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Editor’s View

This Is No Bailout

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Big banks have begun taking steps to protect their stockpiles of cheap deposits ahead of what could be as many as four Federal Reserve rate hikes this year.

Over the last two quarters, at least two of the nation’s biggest banks — Wells Fargo and Bank of America — have tinkered with the way they set deposit rates, carving up a handful of key states into smaller markets, according to Informa Research Services, a Los Angeles data firm that tracks deposit rates and promotions.

The move will let the two banks more efficiently counter attempts by small banks and credit unions to lure customers away with deposit promotions.

Other big banks, meanwhile, are exploring new ways to use data and analytics to adjust rates for lucrative customer segments. For instance, some are offering promotions to affluent millennials who may be tempted to open higher-yielding accounts at online banks, observers said.

Taken together, the moves illustrate how the industry’s biggest players are becoming more precise and tech-savvy in setting deposit rates — and how they plan to respond once the federal funds rate rises enough to spur more intense competition for consumer deposits.

“Pricing is not just setting a rate sheet and pushing it out to your branch and hoping it goes well,” said Brian Buckingham, vice president of U.S. deposits at Nomis Solutions, a financial pricing firm in Silicon Valley.

Over the past few years, much has been made in the industry about how the rise of smartphones and digital banking has changed the competitive landscape because they allow consumers to move money between banks more easily.

But things have changed for banks too, since the last time interest rates were on the rise a decade ago.

“What is different this time is banks have much, much better data” — on
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both customers and competitors — said Deepak Goyal, a partner in the financial services practice at Boston Consulting Group. He added that banks are in the "early stages" of figuring out how best to use it.

Rates paid on deposits continue to be meagre for most retail savers. The national average rate on regular savings accounts has remained stuck around 0.14% for the past five years, according to Keefe, Bruyette & Woods.

Rates on money market accounts have risen just 3 basis points in the past year, to 0.20%. Competition for CDs has picked up slightly, with rates on one- and three-year CDs rising by about 20 basis points, to 0.62% and 1.07%, respectively.

The low deposit prices have been a boon to margins and earnings, at a time when commercial loan demand has been lacklustre.

A recent report from Fitch Ratings illustrates the point. If all of the systemically important banks paid depositors an average of 75 basis points extra on their retail savings accounts, their collective pretax income would decline by 11%, the ratings agency wrote.

"There’s no way that these rates can remain as low as they are forever," Goyal said. "My suspicion is if one of the big banks broke ranks, the others would follow."

Retail deposit rates vary by market, and most big banks are looking at ways to more nimbly respond to changes in consumer demand and local competitive dynamics, observers said.

Wells, which has used regional pricing elsewhere in the country, split up its home state of California into four regions, including two that focus on the metropolitan areas around Los Angeles and the Bay Area, according to Informa. That move sets the bank up to offer different rates in each of those regions as needed.

Bank of America split four states — its home state of North Carolina, as well as South Carolina, Missouri and Illinois — into two markets each, according to Informa.

Some regional banks, such as U.S. Bancorp, have set deposit prices at a local level for years, according to Ray Montague, director of deposit rates at Informa. He said that the Minneapolis company has 10 different pricing regions in Iowa alone.

Though deposit pricing has not been an issue for most of the past decade, it is getting a lot of attention now.

"All of the top 10 banks are thinking about this — and even below that," said Buckingham, of Nomis.

"There hasn’t been much reason to invest in more granular pricing over the past 10 years," Buckingham said. "This is the next frontier."

Call Me Maybe

Banks, consumer groups clash over robocalls

A recent federal appeals court decision to ease restrictions on robocalling highlights the divide between banks and consumers over where customer service ends and nuisance begins.

The banking industry argues that a March ruling by the D.C. Circuit Court will make it easier for banks and credit unions to use automated calls to communicate important information to customers, such as warning them that loans are on the verge of becoming delinquent or that accounts have been exposed to fraud.

But consumer groups say that the decision gives financial services companies license to do more aggressive marketing and could lead to more harassing phone calls over unpaid debts.

The ruling struck down some interpretations the Federal Communications Commission made of the Telephone Consumer Protection Act (TCPA) in 2015.

The FCC’s guidance was designed to protect consumers from unwanted calls, but the debt collection industry, with support from banks and credit unions, filed suit, arguing that it allowed telephone service providers to block far too many legitimate calls.

The federal appellate court’s ruling could provide relief for financial services companies on two fronts.

One concerns the type of equipment used by banks to make robocalls. Nearly any device, from smartphones to web browsing software, previously was deemed automated dialing equipment and thus violated the TCPA.

The court said the FCC’s interpretation was too broad and essentially threw out the rules on the types of equipment companies can use to initiate robocalls.

Donald Maurice, a Flemington, N.J., attorney who advises banks on debt collection, said that the FCC’s 2015 guidance “made it very difficult for any business to send any kind of message to a customer. A sub shop couldn’t send a text message to their customers.”

The court also threw out the FCC’s guidance related to misplaced calls. Banks were given only one attempt to
Briefings

place an automated call to a number and reach the intended person. If a bank called the same mistaken number twice, it violated the FCC’s standard. That was a nearly impossible standard to meet, Maurice said. One reason is that huge numbers of U.S. consumers have replaced landline phones with wireless ones. The number of adults living in a home with only wireless phone service rose from less than 5% in 2003 to 52% in 2017, according to the Centers for Disease Control and Prevention.

Many millions of cell phone numbers are changed each year, making it tough to ascertain the correct number of any individual consumer, bankers contend. Now they have more breathing room.

“If you have no basis for knowing a call has been reassigned, you can provide yourself with a pretty good legal defense,” said Thomas Good, an attorney at Barron & Newburger who advises banks.

Andy Peters

A Cool Deal
SunTrust partners with online lender to offer HVAC upgrades

SunTrust Banks is teaming up with another fintech startup to extend its reach in consumer lending.

The $202 billion-asset Atlanta company has struck a partnership with the online lender Microf to offer point-of-sale loans to homeowners looking to replace aging residential heating, ventilation and air conditioning systems.

SunTrust will hold the loans on its books and pay a fee to Microf for the referrals. Microf, based in Albany, Ga., offers the loans through its nationwide network of HVAC contractors.

Mitch Masters, Microf’s chief executive, said his company is seeking at least a few more bank partnerships as well.

SunTrust has aggressively expanded its consumer lending in recent years through partnerships with online lenders. Its Lightstream subsidiary, which it acquired in 2012, offers financing for a wide range of goods and services, including cars, boats, medical procedures, weddings and adoptions. It is also one of roughly 15 banks that offers home-improvement and other personal loans through a partnership with the fintech GreenSky.

SunTrust’s portfolio of indirect consumer loans climbed to $12.1 billion in 2017, a 13% increase from the year earlier. Direct consumer loans increased 12% year over year, to $8.3 billion.

Microf, founded in 2010, has been targeting borrowers with slightly blemished credit. But the new SunTrust partnership will allow its contractor partners to offer point-of-sale loans to prime and super-prime consumers, according to Masters.

Microf will continue to issue and service loans to subprime customers and refer the customers with better credit to SunTrust. “Prime and super-prime borrowers are not our business model,” Masters said.

Microf, which is backed by the Bethesda, Md., private equity fund Rotunda Capital, has loan-referral arrangements with thousands of large HVAC dealers across the country, including Ace Home Services in Phoenix and Estes Services in Atlanta.

Masters said he founded Microf as a way to help HVAC contractors provide financing options to customers. “Most contractors will take cash or credit cards, but they don’t have financing partners,” he said. “They know the HVAC business, but they never learned financing.”

Andy Peters
Fighting Fintechs on Their Own Turf

BBVA Compass cites advantages that mitigate its risk with unsecured personal lending

By Laura Alix

Emboldened by accolades for its mobile app and other digital initiatives, BBVA Compass in Birmingham, Ala., is starting to offer unsecured personal loans online.

Given the loan volume that fintech lenders already have and the overall increase in consumer debt, some fear that market could be oversaturated.

But officials at BBVA Compass, the U.S. subsidiary of Spain’s Banco Bilbao Vizcaya Argentaria, insist that demand is strong enough to support more players and that they have a few competitive advantages over nonbank lenders — including knowing their customers better.

“Digital transformation has been our vision in the longer term,” said Shayan Khwaja, BBVA Compass’ executive director of consumer lending. “We’ve seen the asset class grow, and fintech has shined a light on how we can take this value proposition to the consumers. The general population is fairly savvy with digital products. They’re not just used to it, but they’re demanding it.”

Banks have sought to boost consumer lending during a period of sluggish growth in business loans.

Several already have experimented with unsecured personal lending, including Barclays’ U.S. division and PNC Financial Services Group. Barclays touts its personal loan as a way to consolidate debt, though PNC has not specified whether it intends to market its product that way.

Others have gotten into personal loans through third-party relationships, with point-of-sale lending being particularly popular. Fifth Third Bancorp in Cincinnati is one of several banks to partner with the fintech lender GreenSky, which offers point-of-sale loans for home improvement projects. Fifth Third said it entered the business because millennials are averse to carrying lots of credit card debt, but are not opposed to debt altogether.

BBVA Compass first rolled out its
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Express Personal Loan in its branch network in 2015 and later invited select customers to apply online. The loan, which is marketed primarily for debt consolidation, ranges in size from $2,000 to $35,000 when opened online and carries an annual percentage rate between 5.91% and 35.06% depending on the borrower’s credit profile.

Consumers can apply for the loan in a branch for amounts up to $100,000, but BBVA hopes the option to apply on its website or through its mobile app will appeal to those who would rather not visit a branch. Customers who already have checking accounts with the bank can receive funds on the same day they apply, while those who do not are typically approved that day and funded two or three days later.

BBVA also offers customers the option to provide their credit information and check their rate or loan offer without damaging their credit score. The digital version of the loan is available in BBVA Compass’ existing markets, except for California, where it is offered only in branches or to a prescreened population.

Khwaja said the bank wants to fine-tune its approach for California because, given the abundance of fintech lenders there, consumers may have high expectations for a digital loan product. ‘The hurdle’s probably a little bit higher in California,’ he said.

Khwaja did not disclose how large BBVA Compass’ unsecured consumer portfolio is right now, nor would he share the average FICO score, interest rate or loan amount.

Chris Marinac, an analyst at FIG Partners, said the move into a digital personal loan product makes sense given BBVA Compass’ digital focus and its 2014 acquisition of Simple.

‘Banks have to be proactive in how they find new loans today,’ Marinac said. ‘The industry still is struggling to get additional loan growth.’

Yet Moody’s Investors Service called BBVA’s announcement a credit negative, citing greater loss rates on unsecured consumer loans overall and mounting competitive pressures.

BBVA Compass also will need to protect against the heightened risk of fraud, said Julie Conroy, a research director at Aite Group. She warned that online loan origination channels are particularly susceptible to synthetic identity fraud, in which the thief fabricates a totally new identity, often by stitching together bits of information stolen in data breaches. The fraudster uses that new identity to apply for a loan, with no intent to ever repay.

Khwaja said BBVA Compass has invested in the talent and tools it needs to guard against fraud.

The bank also has some advantages over fintech companies that merely have a lending relationship with their customers. When the bank lends to an existing customer, it has insight into that customer’s cash flow, giving it a more complete picture of the risk it is taking on, Khwaja said.

A Boost for Biometrics

Behavioral biometrics — the coding of a user’s actions to verify their identity — seems to possess all the elements that banks want in security technology.

It’s painless for customers to use and hard for criminals to spoof. And it’s not subject to the same kinds of privacy protection regulations as other biometrics — such as a thumbprint or a retina scan.

The technology’s increasing popularity is reflected in the growth plans at the behavioral biometrics firm BioCatch, which recently closed a $30 million round of financing.

BioCatch, which is based in New York and Israel, will use the financing to explore new use cases and expand into other industries beyond financial services.

Behavioral biometrics is especially attractive to bankers, because it works in the background, adding a layer of security without creating any friction for customers, said Julie Conroy, director of research at Aite Group.

Though no financial institution can rely on any one kind of technology to defend itself, BioCatch collects is particularly hard for fraudsters to copy: subtle movements like the way someone swipes across the screen to unlock the phone, or the way the phone is held during a voice call, Conroy said.

The lack of annoyance to the customer is a major reason that Experian adopted BioCatch as a third-party provider for the CrossCore security platform that it markets to financial institutions of all sizes, as well as to telecommunications companies and online retailers.

“The thing about most of these behavioral biometrics is that they’re passive. They’re happening in the background and the end user doesn’t feel intruded upon,” said Kathleen Peters, Experian’s senior vice president of global fraud and security.

BioCatch is exploring other use cases, like authenticating new customers at the time of sign up, said Frances Zelazny, vice president of marketing at the behavioral biometrics firm. It is also expanding into other industries, such as payroll processing and insurance.

BioCatch does not say how many
Bank Technology

financial institutions it works with, but it sifts through about 5 billion transactions per month and has around 60 million users in its system, Zelazny said.

Other service providers also are getting into the behavioral biometrics space, as companies in need of fraud prevention increasingly ask about this type of security. Al Pascual, head of fraud and security at Javelin Strategy & Research, said that is a good indicator of its success and popularity.

"If you've worked with product managers, you know it takes a while to integrate those capabilities and things that show up on product road maps, but we're actually seeing these capabilities being integrated with other solutions and they're live," Pascual said. "That tells you that in this short time frame since BioCatch came into existence, how much interest there really is."

Another plus is that this type of data is not governed by the privacy regulations that apply to physiological biometrics.

Though that could change, Pascual said it is highly unlikely that behavioral biometrics would attract such regulatory scrutiny.

Behavioral biometrics data is not considered to be personally identifiable information in the same way that data from physical biometrics is — and with good reason. A database of palm prints could be easily linked back to their owners, but movements on a touch screen, not so much.

As Zelazny put it, "you can't tell who somebody is based on their mouse movements."

Three states — Illinois, Texas and Washington — have passed laws either requiring companies to ask users to opt in to the collection of biometric identifiers or governing how companies may use that kind of information.

But behavioral information is important to advertisers, so restricting the collection and use of it is a hard sell politically, Pascual said. "Understanding what our behavior is has incredible value to folks like Google and Facebook and basically any advertiser," he said. "To suddenly say, 'If you see AI do something, then you can't save that information and use it later,' I don't think you're going to hear any legislator really push hard for that." — Laura Alix
Outlook Is Cautiously Optimistic

A minor dip in profitability this past year belies the promise of what's ahead for publicly traded banks and thrifts with less than $2 billion of assets.

The median return on average equity for the 633 institutions that fit the criteria for our annual ranking fell by 58 basis points in the fourth quarter, hampering overall profitability.

“...and reduced regulation, “it’s going to be an even better 2018,” he added.

But community banks still have serious challenges ahead, particularly in the competition for low-cost deposits against the more digitally savvy megabanks.

The rate that the institutions in this ranking grew core deposits slowed in 2017 to about a third of what it had been in the previous year, according to an analysis by CPG.

“...the struggle that community banks have today gathering deposits,” Halsey said.

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“This was actually a decent year for the banking industry, even among the community banks, which have traditionally underperformed their larger counterparts,” Halsey said.

With the help of rising interest rates, lower corporate taxes and reduced regulation, “it’s going to be an even better 2018,” he added.

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<td>1.20</td>
<td>3.45</td>
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<td>681,100</td>
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<td>10</td>
<td>First Financial (FFFI)</td>
<td>Marion, NC</td>
<td>6,499,000</td>
<td>5,426,800</td>
<td>84.30</td>
<td>13.60</td>
<td>1.14</td>
<td>3.64</td>
<td>10.74</td>
<td>1,079,300</td>
<td>66.15</td>
<td>14.83</td>
</tr>
<tr>
<td>11</td>
<td>First Community Financial (FCFIN)</td>
<td>Marion, NC</td>
<td>6,499,000</td>
<td>5,426,800</td>
<td>84.30</td>
<td>13.60</td>
<td>1.26</td>
<td>3.82</td>
<td>10.96</td>
<td>1,149,300</td>
<td>66.87</td>
<td>15.20</td>
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<td>12</td>
<td>Pennsylvania Mutual Bancorp (PMB)</td>
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<td>3,982,000</td>
<td>3,094,800</td>
<td>77.92</td>
<td>13.60</td>
<td>1.14</td>
<td>3.64</td>
<td>10.74</td>
<td>1,079,300</td>
<td>66.15</td>
<td>14.83</td>
</tr>
</tbody>
</table>

**Peer Analysis**

Acme Bank, Inc.

- The banking industry continues to face challenges despite recent improvements in the economy. With the Federal Reserve raising interest rates, banks are seeing increased profits from increased interest margins. However, many banks still struggle to maintain positive ROE and ROA ratios.

- Despite the challenges, several community banks have shown strong performance in recent years. They have been able to maintain higher efficiency ratios and lower risk-based capital requirements compared to larger, national banks.

- The top 20 community banks listed here represent a diverse range of sizes and locations, indicating that community banks are well-positioned to succeed in the current economic climate.

May 2018

American Banker
## Metrics & Measures

### TOP 200 COMMUNITY BANKS

<table>
<thead>
<tr>
<th>Rank</th>
<th>Institution/Ticker</th>
<th>Location</th>
<th>Total Assets ($000)</th>
<th>Market Value ($Millions)</th>
<th>Closing Price ($)</th>
<th>3-YR ROA (%)</th>
<th>ROAE (%)</th>
<th>ROAA (%)</th>
<th>Net Interest Margin (%)</th>
<th>Net Income ($000)</th>
<th>Total Noninterest Income ($000)</th>
<th>Efficiency Ratio (%)</th>
<th>Total Risk-Based Capital (%)</th>
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<tbody>
<tr>
<td>14</td>
<td>American Banker</td>
<td></td>
<td></td>
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</table>

Source: Data compiled according to the SIC. The ranking report (BA) includes only banks and institutions listed in the SIC.
<table>
<thead>
<tr>
<th>Rank</th>
<th>Institution/Ticker</th>
<th>Location</th>
<th>Total Assets ($000)</th>
<th>Market Capital (Millions)</th>
<th>Price/Growth</th>
<th>3-YR ROAE (Average) (%)</th>
<th>ROAE (%)</th>
<th>ROAA (%)</th>
<th>Net Interest Income ($000)</th>
<th>Total Noninterest Expense ($000)</th>
<th>NPL Efficiency</th>
<th>Total Risk-Based Capital (%)</th>
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<tbody>
<tr>
<td>122</td>
<td>Foresight Financial Group (FGFH)</td>
<td>Winnebago, IL</td>
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<td>9,245</td>
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<td>9.92</td>
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<td>3,195</td>
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<td>90</td>
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<td>10.91</td>
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<td>RBB Bancorp (RBB)</td>
<td>Los Angeles, CA</td>
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<td>4.16</td>
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<td>CB Financial Services (CBFV)</td>
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<td>15.50</td>
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<td>8.23</td>
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<td>175</td>
<td>Pinnacle Bancshares (PCLB)</td>
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<td>9.05</td>
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<td>Peoples Bancorp of N.C. (PEBK)</td>
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<td>50.22</td>
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<td>65.67</td>
<td>14.49</td>
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<td>146</td>
<td>Mountain Community (MCBI)</td>
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<td>0.80</td>
<td>3.54</td>
<td>5,473</td>
<td>53.15</td>
<td>12.09</td>
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**Notes:**
- 128 publicly traded banks and institutions that operated as a subchapter S corporation at any time during the ranking period.
- Also excludes institutions with a leverage ratio of less than 6%, or a total risk-based capital ratio of less than 10% in any quarter. Excludes industrial banks and institutions that operated as a subchapter S corporation at any time during the ranking period.
- Also excludes institutions that received a tax benefit of greater than 10% of net income in 2015, 2016 or 2017. Using the preceding criteria, 128 publicly traded banks and institutions that operated as a subchapter S corporation at any time during the ranking period. Also excludes institutions with a leverage ratio of less than 6%, or a total risk-based capital ratio of less than 10% in any quarter. Excludes industrial banks and institutions that operated as a subchapter S corporation at any time during the ranking period.
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WHEN DARREN BUCKLEY MOVED TO CHINA LAST AUGUST to be the head of Citigroup’s consumer bank there, he did what most people do when they arrive in a new country: head for an ATM to grab some local currency.

Nine months later, that stash of renminbi sits in his briefcase untouched, a relic of the past in a country where the majority of payments are now made with smartphones.

"Even the smallest merchants on the street, they don’t want cash," said Buckley, who came to Shanghai after six years at the helm of Citi’s Thailand operations. "You pay for everything with your phone and a QR code."

"If you’re a banker in the United States, trying to envision what consumer banking could be like, this is pretty close to the end state," Buckley added. "The level of convenience, 24/7, is well beyond what you can deliver through a traditional banking model."

Only five years ago, paying for things by phone was a novelty in this nation of 1.4 billion. Today, it’s embraced with a fervor that has radically transformed how money moves in the world’s second-largest economy.

According to the research firm eMarketer, 76% of Chinese smartphone users made a mobile point-of-sale purchase in 2017, compared with 25% of American users. In total, 61.8% of all such transactions globally are Chinese.

In the first 10 months of last year, China processed a whopping $12.8 trillion in mobile payments, according to the state-run news agency, Xinhua — 38% higher than for all of 2016.

Though it’s not exactly an apples-to-apples comparison, the U.S. market in 2017 had just $49.3 billion in mobile point-of-sale transactions, according to Shelleen Shum, eMarketer’s forecasting director.

"China has leapfrogged checks and cards … and gone straight from cash to mobile," said Neil Shah, a research director at Counterpoint Research in Mumbai. "The growth has been fast, it’s been huge, and they’re really just scratching the surface."

There is no disputing that China is ahead of the rest of the world in mobile payments. Whether it represents a vision of America’s payments future — signaling a disintermediation threat to banks — or is more of a cultural curiosity remains to be seen.

Either way, China’s mobile payments revolution offers lessons for bankers elsewhere looking to keep pace in a
In total, 61.8% of all such transactions globally are Chinese. In the first 10 months of last year, China processed a whopping $12.8 trillion in mobile payments, according to the state-run news agency, Xinhua — 38% higher than for all of 2016. Though it's not exactly an apples-to-apples comparison, China's mobile payments revolution offers lessons for bankers elsewhere looking to keep pace in a China's particular style of payments is spreading rapidly across the globe. Whether it represents a vision of America's payments future — signaling a disintermediation threat to banks — or is more of a cultural curiosity remains to be seen.
world filled with smartphones and third-party “ecosystems” eager to encroach on traditional bank space.

While it’s tempting to dismiss what’s happening in the Middle Kingdom as being mostly about an underdeveloped nation playing catch-up, China is a budding economic rival, and this particular style of payments is spreading rapidly across the globe.

“What we see with China is that the evolution of payments is not going to be a linear extension of what we’ve seen in the past, where countries move up the curve and adopt our card-based system,” said Thad Peterson, a senior analyst with Aite Group in Boston.

It won’t be long before Chinese-style mobile payments surpass cards in popularity in other countries, he said. In an interconnected world, “bankers in the U.S. need to start thinking about the impact of another payments process that could disrupt their business models and affect their customers.”

More than 90% of Chinese mobile payments run through Alipay and WeChat Pay, rival platforms backed by China’s two largest internet conglomerates — Alibaba, essentially the Amazon of China, and Tencent Holdings, owner of WeChat, the nation’s must-have messaging and social-media app with more than 1 billion users.

It’s as if Amazon and Facebook were the major conduits for payments.

(China UnionPay, the nation’s dominant card network, is a distant third in mobile market share.)

The two services have flourished by making mobile payments cheap and easy to use. They benefit enormously from their association with WeChat and Alipay, which have blossomed into full-blown digital “ecosystems” — always-on hubs for managing the minutiae of daily life.

A key feature of the ecosystems is the “app-within-an-app” concept. WeChat users can schedule doctor appointments, order food, hail rides and much more, all through “mini-apps” that reside on the core app. It’s not necessary to install or sign onto separate apps for each function.

Alipay, which touts itself as a “global lifestyle super-app,” has similar functionality.

Mobile payments work in much the same way, greasing the skids of commerce within those ecosystems while also providing fee revenue for Alipay’s parent, Ant Financial, and for WeChat.

Consumers can pay for everything — a cup of tea, train tickets, even tax and utility bills — with their mobile apps. They also can make person-to-person payments; every individual has a QR code of his or her own, and transfers are free.

“The model in China is exactly the opposite of what it is in the U.S.,” said Drew Luca, co-head of PwC’s U.S. payments practice. “They started with a social platform and moved to becoming a payments facilitator. In the U.S., it’s been financial services first, with social and loyalty on the other end.”

The fast growth and meshing of payments with ecosystems has made China a lab of sorts for banks eager to understand the threats and opportunities of a world dominated by mobile payments.

Citi’s consumer banking team in New York, which has long had a “mobile-first” strategy, is studying Chinese usage patterns, behaviors and analytic data in anticipation of similar ecosystems emerging in other markets.

“While WeChat, at its core, is very specific to the local market, we think we’re going to be seeing more customers spending time in these kinds of ecosystems,” said Gavin Michael, head of technology for Citi’s global consumer bank.

He’s been particularly interested in the linkages of loyalty and payments, and how customers spend their time on the app. “Our challenge is to understand and integrate financial services into them,” he said.

With Alipay and WeChat Pay, users don’t need to sign into a stand-alone bank or payments app when transacting. Instead, they simply press the “pay” button on the ecosystem’s main app and a QR code, unique to the individual and linked to his or her mobile wallet, appears for the merchant to scan.

A growing number of retailers, including McDonald’s and Starbucks, have self-scanning devices near the cash register to read QR codes. The process takes seconds, moving customers along so quickly that anyone using cash gets eye-rolls for slowing things down.

Merchants that lack a point-of-sale device can simply post a piece of paper with their QR code near the register for customers to point their phones’ cameras at and execute payments in reverse.

A system built on QR codes might not be as secure as the near-field communication technology used by ApplePay and other apps in the U.S. market. But it’s cheaper for merchants, who don’t have to buy a piece of technology to accept a payment.

“One of the big keys driving adoption is that there’s a no-cost way to get merchants on-boarded,” said Shiv Putcha, principal analyst with Mandala Insights, another Mumbai research firm.

“With Alipay and WeChat Pay, users are essentially giving merchants access to a payment network on their smartphones.”

So it’s a no-brainer for small businesses — especially those that don’t deal in cash, such as online stores — to get on-boarded. And with millions of merchants already on-boarded, it’s a minor investment for larger ones.

“Alipay and WeChat are really focusing on the merchants,” Putcha said. “They’re trying to get as many on-boarded as possible so they can get the maximum number of transactions.”

“Once they’ve got an ecosystem, it becomes sticky,” said Mandala’s Putcha.

So far, the best of both worlds has been the vanguard of traditional banks in China. But with banks giving up mobile payments and more consumers using them, it’s not clear how long the “mobile-first” approach will continue.

Yet there is a tangible example of how digital payments are growing and taking root in the Real World, and more than 1 billion users are using mobile payments.

It’s a different story for traditional banks, which are still lagging in resources and innovation. Their lags are overtaking the mobile payments trend.
Putcha, principal analyst with Mandala merchants on-boarded,” said Shiv. “The way it’s working is that there’s a no-cost way to get connected. Customers don’t have to buy a piece of technology for Citi’s global consumer ecosystems,” said Gavin Michael, head of consumer payments at Citigroup.

Usage is approaching those levels in Shanghai and other big cities. James Chang, a Beijing-based financial services leader with PwC, pays for everything from coffee to haircuts with his phone. “I almost never bring my credit card with me, and have no need for cash,” he said. “It’s becoming a truly mobile, cashless society.”

Walk the bustling streets and alleys of Shenzhen, a large southern technology hub, and merchant QR codes are ubiquitous — posted on food stalls, fruit stands, convenience stores, gas stations and more.

And there’s still plenty of room for growth. In Kunming, a fast-growing southwestern city, QR codes aren’t yet as omnipresent as they are in the coastal cities. But a growing number of storefronts have the codes, and individuals — especially the younger ones — are embracing them.

Suzie Lu, a 20-year-old student at Yunnan University, said she started using WeChat Pay last year, and is hoping Kunming turns into full-out QR-code territory quickly.

“It makes things so easy,” Lu said as she pointed her iPhone’s camera at a rental bike’s QR code to unlock it. When Lu is done, she will repeat the process and leave the locked bike waiting on a sidewalk for the next renter to pick up. “It’s much better than carrying [cash].”

“They can just print a QR code and stick it on the counter. It’s easy.”

So easy, it’s quickly become part of daily life. In Hangzhou, Alibaba’s headquarters city, an estimated 90% of all consumer transactions are mobile.

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It’s a stimulating environment for bankers with the technology chops and resources to participate. Buckley said Chinese banks as partners for the chance to be part of what Souheil Badran, president of Alipay-Americas, calls customers’ “mobile lifestyle.”

“They love it, because we have the ability to create trust and loyalty,” he said.

But some bankers worry that they’re slowly being driven out of business by the services. “We are losing money and, worse, customers,” a Chinese banker complained in a story in Hong Kong’s South China Morning Post. “Alipay and WeChat have become a duopoly that is impossible to fight.”

With the ecosystems, banks often are reduced to so-called “dumb pipes” — silent funders whose accounts are used to top up customers’ digital wallets.

A requirement that the wallets be linked to a bank account or card means more customers and deeper involvement in their social lives. “They can just print a QR code and stick it on the counter. It’s easy.”

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China’s mobile payments movement dates back to 2004 when Alipay was launched as a trusted middleman for sales on Alibaba’s popular Taobao e-commerce websites. It evolved into the must-have wallet to buy things on Alibaba’s sites.

When the smartphone arrived on the scene five years ago, the service migrated to mobile, and WeChat jumped in. That set off a heated competition between the two services.

In 2014, WeChat Pay created a sensation with a promotion tied to the Lunar New Year tradition of giving family, friends and acquaintances red envelopes, or “hongbao,” with small amounts of money. WeChat Pay users sent more than 20 million gifts in two days, and the service gained 5 million new wallet accounts.

Since then, the popularity of digital red envelopes has increased exponentially. During this February’s celebration, punctuated by a star-studded extravaganza on national television, an incredible 768 million Chinese sent digital gifts via WeChat Pay.

Alipay sponsors Singles Day, a November sales event on Alibaba’s platforms that generates more sales than Black Friday and Cyber Monday combined. In 2017, Alipay processed more than 1.5 billion transactions on one day. The two are constantly jostling for position. When Alipay declared the first week of last August “cashless week,” WeChat came back with its own “cashless month.” Both firms offered rebates and cash prizes for using their services.

In September, Alipay broke WeChat Pay’s monopoly in China’s 2,800 Starbucks locations; two months later, WeChat Pay was granted the ability to process ticket payments on the nation’s massive rail system, formerly Alipay’s exclusive turf.

Increasingly, they’re taking the battle outside of China — including the States. Yet for all the action and eye-popping numbers, analysts say most U.S. bankers are unaware of the ecosystems’ meteoric rise, let alone their encroachment onto banker turf or expansion plans.

To be sure, there are significant differences between the markets. Cards are common in China, but not widely used. Until recently, cash was king. Counterfeiting was rampant and a thriving black-market economy frustrated government efforts to collect taxes and track money.

“There was no real retail payments network to disrupt,” Chang said. “When the smartphone came, it created an opportunity.”

Americans are more guarded about privacy than the Chinese, and the technology standards — the mobile platform and the reliance on QR codes over more-secure NFC technology used in the States — are different.

More fundamentally, Americans don’t perceive mobile payments as superior to a card-based system that works well — and provides lots of points and miles.

“U.S. consumers don’t consider paying with a phone to be more convenient or faster than a card,” Shum said. “There’s no sense of urgency, like there was in China, to make a change ... no problem to fix.”

That doesn’t mean bankers can ignore the trend. WeChat Pay and Alipay are both already operating in the States — efforts that, for now, target Chinese tourists in Las Vegas casinos or New York’s Chinatown.

“Chinese people are habituated to using Alipay, and these merchants want to offer the same opportunities” in the States, said Nandan Sheth, a senior vice president with payments processor First Data Corp., which is working with Alipay.

Officials say they have no designs on the U.S. consumer, and Washington would likely balk over concerns about the Chinese government having access to American citizens’ data.

Even so, Sheth said he’s gotten the sense that WeChat Pay and Alipay hope to target U.S. consumers in the future. Others expect they could find success.

“As soon as it is readily available in the U.S. for sending money, it will likely gain quick popularity,” Nino predicted.

Homegrown firms, including Facebook, Amazon and PayPal, also are attempting to embrace ecosystem strategies, though success on China’s scale would be tough to duplicate. Regulators would take a heavier hand, and the U.S. market isn’t “mobile-first”
and the U.S. market isn’t “mobile-first.” Regulators would take a heavier hand, scale would be tough to duplicate. Strategies, though success on China’s ecosystem and the reliance on QR codes to American citizens’ data. The Chinese government having access to something akin to Zelle, the industry-run P2P offering. “To protect their business, banks need to put together a viable mobile payments platform of their own that is ubiquitous to all banks and is easy for merchants to adopt,” Sheth said.

Individually, banks should monitor the space’s evolution and think through how, or if, they might participate.

“You want to have a thorough understanding of how each of these trends so you can map out a strategy for dealing with the services, Nino said. Even if mobile payments continue to languish domestically, banks might need to understand how ecosystems elsewhere work. “Cross-border commerce is usually more important to your merchant clients than you think it is,” Peterson said. “You need to be able to support those customers or they’ll go to someone who can.”

For now, China’s mobile payments explosion and the ecosystems behind it might represent more of an educational freak show than any kind of opportunity or threat for U.S. banks. But as a banker who lives with China’s ecosystems, Buckley says it’s only a matter of time before the model influences payments in the States. His advice is simple: “Don’t fight it. Don’t resist it. Embrace it and learn it.”

“You need to become forward-compatible,” Buckley said. “Otherwise you will be disintermediated.”

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**CHIEF FINANCIAL OFFICER OF CENTRAL BANK**

Houston – February 8, 2018 – Central Bank today announced the election of Mr. Mark Bower as Executive Vice President – Chief Financial Officer.

“We are excited to have Mark Bower join Central Bank’s executive management team,” said Robert Mrlik, President and Chief Executive Officer. “Mark’s industry experience and excellent financial management skills will serve the bank well in its commitment to providing long-term value to our stakeholders.”

Bower comes to Central Bank with 36 years of commercial banking experience; with the last 23 years at Home State Bank, Loveland, CO.

Bower, a Certified Public Accountant, is a graduate of Augustana College. Mark and his wife Annie, have three children, Elizabeth, Hannah and Michal.

Central Bank was founded in 1956 as Montrose National Bank and in 1961 changed its name to Central National Bank of Houston. In 1979, the bank converted to a state bank charter. As of December 31, 2017 Central Bank reported total assets of more than $650 million and total deposits of $583 million. It operates four locations in Houston.

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ROBERT PALATNICK
“If you have a 3-year-old child, no matter how smart that child is, you wouldn’t send it to college. You could say this technology started in 2008, so it is just 9 or 10 years old.”
Chief technology architect at the Depository Trust and Clearing Corp., saying blockchain technology is not widely used yet because it is not mature enough.

DONNA MURPHY

DABNEY L. FRIEDRICH
“You can give me any examples in case law in which a local community is larger than a state?”
Federal judge, questioning changes the National Credit Union Administration made to its field-of-membership rule.

JULIA CORONADO
“The pick seems to reinforce the status quo that a woman has to be absolutely perfectly qualified to get top positions while a man can have significant shortfalls in his resume and still come out ahead.”
Member of the New York Fed’s economic advisory panel, on the selection of John Williams to succeed William Dudley.

MICHAEL CORBAT
“Banks serve a societal purpose — we believe our investors want us to do this and be responsible corporate citizens.”
Citigroup CEO, on a new policy for business customers that applies some restrictions on the sale of firearms.

GERARD CASSIDY
“This is the biggest story that investors and bankers are going to talk about for the next two years, after a period of eight or nine years of not even worrying about it.”
RBC Capital Markets analyst, on the prospect of banks having to raise interest rates on deposits.

STEVE HELMS
“I think we have to be reasonable and say, ‘Tell me, if you want to shut this market down, where else are these people going to go, other than the guys that just break their legs?’”
Missouri lawmaker, discussing payday loan reform in his state.

SIR GEOFFREY VOS
“In the digital era the manifestations of dishonesty will take a completely different form. We are staring into a firmament of which many people of my generation have very little comprehension.”
Chancellor of the High Court in London, calling for global coordination to regulate blockchain technology and rein in the potential for fraud it poses.

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