Gaza Strip in January. The ongoing conflict between Hamas and Israel has created new anti-money-laundering challenges for banks.

Photo: Bloomberg News

That challenge includes a fast-changing regulatory environment, underserved risk management staffs and evolving technology that can benefit and hurt both sides in the fight.

Sixty-nine percent of executives say financial crime risk will increase over the next year, according to research from Kroll, which also reported that 66% of firms plan to boost security spending to combat the threat.

The increased investments will go toward mitigating illegal payments, complying with U.S. sanctions and rules fighting money laundering or halting the use of otherwise legitimate financial infrastructure to fund illegal activity.

Money laundering regularly reaches 5% of global GDP, according to research from technology firm Persona.

Financial institutions of all sizes have recently been hit with fines tied to AML lapses. Wells Fargo, for example, was fined a total of about \$98 million in 2023 after U.S. regulators said the bank had insufficient AML compliance due to trade finance software that dated to a system at Wachovia. Wells Fargo acquired Wachovia more than a decade ago.

In another instance, later in 2023, Oscar Marcel Nunez-Flores, a staffer at an unnamed bank, was arrested by New Jersey authorities for accepting bribes to enable millions of dollars in laundering. In December, Fincen issued a consent order against Gyanendra Kumar Asre, a former employee at the now defunct New York State Employees' Federal Credit Union. Regulators said Asre was connected to an operation that transferred \$1 billion in Mexican funds to electronic deposits using the credit union's master account with the Federal Reserve. In late January, the Federal Reserve and New York State Department of Financial Services issued an enforcement action and levied \$32 million in fines against the Industrial and Commercial Bank of China. That was in connection with allegations that the institution had inadequate anti-money-laundering controls.

While the case did not involve a bank, the Department of Justice in November fined crypto firm Binance Holdings \$4 billion after the firm and its CEO, Changpeng Zhao, admitted to not maintaining an effective AML program.

"Financial institutions are reeling. They need to get better at transaction monitoring," said Marc Trepanier, a fraud consultant at payments and financial technology company ACI Worldwide. "AML is not the fastest moving industry."

More digital, more problems

Money laundering has existed for decades, as has the patchwork of international rules that govern corporate responsibility for preventing criminals from using the financial system to their benefit. Most countries have rules, generally referred to as "know your customer" or KYC, that require firms to vet clients and other third parties to ensure they're not doing business with a nefarious entity.

But today, more money is moving electronically and transactions are being processed faster than ever before. That leaves less time for risk professionals to spot red flags that could signal payments being made on behalf of criminals.

The number of digital payments passed \$10 trillion for the first time in 2023, according to Statista, which counted mobile point of sale, digital transfers and other forms of e-commerce. That compares to about \$3.5 trillion in 2017 and sets a pace to pass \$11.5 trillion in 2024 and \$16.6 trillion by 2028.

"AML is harder now than it was six or seven years ago. A big part of that is the world is more digital and more connected," said Adam McLaughlin, global head of AML strategy for Nice Actimize, a risk and compliance firm.

As the parties involved in financial transactions expand to include more digital firms, fintech apps and social networks, adhering to KYC rules becomes more complicated, according to Daniela Hawkins, managing principal at the consulting firm Capco.

Take social networks, for instance. These platforms are often subject to controversies including hostile political speech, privacy lapses and security breaches. But they have also become more active in the payments space over the past few years. Meta Labs, formerly known as Facebook, was affiliated with Diem, a stablecoin that failed under regulatory and economic pressure. Meta has also introduced a "pay button" that enables consumers to choose Meta as a payment option on e-commerce sites. Meta also has several other products related to payments and financial services.

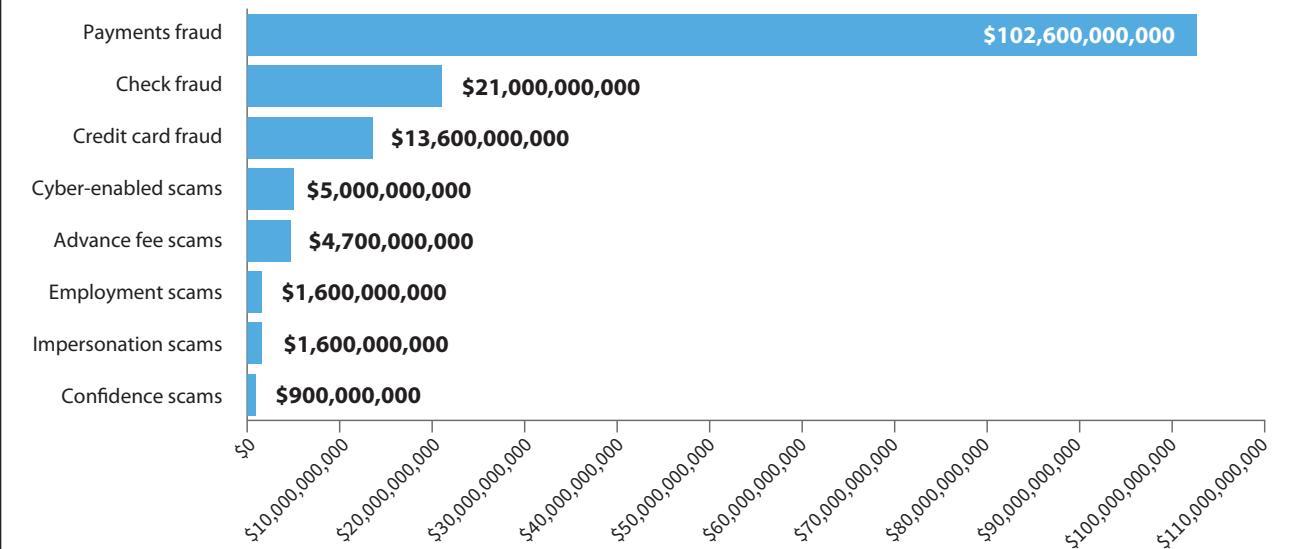
Elon Musk has promised to add payments and other financial services to X, the social media platform formerly known as Twitter that he acquired in 2022.

Meta and X did not provide comments for this story.

Social media networks present unique challenges when it comes to knowing their customers. Users can op-

A trail of illicit payments

Transaction and card fraud are the main sources of criminal transactions



Source: Nasdaq Verafin, 2024 Global Financial Crime Report

erate under fake names, profile pictures and biographies, for instance. And social media platforms do not have the same regulations as banks.

"How do [social networks] know they are dealing with a person who has a real address and is a real person?" Hawkins asked.

There are other venues for laundering that can be difficult to spot.

Unused gift card funds, for example, are one avenue that crooks utilize because of the anonymity and the high amount of unused money that resides on cards. In effect, gift cards are prepaid cards that are difficult to trace because the only record is a receipt for a purchase — which is not tied to a specific consumer. The party that purchased the gift card is not necessarily the user who then spends the money. Criminals can use gift cards as part of a scheme to steal funds for purchases on e-commerce sites, travel or to fund other illegal activities.

Additionally, there is about \$21 billion in unspent funds on gift cards in the U.S., according to CNN, citing research from Credit Summit. That represents potential

money criminals can steal to fund illicit activity, often without consumers ever knowing the money has been taken.

"There's billions of dollars sitting on gift cards that people don't know about," Hawkins said.

Sanctions war

Crooks disguise the funding for their crimes by using legitimate rails, such as banks, fintechs, cryptocurrency or other organizations that move money for illegitimate purposes — posing reputational and legal risk for those organizations.

That's part of what can make it difficult for financial institutions to catch and prevent criminal activity.

To comply with AML standards, banks have to follow the Bank Secrecy Act, and fintechs have to follow similar rules, according to the Texas A&M Law School.

These rules, which date to the early 1970s and are regularly updated, generally require financial institutions to keep records of payments in high amounts and file reports on activity that may be useful for criminal, tax or

A world of illegal payments

More than \$3 trillion in transactions were used in the past year to fund terrorism, drugs, human trafficking and other crimes, creating risk and compliance headaches for banks

Americas

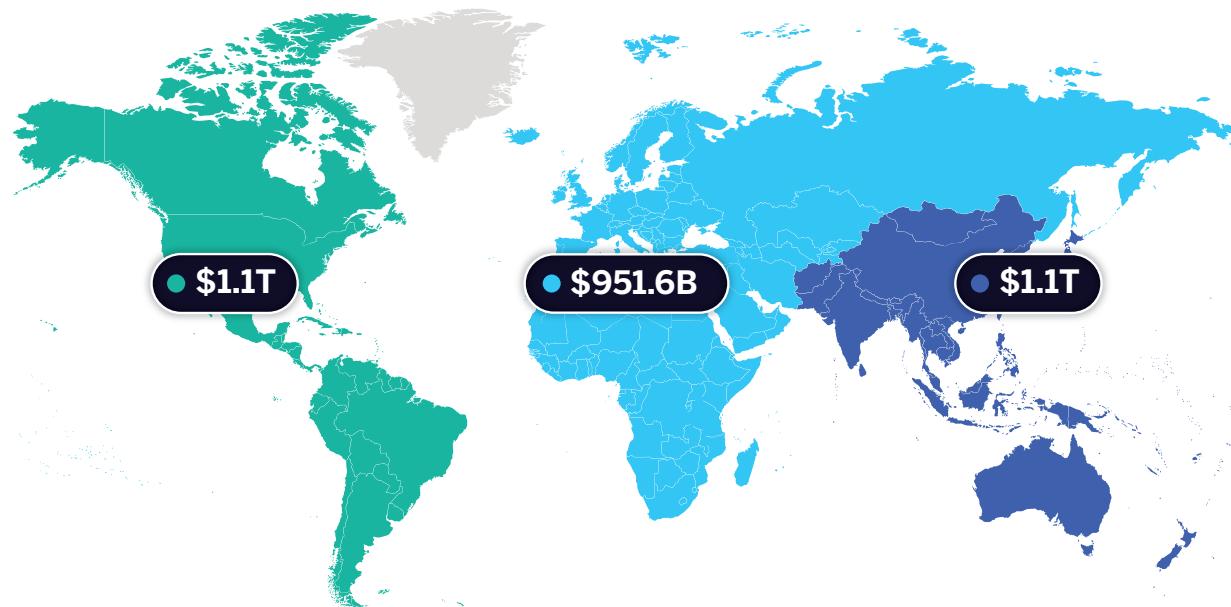
- Other (Organized crime, fraud, corruption, etc.): **\$653.4B**
- Drug trafficking: **\$287.7B**
- Human trafficking: **\$109.1B**
- Terrorist financing: **\$5.1B**

EMEA

- Other (Organized crime, fraud, corruption, etc.): **\$613.9B**
- Drug trafficking: **\$226.4B**
- Human trafficking: **\$107.6B**
- Terrorist financing: **\$3.7B**

Asia-Pacific

- Other (Organized crime, fraud, corruption, etc.): **\$690.8B**
- Drug trafficking: **\$268.8B**
- Human trafficking: **\$130.1B**
- Terrorist financing: **\$2.7B**



Source: Nasdaq Verafin, 2024 Global Financial Crime Report

other regulatory matters.

U.S. bank regulators, such as Fincen, use this information to work with domestic and international law enforcement to spot and combat money laundering and related crimes, such as terrorism, drug or human trafficking and other forms of bank fraud. The BSA also requires financial institutions to file reports of cash transactions exceeding \$10,000 in daily aggregate amount.

In the past two years, complying with these rules has meant avoiding doing business with Russian banks, oligarchs and other parties tied to Russia's invasion of

Ukraine.

More recently, the U.S. has sanctioned organizations tied to the war in the Middle East.

"For the West, the wars in Gaza and Ukraine are being waged largely through sanctions, and that requires compliance and third-party risk," said Joe Robinson, CEO of Hummingbird, a company that develops technology that combats financial crime.

The recent incidents Hummingbird has investigated include funding used for human trafficking and drug sales, along with alleged terrorism financing. A typical financial

institution investigates up to 25 potential cases per week, according to Robinson.

"Most of the time it's a normal thing, but not an illegal issue," he said, adding the quality of data sourcing is key to spotting an actual crime versus a false positive.

In response to Russia's invasion of Ukraine in February 2022, most Western countries have imposed sanctions on banks and other companies that are operating inside Russia or do business with Russian interests. These sanctions have been updated dozens of times over the past two years, and carry millions of dollars in fines, according to the Office of Foreign Assets Control.

"These sanctions are mostly from North America and Europe," McLaughlin said, noting many countries outside of these regions have not imposed sanctions on Russia. "But the West has to trade with companies in these countries. So financial institutions have to work harder to verify sources of funds."

In the wake of Hamas's attack on Israel on Oct. 7, the U.S., the U.K. and other countries have levied sanctions against anyone they've deemed to be aiding the terrorist group. These sanctions have been updated as that war has progressed to address funding parties that are fomenting violence against both Palestinian and Israeli civilians.

"There are a lot of challenges ... the Ukraine-Russia war, the Israel-Hamas war, the elections and everything that's going on with that," Trepanier said.

Besides issuing sanctions, regulators in the U.S. and Europe are tightening rules around laundering as a result of these conflicts. The European Parliament in January reached an agreement to produce a single rulebook to govern AML in the EU. The agreement will give more power to financial intelligence agencies in EU nations to detect money laundering and to halt suspicious payments. That should also mean a boost in efforts to investigate efforts to circumvent sanctions.

In the U.S., the Biden administration has pushed more cooperation between agencies such as the Justice, Treasury and Commerce departments to collaborate on AML investigations, according to Gibson Dunn. The law firm adds the DOJ has hired more than two dozen additional prosecutors to cover economic crime. More than \$500 million of assets were seized from investigations into money laundering connected to Russia during 2023.

Earlier in 2023, Fincen announced a plan to provide financial incentives for whistleblowers that provide information that leads to fines against financial institutions that violate sanctions. The program is expected to boost AML investigations.

"There are signals that more is happening at the government level," Trepanier said.

Polarizing politics is also exacerbating compliance pressure. Following the Jan. 6, 2021, storming of the U.S. Capitol that occurred in the wake of the 2020 presidential election, several payment companies curtailed or blocked transactions to individuals or organizations that were tied to the riot.

PayPal and Venmo were among the payment companies that blocked transactions; while Visa, Mastercard and American Express adjusted their political donations following the events of Jan. 6.

Funding the Jan. 6 attackers has not been considered money laundering per se — most of the criminal charges were tied to vandalism or trespassing on govern-

“Financial institutions are reeling. They need to get better at transaction monitoring. AML is not the fastest moving industry.”

— Marc Trepanier, Fraud consultant, ACI Worldwide



Changpeng Zhao, CEO of Binance Holdings, center, exits federal court in Seattle in November. Zhao admitted to inadequate anti-money-laundering controls, which resulted in a \$4 billion fine for the crypto firm.

ment property.

Instead, the payment companies decided to act based on the potential of reputational risk and a violation of their own terms of service policies

During Mastercard's most recent earnings call, CEO Michael Miebach was asked about the card company's plans for the next election season, and the potential for disruption to the payment industry.

Miebach did not give a direct answer but said "we have faced numerous geopolitical challenges over the past three years."

Geopolitical issues are less likely to directly impact financial institutions. But there could be more political pressure from regulators or greater reputational risk.

"The real issue is these geopolitical risks will increase scrutiny," said Harry Stahl, senior director for enterprise strategy at FIS.

The work required to combat laundering, illicit pay-

ments and other transactions involving criminal activity is similar to trade reconstruction, according to Stahl. Trade reconstruction accumulates different streams of data involved in a financial trade for compliance and IT purposes. As transactions become increasingly digital, the work involved in trade reconstruction becomes more difficult and requires participation from multiple parts of an organization.

When applied to AML, the challenge is to accrue data from numerous and an expanding number of sources.

"An organization is touching a lot of data but doesn't have all of the pieces," Stahl said. "How do you pull in all of this data to get a full view of what's going on with outside parties? Is this person or company legitimate?"

FIS collaborates with partners to help it perform sanctions screening, KYC and other tasks associated with laundering risk. Stahl would not name partners or particular products.

"What we're doing is evaluating some of the newer and smaller fintechs and other companies that are coming up," Stahl said.

Are there enough AML fighters?

The responsibility to spot suspicious activity falls largely on compliance or security risk teams at financial institutions. Research suggests these workers are stressed in a manner that could hurt investigations or other vetting. That could make artificial intelligence a more valuable tool in stopping illicit financial transactions.

Seventy percent of banks and nonbank financial firms say their compliance units have capacity challenges, according to research from Celent that was commissioned by AI firm Workfusion. The research also found that 38% of financial institutions call on senior staff to help manage staff shortages and 63% say it can take four months or longer to fill compliance analyst jobs. Fifty-three percent say challenges with employee retention increases workload on other staff, which increases time for investigations.

"A lot of AML teams have resource constraints," Trepanier said. "They're trying to do more with less."

Among payment firms, Wise, for example, said that about 20% of what it spends to run the company is dedicated to fighting financial crime and ensuring it is in compliance with about 70 regulatory licenses in the U.K., U.S. and elsewhere.

"Our models in transaction monitoring learn on an ongoing basis, and we invest in identifying changing trends and emerging risks to improve these models. When we identify such trends in one location, we apply the rules to combat them globally, thus scaling our ability to spot issues early, and catch bad actors everywhere we operate," Wise's public relations unit said in an email.

Potential solutions

The goal for financial institutions in vetting third parties and clients for AML risk should be that 90% of transactions are executed digitally with minimal interruption, ensuring the software can catch potentially suspect activity while maintaining user experience. The remaining 10% should be those that require manual sourcing to ensure AML compliance, according to Philip Paul, CEO of Cotribute, a financial technology company.

"The predictive models you use have to be that good

in order to maintain a good customer experience while remaining safe and in compliance," Paul said. "It's never one and done. The data and analysis have to be flexible."

The Celent/Workfusion research found 86% of organizations plan to increase spending on AI and machine learning with the goal of improving AML. Some of that funding could go to using artificial intelligence to help fight money laundering.

The U.S. Treasury has supported using AI to help with AML compliance and to aid fraud prevention. But there are some challenges, such as banks disclosing details of suspicious activity that were formed in part by AI.

Generative AI, which is a form of AI that analyzes data to produce original conclusions, in particular could be used in AML. But crooks have already proven themselves adept at using gen AI to commit financial crime. It's easy to use gen AI to create fake identities, fake accounts or even false transactions, said Hummingbird's Robinson.

"In the age of generative AI, there are major challenges for KYC," said Robinson, whose firm has worked with Stripe, Klarna and Affirm — three companies that offer payments and buy now/pay later lending, as well as cryptocurrency exchange Coinbase.

Since generative AI and other forms of machine learning are designed to accrue and analyze much larger amounts of data faster, it makes it harder to pinpoint the origin of that data. "Is it a business or a group of individuals?" Robinson said. "And when you apply all of the regulatory pressure and the wars, it becomes more complex."

Still, there are some simple benefits of using generative AI for AML risk, Stahl said. "Machine learning is more efficient, and it can be a value add when you're dealing with disclosures and reporting."

And despite the significant attention that generative AI has gotten in the last year, other technology may prove more useful in fighting financial crime. This could include biometrics, Hawkins said. For instance, implementing "selfie pay," where a consumer has to take a photo of him or herself as part of enrollment, can make it more difficult for a bad actor to complete a financial transaction using a fake or stolen account since the crook is less likely to have a biometric record of the legitimate consumer.

"We have been talking about this for a long time, but a retinal scan or fingerprint is a more robust way for an organization to know their customer," Hawkins said. **AB**



Carver Bancorp in New York has faced pressure from a shareholder, Dream Chasers Capital, to improve its performance. The investment firm has made an unsolicited bid to buy a controlling stake in the bank.

Banks targeted by activist investors brace for proxy season

Each spring during the rush of annual meetings, a handful of financial institutions take heat from shareholders who demand new strategies, management shakeups and, at times, even a sale of the company.



By John Reosti | March 2024 | 20 Min Read

Blue Foundry Bancorp in Rutherford, New Jersey, is battling with Larry Seidman, the veteran activist investor — over a word count.

The \$2 billion-asset Blue Foundry recently rejected Seidman's shareholder proposal urging management to engage an investment banker to explore a merger or sale later this summer because it was too long, 518 words, just over the maximum of 500.

Seidman, however, said Blue Foundry never informed him about its word-count guidelines, which included counting hyphenated words, each letter in acronyms, even symbols like dollar and percentage signs as separate words. In drafting the proposal, Seidman used Google Docs' word-count feature which counted 500 words.

When he did learn the rules — from Blue Foundry's letter to the Securities and Exchange Commission explaining its decision to reject the proposal — Seidman said he edited the text down to about 485 words, only to have the company inform him the shortened version came in after its proposal deadline.

"They told the SEC they had no obligation to tell me how they counted the words," Seidman said in an interview. "Therefore, I'm too late with my last proposal, so they want it excluded."

ed. ... To me, it's a disgrace, but I'm not going away."

Blue Foundry had not responded to requests for comment by deadline.

According to Seidman, the SEC possesses authority to set aside Blue Foundry's action and allow his proposal to be added to the proxy ballot. It has yet to rule on the issue. "I have no idea what the SEC is going to do. I'm waiting to hear," Seidman said.

Blue Foundry's objections to the wording of Seidman's shareholder proposal come after a Delaware Court of Chancery judge ordered the company to pay Seidman \$224,000 in legal fees for improperly refusing to allow him to review its books and records.

"After Blue Foundry declined to produce a single document to Plaintiff, forcing him to commence litigation, Blue Foundry took a series of litigation positions that, when viewed collectively, were glaringly egregious," Vice Chancellor Morgan Zurn wrote in a July decision.

For Seidman, who has been investing in the bank space for more than 40 years, it's all old hat. "I've been doing this since 1983. It hasn't changed."

As the industry approaches what is known commonly as proxy season, the springtime period when most public companies convene annual meetings, activist investors continue to pursue proxy fights with community banks that typically push back — hard.

Another case in point: Driver Management's contest with the Johnstown, Pennsylvania-based AmeriServ Financial, which appears to be every bit as bitter as the one Seidman is waging against Blue Foundry. There, too, the sides are involved in a legal struggle over AmeriServ's move last year invalidating three nominees Driver put forward to serve as directors. Judge Stephanie Haines of the U.S. District Court for the Western District of Pennsylvania dismissed Driver's lawsuit in December. Driver appealed to the U.S. Court of Appeals for the Third Circuit in January.

AmeriServ reported a full-year 2023 loss totaling \$3.3 million in January, despite achieving solid fourth-quarter growth in loans and wealth management revenues. CEO Jeff Stopko blamed the loss in part on the cost of the Driver litigation. "[Driver managing member Abbott Cooper's] complaints about the amount of money AmeriServ has been forced to spend in litigation are tough to swallow given that he has been the source of all

of this litigation — and given that the Company's actions have been validated by a federal court," Stopko wrote in a February letter addressed to AmeriServ employees and filed with the SEC.

In its fourth-quarter and full-year 2023 earnings report released in late January, AmeriServ estimated it paid \$2.2 million in Driver-related legal fees last year. An AmeriServ spokesman declined to comment for this story.

To Cooper, Driver Management's managing member, the \$1.4 billion-asset AmeriServ's stiff resistance comes as no surprise. "The banks with the worst governance, those are the ones that fight," Cooper said in an interview. "The board is focused 100% of the time in fighting with me. That's their priority," Cooper added.

Stopko, in his February letter, argued Cooper's interests lie in short-term gain, not promoting AmeriServ's long-term benefit. "Driver has a history of buying community bank stocks and then substantially exiting its positions after a short period of time," Stopko wrote. "We do not find such actions to be those of a shareholder-aligned investor."

Cooper, who sued several of the community banks he challenged in past campaigns, said it was AmeriServ that triggered things by rejecting his 2023 board candidates, Julius Rudolph, Brandon Simmons and himself.

"What in my history made them think I wouldn't respond" with a lawsuit? Cooper said.

For banks, the prospect of a proxy challenge presents enormous challenges. Activists don't play. They typically seek major changes, in board composition, strategy, even control of the company, so they can't be taken lightly. At the same time, a proxy defense almost always results in a hit to the bottom line.

The attorneys weigh in

That activist investors aren't necessarily unbiased sources in commenting on companies' managements and boards is putting things mildly, said Paul Schulman, senior managing director of the mergers-and-acquisitions and activism advisory group at Morrow Sodali in New York.

"Most boards in my experience are thoughtful and earnestly doing what they believe is best for shareholders," Schulman wrote in an email to American Banker. "Just because it's a different view than the activist doesn't make them hostile. "We have seen situations where the activist

Active activist investors

Several prominent shareholders have been tussling with bank management teams in recent years. Here is a timeline of key dates in those clashes.

Date	Event
FEBRUARY 9, 2021	HoldCo Asset Management pushes Berkshire Hills Bancorp to sell
MARCH 8, 2021	Berkshire Hills signs cooperation agreement with HoldCo
DECEMBER 10, 2021	Driver Management nominates three directors at Republic First Bancorp
FEBRUARY 9, 2022	Republic First faces an activist challenge from Norcross Group
APRIL 13, 2022	Norcross demands suspension of Republic First chairman and CEO
JUNE 2, 2022	Driver Management nominates director for open seat at Republic First
JUNE 23, 2022	Blue Foundry Bank faces proxy campaign from Lawrence Seidman
OCTOBER 4, 2022	Driver Management and Republic First reach cooperation agreement
NOVEMBER 23, 2022	Seidman nominates two directors at Blue Foundry
JANUARY 13, 2023	Driver Management seeks board seats at AmeriServ Financial
FEBRUARY 3, 2023	Driver tangles with First Foundation Bank over two board nominees
FEBRUARY 24, 2023	Driver Management's director nominees are rejected by First Foundation
JULY 13, 2023	A judge rules that Blue Foundry must pay some of Seidman's legal fees
AUGUST 14, 2023	Dream Chasers Capital makes an unsolicited offer to buy a controlling stake in Carver Bancorp
SEPTEMBER 25, 2023	Driver discloses plans to nominate former bank CEO Keith Mestrich to the AmeriServ board
NOVEMBER 20, 2023	Dream Chasers raises its per-share offer for Carver
JANUARY 31, 2024	Carver rejects Dream Chasers' offer

Source: S&P Global Market Intelligence, company reports, investor reports

“I’ve been doing this since 1983. It hasn’t changed.”

— Larry Seidman,
Veteran activist investor
in banks



has not complied with the standard procedures for nominating directors or has not had a strong slate of nominees. The board has justifiably defended itself.”

The disclosures and other provisions companies require to put a proposal on a corporate ballot or nominate a director candidate serve a valid purpose, Kai Liekefett, co-chair of Sidley’s shareholder activism and corporate defense practice, said in an interview. They “enable the board of the company in question to make an informed decision as to whether or not to recommend in favor” of a proposal or nominee.

Born and educated in Germany, Liekefett said he began paying attention to shareholder activism after observing Vodafone’s 1999-2000 hostile takeover of the German-based conglomerate Mannesmann AG. Over time, his practice scope, which originally included merger-and-acquisition work, narrowed to just shareholder activism. “I do nothing else,” said Liekefett, who has represented 159 companies in proxy fights.

“That doesn’t mean the activists are always wrong,” Liekefett added. “There are a significant number of community banks who are underperforming and have depressed share prices.”

New ballot, new problems

While sparring with banks’ boards and management may seem all in a day’s work for longtime investors like Seidman and Cooper, Liekefett said the clashes weren’t always so rancorous. Liekefett attributed the uptick in negativity to the universal proxy ballot the SEC introduced in 2021. Prior to that, companies and activists would print separate ballot cards listing only their candidates. The universal proxy rule requires both activists and companies to list all candidates on their ballots. The aim was to give shareholders a wider degree of choice, permitting them to split ballots.

But it has also led to a heightened level of personal criticism, according to Liekefett.

“Before, proxy fights were more slate-based. It was the company slate or the [activist] slate,” Liekefett said. “Now, the temptation is larger to directly attack the credentials of the individual candidates, not just make the overall case for change.”

Liekefett helped pioneer the strategy of challenging an activist’s director nomination paperwork as part of his defense of Seattle-based HomeStreet in 2019. Though it was two years before the universal proxy, Liekefett said he and his team identified a number of significant disclosure errors that helped the \$9.3 billion-asset HomeStreet beat back an activist’s challenge.

The practice has become more routine since then. Indeed, First Foundation challenged the disclosures of two director candidates Cooper had nominated as part of his campaign against the \$13.3 billion-asset company in 2023.

First Foundation in Dallas sought to invalidate the nominations, prompting Cooper to sue in Delaware’s Court of Chancery. The sides reached a settlement allowing one of Cooper’s candidates — the second had withdrawn her name from consideration — on the ballot.

Ironically, when the votes were finally counted in June, shareholders handed Cooper a resounding defeat. Legally, “First Foundation saw the writing on the wall and accepted our candidate, then we got waxed,” Cooper admitted. “We got creamed.”

Going on a year later, Cooper is refighting the same battle but this time against AmeriServ, challenging that bank’s decision to invalidate his 2023 nominees. Cooper, moreover, is convinced AmeriServ will ultimately bar his

2024 slate, of himself, Keith Mestrich, the former CEO of New York-based Amalgamated Bancorp, and veteran commercial lender Betty Silfa.

“I’d be shocked” if AmeriServ allows the names on the ballot, Cooper said.

Last year, AmeriServ refreshed its board, adding Rick Bloomingdale, the former president of the Pennsylvania AFL-CIO, and David Hickton, a former U.S. attorney and a cybersecurity expert.

As a tactic, challenging activists’ director nominees has yielded results, but it also carries risk.

“If you get sued and you lose in court, you can be assured shareholders will not look lightly on your attempt to disenfranchise them,” Liekefett said. “I guess what I am saying is, if you invalidate a shareholder nomination for legal reasons, you cannot lose in court,” Liekefett added. “If you lose in court, you lose the proxy fight along with it. ... It’s a tactic that is typically reserved for the most egregious cases.”

Casting a wide net

According to Diligent Market Intelligence, a New York-based software-as-a-service firm focused on corporate governance, 550 U.S.-based public companies dealt with activist investor campaigns, up about 8% from the prior year. Diligent, which published its Market Intelligence’s Shareholder Activism Annual Review for 2024 last month, added that the number of companies identifying activism as a risk in their corporate disclosures is also on the upswing. About 23% of the companies in the Russell 3000 index did so in 2023, up from 21% in 2022.

Larger banks are certainly not immune from activist investors targeting them. But recent campaigns aimed at these mega institutions have frequently revolved around social issues, most prominently climate change, as opposed to board seats and questions of control. During the 2023 proxy season, activists such as the Sierra Foundation sought commitments from banks to reduce the financing they provide to the fossil-fuel industry. They also demanded more detailed disclosures about how banks plan to meet 2030 greenhouse gas emissions targets.

The opposite is essentially true for the community banking sector. In general, these institutions are too small to attract this type of attention from groups seeking to make social or political statements. They also generally

don't warrant the intervention of high-profile activists, such as Carl Icahn, Nelson Peltz and Daniel Loeb, according to Liekefett, who has defended some of the country's largest corporations from activists.

Instead, these smaller institutions attract activist investors who believe that executives and boards are shorting shareholders by mismanaging their companies. It's a common thread that connects many of the recent activist-bank episodes. In 2018, before its campaign unraveled as a result of disclosure issues, Dallas-based investor group Blue Lion Capital attacked HomeStreet for its mortgage-banking emphasis as well as its expansion plans.

The following year, in February 2019, New York-based HoldCo Asset Management released a scathing letter blasting the board of Berkshire Hills Bancorp for a lack of transparency about key actions as well as a "history of value destructive strategic decisions." The letter, which also chided Berkshire Hills for "failing to evaluate strategic alternatives," led to the company's agreement a month later to add two directors, including Misha Zaitzeff, HoldCo's cofounder.

Perhaps the best-known activist situation in recent years has involved the \$5.9 billion-asset Republic First Bancorp in Philadelphia, which began in late 2021 when Cooper challenged then-CEO Vernon Hill's plans to conduct what he termed a "highly dilutive capital raise." Cooper exited the scene after a second investor group, led by New Jersey insurance executive George Norcross, sought control of Republic First, ultimately waging a long and bitter struggle first with Hill, who resigned as CEO in July 2022, then with a board faction led by the company's founder, Harry Madonna.

The Norcross-led group's bid to win control of Republic First was a relatively unusual event. It's more common for activist investors to press bank management teams to look for a buyer, believing that the institution could make more and better serve customers as part of a larger entity.

That said, at least one other company, New York-based Carver Bancorp, is dealing with an unsolicited offer from an investor to gain a controlling stake. Carver, one of the nation's most prominent Black-owned banks, became embroiled in an activist campaign last year, after Dream Chasers Capital Group offered to pay \$3.25-per-share to



Republic First Bancorp in Philadelphia has been battling challenges from activist investors since late 2021.

acquire a 35% stake in the \$743 million-asset lender.

Though Carver reported a \$1.9 million loss for 2023, and Dream Chasers' offer represented a significant premium over Carver's share price at the time it was proposed, the board rejected it. Carver directors cited Dream Chasers' "unsubstantiated financial resources" and an "anticipated inability" to obtain regulatory approval.

"A comprehensive review of the Dream Chasers proposal found it to be wholly deficient with respect to structural details, implied valuation, dilution, and the basic disclosure of financial and managerial resources," Carver stated in a January press release.

Dream Chasers did not provide a comment for this story. Besides the takeover bid, the investment firm has also suggested the bank sell. Dream Chasers said in a press release from January that Carver could provide a more complete suite of financial services products to minority communities by merging with an already identified, though unnamed "Wall Street based minority owned broker-dealer."

In the press release, Dream Chasers added a few statements that it directed at Carver's board, including "shareholders own companies and their interest should always come first" and "that a company can serve its

community and make money at the same time."

Like Carver, Blue Foundry posted a 2023 loss, totaling \$7.4 million. Blue Foundry reported a \$2.4 million profit for 2022. Its 2022 return on assets was 0.11%, well below the industry average of 1.11%, according to the Federal Deposit Insurance Corp.

In a conference call with analysts in January, Chief Financial Officer Kelly Pecoraro attributed the 2023 loss to a significant jump in funding costs, which outstripped a narrower rise in interest income. Though banks industry-wide were similarly impacted during that same time period, Seidman was less understanding. Seidman labeled Blue Foundry as "one of the worst performing financial institutions in the country."

"They just keep losing money," Seidman said.

Seidman also objected to the bonuses and incentives the company has given CEO Jim Nesci, as well as other directors and senior executives. Seidman views them as out-of-proportion to Blue Foundry's bottom-line results.

"Pay for performance is all I know," Seidman said.

The attention Seidman paid to compensation tracks a trend which saw activists focus more closely on pay issues in 2023. According to Diligent, 81 companies faced what it termed remuneration-related demands, up from 59 in 2022.

In a May 2023 regulatory filing, Blue Foundry stated its compensation policies are consistent with those of other recently converted mutual banks, adding they were developed with the assistance of Pearl Meyer, a nationally recognized, Boston-based compensation consulting firm.

Of the smaller-scale investors who are active in the community banking space, Seidman's name is among the most prominent. "He's been around the block for decades," Liekefett said. "He's obsessed and dedicated to community banking. He calls it out when he sees what he believes is significant underperformance."

As a former depositor-owned bank, Blue Foundry is prevented by regulation from seeking a sale within three years of its stock conversion. Seidman's proposal asks depositors to push for a deal once the three-year moratorium ends in July. If Blue Foundry succeeds in keeping the proposal off the 2024 proxy ballot, Seidman promises he'll resubmit it in 2025. "If it doesn't happen this year, it will happen next year, and they're still going to be losing money," Seidman said.

At the same time, Seidman insists he is not surprised by the company's resistance.

"If I was performing the way they perform, I wouldn't want anyone to challenge me." **AB**

Deposits & Withdrawals, Pitts (continued)

gain new insights through partnerships with fintechs. For many institutions, the CFPB’s rule can spur banks to become the digital “branch” their customers want. Banks and credit unions of all sizes — including many of the nation’s largest banks — are already leveraging open banking solutions as part of their own product strategies. Despite these obvious benefits, some banks are looking at the rule as a compliance burden that they should now oppose. Ironically, requiring the use of APIs is a tool that the financial industry has been calling for for many years in order to eliminate screen scraping and ensure open banking functionality. Treating API development as an unwelcome compliance obligation, however, is to the detriment of banks and consumers alike.

Today, nearly all of the largest banks, like JPMorgan, Bank of America and Wells Fargo, as well as many popular fintechs, currently have APIs in place. Others are in the process of migrating traffic fully to APIs.

Likewise, thousands of community banks and credit unions today already have access to APIs via core service providers or other platforms. At Plaid, over 75% of our traffic is on or committed to APIs — and with the finalization of Dodd-Frank 1033, we can get to 100%. Driving API adoption in the market is essential for safe open banking practices and by embracing APIs, the CFPB is reaffirming where the industry is already heading.

As fintechs and banks look ahead to how they will meet consumer expectations in an open banking future, there are two areas the CFPB could provide greater clarity on to ensure effective implementation.

First, the agency should make clear its oversight authority and supervision of data aggregators. This is something banks and fintechs have called for as it would provide reassurances and benefits to the financial services ecosystem. Second, open banking shouldn’t result in banks being required to vet the thousands of apps and services a consumer may choose to share their data with. Industry and consumers would benefit from clarity on risk management practices so everyone can operate fairly and effectively while ensuring consumers are protected.

For banks and credit unions to win in this new world, it is important that they prepare their digital strategies and get ahead of the regulatory requirements in 2024. **AB**

Deposits & Withdrawals, Miller (continued)

to develop the kinds of innovative products and services their customers (existing and prospective) want. Common use cases include novel types of lending products to reach new markets, personal financial management to find ways to improve financial awareness and health, market-tailored platforms (such as restaurants) to reflect preferences and many more.

It’s not known how the specifics of the proposed rule will land when the final rule is released. What is clear is that third parties as a class will be expected to have formalized workstreams in place when accessing a consumer’s financial information. This is familiar territory for banks; if they identify viable use cases for receiving consumer-permissioned data, they are well equipped to operationalize it in a compliant manner. And, what’s more, banks will be held to account as part of the rigorous supervisory process they undergo. Alas, the same cannot be said for many third parties operating in the ecosystem. Banks should take a broad view of the open banking landscape. While they are thinking through ways of operationalizing the data provider provisions, banks should begin to ponder how functioning as a data recipient could fit into their strategy. It might be time to try on that new hat. **AB**



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A roadmap for how to do good

In her new book, “Higher Ground,” Alison Taylor, a business school professor, dives into how executives can grapple with thorny social and environmental challenges while ensuring an ethical culture within their companies.



By Jackie Stewart | March 2024 | 10 Min Read

Higher Ground
How Business Can Do the Right Thing in a Turbulent World

By Alison Taylor

Bank CEOs should take to heart the phrase “no good deed goes unpunished.”

I’ve written about banking for about a decade now, and I honestly believe the vast majority of bank executives want to do good in the world when they can. But in our ever polarized society, what does that even mean anymore?

Take diversity, equity and inclusion, for instance. In the aftermath of the killing of George Floyd in March 2020, American corporations, including many banks, jumped in to pledge millions of dollars to help fight racism and discrimination and sought ways to increase the diversity within their own ranks by hiring or promoting chief diversity officers and recruiting from historically black universities.

Fast forward a few years, and there is now a growing backlash about DEI programs, including critics who claimed that Silicon Valley Bank, which failed in March 2023, was too “woke.”

And this is just one example — there are numerous others, such as climate change, abortion access, LGBTQ rights, just to name a few — that consumers, lawmakers, advocates and others, on both sides, push for corporations, including financial institutions, to take action on. This doesn’t even take into account a company’s own employ-

ees and shareholders who also likely have their own beliefs that they hope that management will support.

So how do executives successfully navigate these thorny issues? Essentially, that question doesn’t have a straightforward or easy answer, according to the new book, “Higher Ground: How Business Can Do the Right Thing in a Turbulent World” by Alison Taylor.

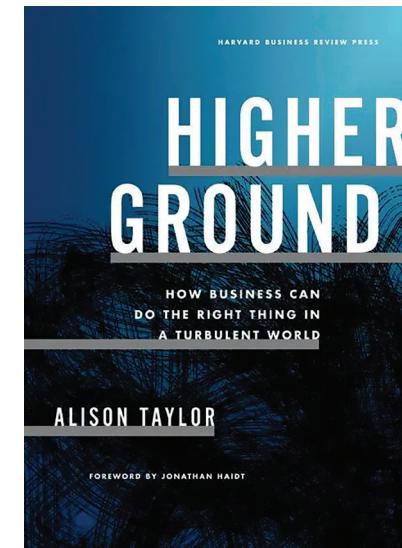
Taylor draws on her more than two decades of experience working with businesses in areas such as political and social risk, sustainability, human rights and ethics to take a deep dive into what it means to run an ethical business. (She is also a professor at the Stern School of Business at New York University and the executive director of Ethical Systems, which does research in business ethics.)

“The idea that corporations might step up and do the right thing sounds so appealing. Corporations are powerful actors in society, and their decisions matter profoundly to everyone,” Taylor writes.

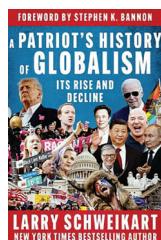
“But responding to these calls brings unwelcome scrutiny and unexpected turns. So how is any leader to proceed? There’s

no capsule answer, no magic pill to help you understand what it now takes to establish and maintain a good, trusted business,” Taylor continues.

To be sure, Taylor covers a range of topics beyond how executives should weigh what to publicly do and support in terms of environmental and social issues. She also tackles everything from the importance of company culture to developing and ensuring ethical behavior to explaining what real corporate transparency is.



Further Reading



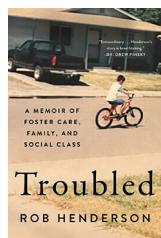
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Jackie Stewart has covered the financial services industry for a decade and is the executive editor of American Banker Magazine.

But I personally have always found it interesting when corporations do decide to publicly speak out or take steps to address something that is happening beyond their purview. Doing this obviously runs the risk of upsetting a key stakeholder who holds a different view than what the company says or does.

And CEOs should be aware that it is not only the public statements and actions on key issues that could draw unflattering scrutiny, Taylor warns. They also must be careful about internal communications or decisions that can be thrust into the spotlight given the ubiquity of social media today.

"Before the mass adoption of digital discourse, the messy innards of corporate life were revealed only in the wake of scandalous revelations," Taylor adds. "Now anyone with an interest can dissect clumsy emails, assess tense town hall meetings, chortle over toxic gossip posted on Slack, and roll their eyes at accounts of drunken groping at charity fundraisers." She includes this warning: "Wise executives now assume that anything they say or do may become public knowledge."

Given my interest in companies reacting to broader societal issues, I found this part of Taylor's book the most compelling. In that regard, Taylor provides some good, concrete advice that bankers could follow to help assess the risks of tackling a particular social or environmental issue. She recommends that the "first step is to identify *all* of the environmental and social issues that are *directly relevant* to your business operations." (The emphasis appears in the original text.)

From there, she encourages executives to consult what she deems "friends, critics and critical friends" from both inside and outside the company. The idea of "critical friends," in particular, stuck with me. I imagine a "critical friend" to be that person — that outspoken board member or leader of a community nonprofit — who overall is a champion of the business but is also willing to provide more pointed criticism as necessary.

Taylor then encourages management teams to "prioritize ruthlessly." Failing to do this could mean a company ends up in "a swamp of undifferentiated virtue signaling." She rounds out this advice by telling readers to decide when and how to proceed and embedding the determined priorities into the overall corporate strategy.

"If your focus is sharply strategic, and you clearly see the challenges and opportunities each issue presents, you'll find it much easier to incentivize the core business to focus on these issues," she adds.

Some of Taylor's advice might be a bit basic for executives who already have well-developed practices around ensuring a strong culture, transparency and ethics. For instance, Taylor extols that "the most important principle is respect."

But, as I said at the beginning of this review, I sincerely believe that most bankers are trying to do good and at times this can seem an almost impossible task given the competing interests that executives have to grapple with. It seems as if Taylor would agree.

"I set out to write [this book] because so many people — many with good intentions — appeared to be lost. It even seemed that we no longer shared a common language to discuss the challenges we face.

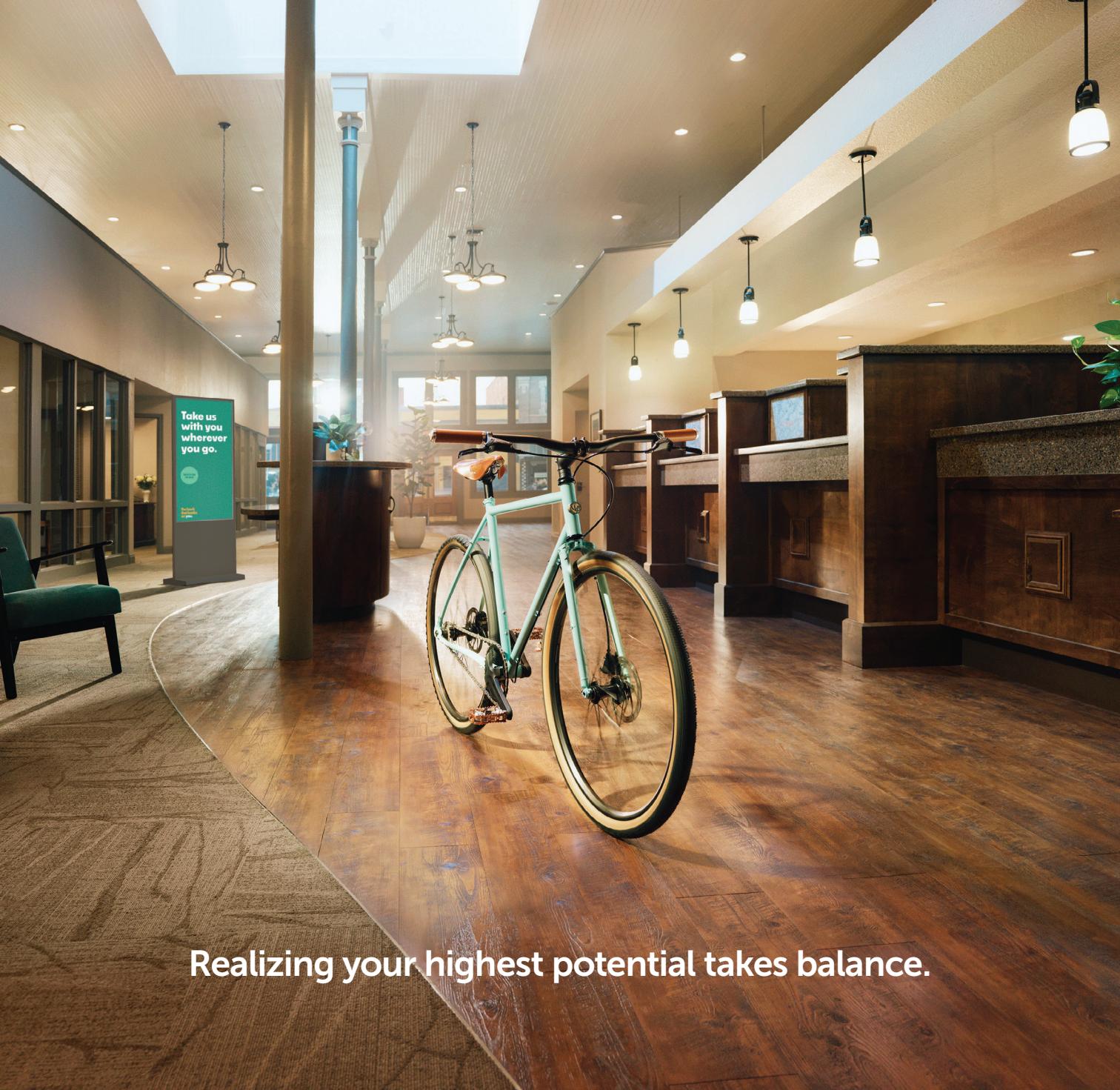
"I wanted to help cut through the noise and suggest a path forward, upward," Taylor writes. **AB**

The Positive Business Impact of Genuine Inclusion

Meaningful progress on DEI initiatives has a real effect on the workforce. We examine the dynamics that drive this conclusion and what it means for companies.



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