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Outcry over Robinhood

After a backlash around the marketing of its newest product — bankers complained that calling it “Checking & Savings” could mislead the public and violate several banking and securities regulations — the fintech quickly rebranded it as a “cash management” service. Robinhood’s plan is to revamp the offering before its launch this year.

Pot banking bill shows promise

One measure to watch in the new congressional term is a legislative fix for banks with customers in the legal marijuana business. A narrow safe harbor for financial institutions in states where cannabis is permitted was starting to draw wide support from lawmakers, American Banker’s Victoria Finkle wrote.

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Pain point as marketing opportunity

Banks are pitching refis to a generation buried in student debt

By Laura Alix

U.S. student loan debt has come to serve as a stand-in for delayed adulthood — and postponed purchases of big-ticket items like homes and cars. But increasingly, banks are viewing it as a chance to cultivate the next generation of customers.

Help millennials pay down that debt faster — by refinancing higher-cost federal loans, for example — and nurture long-term loyalty among customers who still have a lifetime of financial choices ahead, the thinking goes.

Fifth Third Bancorp, Citizens Financial Group and First Republic Bank are among those targeting a generation that has amassed a record of $1.5 trillion in student debt — each with a different strategy.

A forthcoming marketing campaign from Fifth Third plays off the angst many millennials feel about their student loans and encourages them to download the bank’s repayment app. “This is integral to our consumer household growth strategy,” said Matt Jauchius, Fifth Third’s chief marketing officer. “Millennials are more likely to experience more life events, and life events are often what cause people to shop for a new bank. As a bank, we need to target the growth generation and we need to target people who might be looking for new bank accounts.”

For millennial customers, there may be no greater financial pain point than student loan debt, which has doubled since mid-2009. According to the Department of Education, more than 2.7 million borrowers owe over $100,000 and roughly 700,000 of those borrowers owe more than $200,000.

Following the lead of fintech lenders like SoFi, a growing number of banks now offer student loan refinancing as a means of winning consumers in their 20s and 30s. Citizens Financial and First Republic directly refinance student debt, while Fifth Third partners with a
fintech lender to offer that option to its customers.

Steven Reider, president of the bank marketing firm Bancography, said he has encouraged banks, especially those that deal with high-net-worth clients, to consider student loan refinancing to generate business among the emerging affluent. He noted that doctors and lawyers often graduate with six figures’ worth of debt, but they also have high earning potential.

“The goal is generating loyalty among a customer segment that has very lucrative long-term potential,” Reider said. Besides the selling point of tapping into the borrowers’ future earning potential, “saving somebody from a pretty onerous loan payment probably brings pretty significant loyalty.”

First Republic, in San Francisco, has long served a wealthier clientele. To connect with the next group of high earners, the $96 billion-asset bank offers student loan refinancing to midcareer professionals with at least $40,000 in debt.

First Republic pairs those clients with millennial-aged relationship managers. The hope is that the client will one day seek their help with navigating the purchase of a home or business.

Student loan refinancing also has been central to Citizens’ millennial strategy, said Christine Roberts, its head of student lending.

For many millennials, the financial crisis and recession happened during their formative financial years, so they do not always think of banks as “the good guys.” Offering them help with a heavy debt load gives Citizens a chance to foster positive bonds, she said.

“We believe that if we’re able to help them with their student debt, then that earns us the right to start the rest of the conversation,” Roberts said. “If you save an average of $200 a month, what are you going to do with that $200? How do you start using that money?”

But it takes a lot of work to establish a new business refinancing student loans, which is why others have partnered with fintechs to offer their customers a student loan solution.

The $142 billion-asset Fifth Third recently partnered with the fintech lender CommonBond to offer its customers a student loan refinance product.

In 2017 the Cincinnati bank developed and launched its own student loan repayment app, Momentum. It rounds up a customer’s debit card purchases and puts the excess cash toward their student loan.

Now, Fifth Third wants to boost downloads of Momentum with a new campaign that launched at the end of December. To kick off, the bank showcased the story of Jasmin Ford, 30, a nurse and single mother with roughly $150,000 in student debt — and it paid off her debt.

Fifth Third customers who download and activate the app during the promotion will be entered into a drawing for one of two shots to have their own debt paid by the bank, up to $30,000.

Jauchius said the bank chose Ford, an existing customer, because many millennials can relate to her story of juggling two jobs with child care and still not seeing an end to her debt. He hopes people will see Ford’s story, imagine having their own loans paid off, and then download the app.

“We really want to define a very positive emotional event that we can celebrate to get people to connect to this product we can provide for them,” he said of the campaign.

Setting up Fifth Third as the “good guy” could be a smart strategy, especially considering many millennials have negative feelings towards their student loan servicers, Reider said.

“The underlying theme is less about the product and more about positioning the institution positively,” he said. “There’s a significant energy around the issue of student loans. If you can be on the right side of that issue, I think it’s a really positive marketing message.”

This Cannot Take Weeks

Banks invest in software to speed decision-making on small-business loans

Online lenders generally can’t match banks’ rates or loan terms, but they do have banks beat in one key area of small-business lending: speed of decision-making.

So when Popular Bank in New York decided it wanted to ramp up its small-business lending, it didn’t go out and hire a bunch of new loan officers, it invested in an off-the-shelf lending software from vendor Biz2Credit that will allow it to streamline the application and approval process and fund loans in a matter of days, rather than weeks.

HSBC Bank Canada struck a similar partnership with Biz2Credit as part of its effort to launch a digital loan for small businesses across all of Canada.

With customizable lending software becoming more widely available, expect these types of arrangements to accelerate in 2019 as banks look to better compete with the likes of Kabbage, OnDeck and other upstarts, said David O’Connell, a senior analyst at Aite Group.

O’Connell said that while banks don’t worry too much about losing
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less-creditworthy borrowers to fintechs, they are very concerned about losing creditworthy ones who have “been seduced by the speed and ease that the alternative lenders are pitching.”

As a result, he added, “they are fielding an alternative lender-feeling borrower experience to make sure they don’t lose the ones that are credit-worthy enough for them to lend to.”

He pointed to the emergence of Numerated Growth Technologies and other firms like it. Originally a spinoff from the in-house tech lab at Eastern Bank in Boston, Numerated offers software that automates the underwriting process so banks can make small-business loans faster and at a lower cost.

That stands in contrast to referral partnerships with fintech lenders, which once seemed like a solid way to keep small-business deposit customers happy. Under that model, a bank could give hopeful borrowers a soft “no” by referring them to a fintech partner with less-stringent underwriting standards.

Still others have licensed lending technology from fintech lenders to make small-business loans, while also referring some of those borrowers to the online lender.

Citizens Financial Group refers some small-business borrowers to Fundation under one such arrangement it announced in 2016. It’s not a pure referral relationship, as Fundation does provide the bank with a small-business lending platform, but some borrowers who don’t meet Citizens’ criteria are referred to the fintech for a loan or line of credit.

Such arrangements are unlikely to disappear, but the emergence of more turnkey solutions is giving banks the option of going it alone, said O’Connell, who recently wrote a report in which he said that a preference for off-the-shelf software over referral partnerships would be one of the 10 trends of online small-business lending in 2019.

“It’s not that partnerships are dead,” O’Connell said. “It’s just that the option of entering the market on your own has become more attractive and affordable.”

Perhaps because banks offer more attractive rates, small-business borrowers tend to be more satisfied when they borrow from banks, according to research by the regional Federal Reserve banks. However, that same research also suggested that borrower satisfaction with fintech lenders has improved significantly in recent years.

Borrowers who applied to online lenders said they did so because of faster decision times and a better chance of being approved. They cited high interest rates and unfavorable repayment terms as the key downsides.

Jorge Sun, chief executive of the fintech firm LendingFront, said he is expecting more demand from banks for lending software like his. LendingFront makes no loans itself, but offers a cloud-based lending platform that ultimately gives smaller banks a faster and cheaper way to make and manage small-business loans.

“Banks are really good at what they do. They have the customers, the cost of funds and the marketing. What they’re lacking is the technology,” said Sun, who was previously the chief credit officer for OnDeck.

LendingFront recently raised $4 million in its Series A funding round and wants to add staff in sales, marketing and engineering roles.

Currently, it works with nonbank lenders, such as community development financial institutions and equipment leasing companies, but Sun hopes to reach more banks and credit unions, especially those with assets of $500 million to $5 billion.

“There will be some banks that want to partner” with fintechs, he said, “but we believe most banks will want to control the customer experience, and we’re giving them a platform to do that.” — Laura Alix

 Peek Performer

Fintech accelerator is paying off for small bank

Nbkc Bank in Kansas City, Mo., is getting the very thing it was looking for from its fintech accelerator: a preview of coming attractions.

It was one of the first community banks to establish its own fintech accelerator, and that early access to startups is giving it a sneak peek at cutting-edge products to invest in and perhaps use someday. Its accelerator, called Fountain City Fintech in a nod to one of its hometown’s nicknames, ran from Oct. 1 to Dec. 14 and involved six companies.

One was Track — a San Francisco firm that handles the taxes of self-employed workers. Track does for freelancers what human resources departments do for employees of large companies. It gives workers a clear picture of what they have earned and what they owe by automatically keeping track of their income and expenses on a daily basis; withholds the right amount on payday; and submits quarterly estimated tax payments to the IRS.

Track envisions down the road giving banks the ability to offer freelancers checking accounts that have Track technology built in. In January, nbkc announced a partnership with, and invested in, the fintech. The bank declined to say how much it invested in Track or other accelerator companies,
Briefings

though in June it said each participat-
ing fintech would receive at least $50,000 in seed capital and that it would buy equity stakes in them.

The bank, which had $652 million in assets as of Sept. 30, has an interest in not only being an institution that gets a first look at fintech products, but also in offering those products to other banks.

“As an early adopter, nbkc would be Track’s primary and first financial institution to provide a freelancer checking account,” said Eric Garretson, chief financial officer of nbkc. And the bank “may assist Track with the distribution of its product through Finastra, nbkc’s core banking platform provider.”

The bank would not mind doing business with its rivals on a product like this, he said. “We engage frequently with our competition,” Garretson said. “When you think about, we are a part of many different families with our mortgage origination system and banking core system.”

The bank also took a stake in ProPair, an artificial intelligence company that connects mortgage leads to the loan officer who has been most successful with the type of product a prospective customer is seeking, instead of doling out clients based on seniority.

While ProPair did not participate in the bank’s accelerator, nbkc was ProPair’s first customer and has had similar opportunities to what nbkc’s accelerator participants had. “We’ve had all their senior executives to use as a laboratory,” said Ethan Ewing, ProPair’s chief executive. “Fintech innovators don’t have a chance without that partnership. You have to get your product into production.”

Bankers can learn a lot from such partnerships too.

Brian Surgener, senior vice president of strategy at Mutual of Omaha Mortgage, calls ProPair’s Ewing “a thought leader in the industry.”

Surgener began working with ProPair in 2017 when he was at BBMC Mortgage before certain of BBMC’s assets were bought by Mutual of Omaha. ProPair has “data scientists and a deep knowledge of this industry, and they give you professional recommendations about your business.”

To take advantage of collaboration with fintechs, banks have to be willing to step back sometimes — especially when it comes to deciding how to make products more user-friendly.

“The challenge for banks is changing the way that we think about things,” said Scot Lenoir, chairman of the board and CEO of Evolve Bancorp, the holding company for Evolve Bank & Trust and another one of Track’s partners. “We don’t mind playing the bank behind the scenes.”

Still, while Lenoir is eager to experiment with a variety of fintechs, he said they have to prove that they are compliant with know-your-custom-
er, anti-money-laundering and other regulatory requirements. They have to be financially stable as well. If a fintech meets those criteria, Evolve could get its product up and running quickly, Lenoir said.

Trent Bigelow, a co-founder of Track, said the regulatory insights of the bankers were invaluable. “The complexity of compliance and banking regulation were all brand new to a technology startup like Track,” Bigelow said. “Nbkc mentored our team on the industry’s best practices so we follow the rules and know why they’re there.”

For the next accelerator program, nbkc may focus on fintechs that are less developed than its first batch of companies were, or it could pair successful entrepreneurs with up-and-coming innovators.

“We and other banks have certain needs,” Garretson said. “If there’s an entrepreneur who’s recently exited and looking for a new deal, we can have them champion a new product.”

— Nathan DiCamillo

Equipped To Compete

Online lender gets into the equipment finance market

OnDeck plans to enter the U.S. equipment finance market this year with a focus on loans of $5,000 to $100,000 to small businesses.

The New York-based online lender, argues that its technology will bring new speed to a market that often relies on paper-based, time-consuming processes.

Small businesses use equipment loans to make big-ticket purchases — everything from office furniture to machines used for manufacturing. OnDeck plans to target the smaller-dollar end of the market, offering loans with two- to five-year terms.

Many banks are also ramping up in equipment finance, as strong economic growth and last year’s corporate tax cuts have encouraged companies of all sizes to expand.

To lead the business, OnDeck has hired Mark Erickson, who earlier in his career held executive roles in KeyCorp’s equipment finance unit.

OnDeck, which has made $10 billion of small-business loans since its start 12 years ago, said it intends to target select U.S. small businesses with its equipment finance loans. Since last summer, the firm has been referring small businesses that need equipment financing to another, undisclosed lender.

— Kevin Wack
Ray Davis Gets Busy in Retirement

The former Umpqua chief and Pivotus founder is taking some of his best ideas to a new fintech as an adviser

By Penny Crosman

Ray Davis has already seemingly done it all, at least when it comes to banking. He grew Umpqua Bank from a small community bank to a $26 billion-asset regional, transformed its branches into "stores" with free coffee, Wi-Fi and hot yoga classes, and formed a Silicon Valley tech startup subsidiary called Pivotus Ventures that was sold in October.

Davis, who retired at the end of 2017, has been hard at work on his next act — serving as an adviser to what might be the next incarnation of Pivotus. The focus is on developing technology that can be used to forge human bonds between customers and bankers through digital channels.

This technology, now being offered under the aegis of a fintech startup called Agent IQ, lets customers select a "personal banker" with whom they can chat via text, just as Pivotus' Engage software did. (The customer-facing portion of the software used by Umpqua was originally named BFF and later renamed Go-To.)

The reason Davis is focused on the idea is simple. He believes banks have to do something like this to survive.

The 'human digital' concept

During his final years at Umpqua, Davis felt that if he didn't do something different within 10 years, the bank would be gone because it would no longer be able to compete.

Customers were becoming more self-serving and were not going to branches. Banking was becoming a commodity that consumers would buy for the lowest price. And competition was happening in digital channels, where Umpqua had to face off against large banks like JPMorgan Chase and their $10 billion tech budgets.

"When we transformed Umpqua back in the '90s through the store network, it was very successful and it created a competitive gap for Umpqua for a long time," Davis said. "But
competitive gaps over time shrink, they grow old, people copy them, they lose some of their spunk. The name of the game for me was, how do we recreate the competitive gap and sustain the relevance of our company in the future?”

The next competitive edge, he realized, would have to come through technology. “The one thing we did not have in the ’90s in banking was technology. Technology was sort of blah,” Davis said. “The one big change in today’s environment is the technology revolution. Recreating that competitive gap to me meant taking technology and using it to enhance the customer experience in light of the changes that customer preferences have been going through rapidly.”

He set up Pivotus to explore how to transform Umpqua to make it relevant in the future. The technology Pivotus came up with, which Umpqua now owns and uses as Go-To, lets customers choose a “personal banker.” They can then directly text-chat with that person whenever they have a question. If the question is specialized, the Go-To banker can bring in a third person, such as a mortgage specialist.

According to Davis, Agent IQ is Pivotus on steroids. (Davis is not an Agent IQ’s payroll but acts as an adviser to it. He also joined USAA’s board of directors a few months ago. “I keep pretty busy,” he said.)

“It’s very good technology and does all the things and more that Pivotus can do,” Davis said. “The question is, will bankers use it to transform their institutions? That’s the $64,000 question. It’s a hard one.”

A demo of the technology by Soren Bested, chief revenue officer of Agent IQ and former chief operations officer of Pivotus, showed that it looks a lot like Go-To. Consumers can thumb through profiles of bank staff, looking at photos and a mix of professional and personal tidbits, such as a fondness for cats. There’s a virtual assistant built in, so consumers can ask simple questions, such as how to order checks, and get automated answers. There are built-in workflows for handling requests like replacing a lost credit card.

The software also will automatically route the chat to a person if the artificial intelligence engine senses a need for more help. The word “confused” is a trigger, for instance.

Users can ask to talk to a banker at any time. The banker will receive the transcript of the conversation up to that point. The banker can also draw another banker into the chat, similar to Go-To.

Agent IQ can be used to let AI or a banker guide a new customer through online onboarding. Because of the typically low success rate of online account opening, investing human effort in the process can be worthwhile, Bested said.

An admin console lets managers see what’s happening — how many customers are being served, which agents are working, how many conversations are unresolved, and so forth.

According to Bested, what’s transformational about this is that it can change the way branches work.

“If a bank has 230 branches with 1,100 people sitting in those branches, those people are underutilized,” Bested said. “We can now Uberize our warehouse. We can start managing our customer base from the branch. The branches become fulfillment centers rather than places to withdraw money.”

In a small town, instead of having a branch, a bank could have one local person working from home who engages with people in the community using the platform. Davis considers its artificial intelligence a key strength for Agent IQ’s software, because it can easily understand simple questions in an automated way.

“If you’re looking for pure efficiencies, AI can help dramatically,” he said.

With the use of customer-facing AI, there is always the risk of an epic fail — that a customer could be given a horribly wrong answer that has negative consequences for the bank.

“When it comes to AI, I’m not going to turn it on and let it do everything,” Davis said. “That’s too much risk. But I am going to turn it on and say these are simple, everyday requests that are, what’s my balance, how do I get more checks.”

For anything more complicated, a human takes over.

“There has to be a human element to it,” Davis said. “I’m totally anti these fully automated, no-human-available programs. I think they’re terrible.”

Another risk of customer-facing AI, as well as any AI used in a bank, is how regulators will react. Regulators have sent mixed messages about the use of the technology, publicly encouraging banks to try it, but behind the scenes questioning and sometimes kiboshing it.

“You’re going to have to take regulators along for the ride,” Davis said to this. “They know it’s coming. Regulators get it.”

What happened to Pivotus
Pivotus was short-lived. The Umpqua unit launched in December 2015 and was sold to Kony three years later.

“From a cultural point of view, it was difficult for Umpqua at that time to get their arms around dealing with these technology guys from Silicon Valley,” Davis said. “The technology product was good; they’re using it like crazy. I think the test for Umpqua was, could they use it to transform the bank?”
At the time, Eve Callahan, executive vice president at Umpqua, described the sale of Pivotus as a shift from in-house development to partnering with a software company.

“As the pace of technological change continues to pick up, Umpqua is evolving our approach to innovation and building out a network of strategic partners that will help us continue advancing our human digital strategy across all segments,” she said. “At the same time, with the Engage platform successfully launched, now was an important moment to find a strategic partner with the capital and technical expertise to continue building out its capabilities.”

A former Pivotus employee said Ray Davis’ successor, Cort O’Haver, wanted Pivotus to focus on Umpqua and wanted to take the subsidiary in a different direction.

Industry analysts welcome the sale to Kony.

“This is an unexpurgated success,” said Ron Shevlin, director of research at Cornerstone Advisors. “A bank set out to innovate and create new capabilities, and succeeded at doing that, but discovered that the best home for it to grow and flourish was a technology vendor. As an added benefit, the vendor the bank sold it to recognizes the strategic importance of the product, and has already integrated key personnel from Pivotus into its organization.”

If he had to do it over again, Davis said he would have set up Pivotus more quickly. “One thing we did right was we created Pivotus as a separate entity out of the bank,” Davis said. “That was a smart thing to do because we didn’t have to queue up the bureaucracy of a $26 billion bank. We let the technologists go to town in Silicon Valley and Palo Alto. That was good.”

**Long-term survival**

Banks could use technology like Agent IQ’s or the Engage platform to reduce the number of employees in each branch, improve the customer experience, let customers talk to experts, and position themselves for survival, Davis said.

“If you want to figure out how to transform your bank, imagine a room full of dominoes set up to topple over if you knock the first one over,” Davis said. “To be successful, you’ve got to hit the first domino, and the first domino to me is, tell me how you want your branches to operate. It’s very possible that walking into a branch will be like walking up to a concierge of a hotel. I come in and say I need help, they get me an expert on the phone. There are ways to run branches like that.”

If banks don’t adopt something like this, they may struggle to remain relevant, he said. “The question I would ask if I were you would be, Mr. Banker, if you don’t do anything, what’s your risk? You go out of business,” Davis said. “And it’s not because you failed financially. It’s because your customers don’t want to do this anymore.”

**Citi Has Big Plans for AI**

It’s working with a fintech to monitor corporate payments, but that’s just the start

Citigroup is deploying artificial intelligence to monitor corporate customers’ payments.

Citi has partnered with Feedzai, a fintech startup in which Citi Ventures began investing in 2016.

“The entire payment industry is worried about payment security. Banks are worried about it and corporate customers in general are worried about it,” said Manish Kohli, global head of payments and receivables for Citi’s Treasury and Trade Solutions unit. “As payments move faster, it’s easy for errors and fraud to happen. And the more our clients rely on technology, automation and straight-through processing on their side, the higher the risk is of a cyber event or a machine on their side not following instructions and sending an incorrect payment.”

AI software can instantly analyze a current transaction against all historical ones a client has conducted and recognize anomalies. It can learn the customer’s behavior over time and take into account how it changes. More traditional rules-based fraud detection systems typically compare a payment against a checklist of preset rules.

Payment fraud and error is just the first use case Citi has in mind for the Feedzai technology. It plans to apply it to anti-money-laundering programs and other uses.

Under the current plan, if a customer sends a payment to Citi that seems out of character — perhaps it’s being sent at an unusual hour, in an unprecedented amount, or to a country the company has never sent a payment to before — Citi may send the payment request back to the client for review.

“This can be used to reduce the risk of cyberhacks or this could be used to prevent even general errors if a customer sends a payment that appears to be unintended,” Kohli said.

Some clients will start by using this in offline mode, where payments are observed and flagged in real time but aren’t stopped. Once comfortable with the false positive rates — typically clients prefer the false positives to be below 20 basis points — they will move to online mode, in which suspicious transactions are halted and returned to the client for review. — Penny Crosman
COMPANIES WITH A PLATFORM STRATEGY:

FACEBOOK
AMAZON
APPLE
BBVA
YOUR BANK HERE?

With the world of digital platforms upon us, a growing number of financial institutions are concluding they no longer can afford to sit out the trend.

BY JOHN ENGEN
In October, the Spanish banking giant BBVA, which has a sizable footprint on this side of the Atlantic, announced with some fanfare the launch of what it calls the first open banking platform in the United States with a “full suite” of products. Among other things, BBVA’s platform uses application programming interfaces to give business clients quick, easy access to about 60 financial products and services that they can brand, in white-label fashion, for their own customers.

An example would be an online furniture store that wants to offer financing to customers under its own name. Instead of enduring a long process of requesting proposals, the store’s team can enter BBVA’s developer portal — a sort of online marketplace — choose the API of a product that meets its needs and start offering its own credit product the same day.

“The old-world way would be a direct line-to-line connection between the bank and each individual customer,” said Derek White, BBVA’s Madrid-based head of global consumer solutions. “With an API platform, you can have thousands of companies access that one API, so the speed of connectivity is much faster.”

BBVA’s rollout is among the most ambitious efforts by banks to gain a foothold in a platform economy at $7.2 trillion, and it’s growing rapidly. Seven of the 10 most valuable companies today — think Apple, Amazon and Facebook — employ platform strategies.

Companies in industries as diverse as heavy equipment, health care and hospitality are adding digital platforms too. Banks have been relative no-shows thus far, mostly because they have more hurdles to clear and potentially more to lose.

Getting a platform strategy right can require changes to entrenched business models, cultures and back-office infrastructures. Banks must move cautiously to safeguard data and privacy. The jargon — “banking-as-a-service,” “banking-as-a-platform,” ecosystems and developer portals — is also intimidating and difficult to grasp.

Ask 10 different chief information officers to describe how banks can or should participate in the platform economy — or even exactly what it is — and you’re likely to get 10 different responses.

“When you talk about platforms, most bankers will think about their online banking platform or their lending platform. But this is different, and there’s no clear definition of the terminologies,” said Ron Shevlin, director of research at Cornerstone Advisors, a consultant in Scottsdale, Ariz. “It’s a confusing mess.”

But with the world of digital platforms upon us, a growing number of institutions are concluding they no longer can afford to sit out the trend.

“The biggest companies today are platform companies, and banks are looking to them for lessons on growth and driving value for customers,” said Don Westermann, CIO at the $11 billion-asset Eastern Bank in Boston, which is tinkering with various platform approaches.

There’s also a worry that if banks don’t move quickly to offer platform-based financial products to their customers, then big tech will beat them to it. Bookstores, travel agents and stockbrokers all have seen their businesses disrupted by faster, cheaper platform models, and recent big-tech pressure on the Federal Reserve to build a real-time payments network, for example, is seen as a long-term threat.

In China, the digital platforms WeChat and Alipay began with real-time payments and have since moved into money market accounts, wealth management and more, an expansion that sparked complaints from bankers.

“As we move to platform-based transactions, a lot of the fees banks charge for moving money or paying bills will disappear or be pushed to extremely low levels,” said Michael Cusumano, a professor at MIT and the author of an upcoming book on platforms.

“If I were a banker,” he added, “I would be worried.”

With time, platforms could dramatically rework bank revenue streams, cost structures, customer acquisition and performance measurement.

The idea of the bank as the primary distribution channel for products and services that only it has manufactured could go by the wayside. So, too, could siloed sales, organizational structures and customer “ownership.”

Pure platforms are open forums focused on what’s best for customers. These platforms don’t own products, but generate “network effects” — a virtuous circle of evermore participants.
virtuous circle of evermore participants, with both sides growing in response to the other.

The success of the ride-sharing platform Uber attracts more drivers, which in turn makes the service attractive to more riders, fueling even more success.

Few, if any, existing banks are likely to pursue a true platform model, because the industry’s underlying dynamics are different. Banks, by definition, are manufacturers of products and services, and seem disinclined to forgo that role.

But in an age when customers shop for rates and products across the internet, positioning the bank as the center of that financial shopping ecosystem can help it remain relevant.

“As the cost of switching banks goes down for customers, platforms allow you to create more stickiness by adding a layer of intelligence, products and services on top of the core business model,” Westermann said.

“The goal is to be something more than the dumb pipes of the financial system,” he added. “It’s very hard to maintain the value proposition as a simple intermediary in the platform economy.”

There are trade-offs to consider. On a banking platform, a customer might choose a third-party product and authorize the bank to share his or her data using an API, much like an iPhone user gets different apps from Apple’s app store.

Running an open platform this way makes a bank more like the “conductor of a symphony, coordinating partners and customers” that either provide or purchase that content, said Mark Shilling, U.S. practice leader in banking and capital markets for Deloitte Consulting.

BBVA’s Derek White

“It’s not just a loan platform that does debits and credits and services the loans. It’s a banking platform, which enables a variety of services from different providers for my client,” he said.

Platforms offer banks the ability to use increasingly in-depth knowledge about their customers to help remain at the center of the customer experience, while boosting revenue potential and cutting some expenses.

In the best case, platforms can be good for all involved. Dominic Ventura, chief innovation officer for U.S. Bancorp, offers the example of working with Blend, a San Francisco fintech company. Using a set of APIs from Blend, U.S. Bancorp can allow potential mortgage borrowers to authenticate bank balances and other loan documentation electronically.

“It makes for a better customer experience. Because we’re doing the validation without paper, in real time, we can make a lending decision in minutes instead of weeks,” Ventura said. “And it’s good for us. We’re reducing all the data entry, validation, audit and review expenses by ingesting the data directly, and it’s a faster time to revenue.”

In this case, customers don’t necessarily know they are using a Blend API, as the service is offered through the bank seamlessly.

But with what’s envisioned for some marketplaces, customers would be accessing the services of others more directly.

The downside is that if a bank can’t compete on deposit rates or loan products offered by someone else on its platform — by definition, very likely — it would only get a small fee for playing the role of marketplace middleman.

“If you’re being open and showcasing the best of what the market has to offer, the question is how you offset the cannibalization risk of having your customers choose someone else’s products over yours,” said Alan McIntyre, senior managing director for banking at Accenture.

“For many traditional banks, the core asset-liability aspect is going to make it very hard to offer these services without ruining the economics,” McIntyre said. “If you make $4,000 a year off the spread on a small-business loan, that’s tough to replace.”

Conversely, a bank might become a specialist in a niche and market its products on other banks’ (or other companies’) platforms. Like a Netflix filmmaker, those who create competitive platform content can do well.

Shevlin tells of one big bank that seems “more intent” on embedding its products on other platforms than opening its platform to competitors.

In the platform world, the battle for customers can be intense and global, and you take what you can get.

“The whole idea here is to be able to distribute products and services on both your channels and other channels and expand your footprint,” said Abhishek Gupta, the San Francisco-based chief executive of the new BBVA Open Platform, a unit of BBVA Compass.
For now, innovation labs and IT departments of most big banks (and many smaller ones) are working to figure out how best to capitalize on — or at least avoid being swallowed up by — an evolution spurred by the emergence of faster, cheaper cloud technologies and an explosion of fintech activity.

They’re digesting volumes of consultant reports on the topic, training employees on the nuances of operating in open environments and eying each other — and platform-dependent markets like China — for lessons on how best to operate in this electronic ecosystem. They’re also assessing a wide variety of issues, including data security, business models and culture.

The most ambitious are reconfiguring their technology backbones, in part to allow them to compete in a platform economy. Capital One, for example, is in the midst of migrating its in-house back-office system to Amazon Web Services.

For banks that want to embrace a platform-based business model, moving to the cloud — with its speed, flexibility and cost benefits — is viewed as basic table stakes.

"The challenge is that banks don’t have the right infrastructure that platforms need to engage and expand," Deloitte’s Shilling said.

Platform models can represent such profound change that a bank’s leadership must lead the cultural charge and provide the resources needed to transition to a new business model.

U.S. Bancorp, which uses APIs in businesses such as mortgage and payments, runs an internal "API Center of Excellence" where employees learn to create products that meet rigid process and risk-management standards.

Eastern Bank’s Don Westermann

“We do internal training and hackathons where we have people spending free time building APIs to get experience,” Venturo said. “It’s like anything else that’s new; folks need to be trained to do it right.”

Experimentation is the norm. The space is new enough, and there are so many possibilities of how things might play out, that there’s no one “best” way to proceed.

Some are throwing open their own platforms to create a marketplace of solutions — some their own, some from fintechs — that give customers more options.

BBVA’s Open Platform boasts products in six core banking areas, all accessible to customers through APIs. Providers are vetted, and then their software is put on the platform.

The bank’s role is as much a one-stop facilitator of trade as it is a manufacturer.

White said it’s all in response to strong demand from customers. Though only a handful of BBVA business customers were up and running on the platform in December, “hundreds” have expressed interest.

“We’re very much of the view that we will become an Amazon of banking,” White said. “We do not own the end-to-end customer experience, nor do we manufacture all the products and services — some of that comes from fintechs in our ecosystem.

“It enables the bank to create products and services that are highly personalized and tailored to customer needs,” he added.

Others are looking to partner directly with big nonbank platforms like Amazon or Facebook. Reports last spring that JPMorgan Chase was talking with Amazon about partnering on a white-label checking account sparked a round of industry hand-wringing, but don’t be surprised if something like that happens eventually.

Citi has been working in recent years with ecosystems in places like China and India, where the concept is more advanced, looking for lessons on how customers interact with banks in a platform world. It has found, among other things, that customers who access the bank’s products through APIs on platforms like WeChat show higher account-opening, usage and loyalty numbers than those who don’t.

“We see deeper engagement with us through WeChat than through the CitiPay app or website,” Gavin Michael, head of technology for Citi’s global consumer bank, said in an April interview.

As individual banks scramble to leverage the power of platforms to find a competitive advantage, there’s room for creativity. McIntyre predicts a wide variety of “hybrid” models will emerge in the next few years, many piggybacking on customers’ platform strategies.

For a community bank without the horsepower to compete on products, the smart play might be to partner with a fintech, or group of fintechs, that
have a more compelling array of products and services. Its banking charter and blessing from the Federal Deposit Insurance Corp. are advantages that fintechs lack, at least for now.

“There will still be value in the charter and the FDIC insurance, but they’re not going to originate a lot of their own assets and liabilities,” McIntyre said. “They will become a balance sheet for rent.”

At the $4 billion-asset Live Oak Bank in Wilmington, N.C., CEO James “Chip” Mahan dreams of using his bank’s platform to provide bank accounts to the customers of online stock traders. “How could we partner with a company like that to give its customers an FDIC-insured account?” he asked.

Mahan also said that Live Oak, a branchless bank, aims to grow an already sizable veterinary lending business by using APIs to incorporate its services into the three practice-management software systems widely used by veterinarians.

“With an open API core, we can bundle our products with the solutions offered to every veterinary practice in America,” he said. “Bank accounts and loans are commodities in the platform world. You need partners to thrive.”

At Eastern Bank, Westermann’s team has been working on a platform strategy that focuses on placing the bank at the center of a community, connecting customers with each other.

It might be promoting a discount to retail customers who use an Eastern credit card at a hardware-store client, or creating an app that brings together an office supply store with a group of bank customers to get bulk discounts.

Eastern also has a growing set of “ancillary products” for small businesses on its platform, such as a “digital assistant” that uses artificial intelligence to predict cash flows and sharpen a client’s understanding of its customers’ behaviors.

“It’s about augmenting the basic banking experience by leveraging the power of the network,” Westermann said. “As technology brings the costs of switching banks down for customers, we want to use technology to create more stickiness in the relationship.”

Especially for smaller financial institutions, the work and potential expense behind pursuing even a partial platform approach can sound daunting. As the model becomes more popular, platform companies have emerged to help them get involved.

Constellation Digital Partners in Raleigh, N.C., was started by a consortium of credit unions to provide these small institutions with access to newfangled online and mobile apps in simple plug-and-play fashion. The company, which plans to allow other credit unions to join in the near future, claims that its services are unique because other such platforms are designed to serve a single financial institution — such as in the case of BBVA’s Open Platform.

Constellation’s platform acts as a secure bridge between fintechs and less-techie institutions, helping participants “try things without needing to buy $400,000 in servers to figure out it doesn’t work,” said CEO Kris Kovacs.

The same model could apply to community banks, Kovacs said.

“A community institution can spin things up and wind them down as needed. It gives the opportunity to experiment without making big investments, and helps fight the idea that those community institutions can’t provide the latest technology,” he said.

A growing number of banks are using platforms to drive sales. Shevlin points to LendKey, a student-loan platform that helps create and aggregate demand. LendKey allows banks to use their strengths, such as underwriting and risk management, while not having to pay high marketing costs.

“There are benefits in platforms, but most of them are less about the bank becoming a platform and more about leveraging platforms to lower customer acquisition costs,” Shevlin said.

There was a time, 20 years ago, when the industry didn’t know what to make of the internet hype, but eventually it figured things out. The same will happen with platforms. And as with the internet, the impact could be profound.

As platforms continue to generate profits, headlines and confusion, banks are likely to feel greater pressure to jump into the fray. While they might not be able to avoid some disruption, they shouldn’t panic.

“Things are changing and you should educate yourself,” Cusumano said. “But in a regulated industry like banking, it’s more of an evolution than a revolution.”

"The goal is to be something more than the dumb pipes of the financial system," says Westermann. "It’s very hard to maintain the value proposition as a simple intermediary in the platform economy."
‘HOT MONEY’ IS A HOT TOPIC

As the FDIC rethinks its longtime restrictions on brokered deposits, some banks are expected to call for major changes, but others worry the risk factor has not changed all that much.

By Kevin Wack

Though their significance has waned in the smartphone era, branches remain the primary channel that most banks use to gather deposits.

Roughly 88,000 bank branches operate across the 50 states, according to the most recent data — one location for every 2,900 U.S. adults. It remains a rarity for a consumer to open a bank account without stepping foot in a branch.

Whether the branch should retain its central role in the American banking industry is an important subtext of a rulemaking process launched recently by the Federal Deposit Insurance Corp.

Under current FDIC rules, banks often pay a higher price for deposit insurance if so-called brokered deposits make up more than 10% of their total deposits.

Brokered deposits come in many flavors, but do not include any money received from customers who visit a brick-and-mortar office. As of Sept. 30, U.S. insured depository institutions held $986 billion in brokered deposits, which amounted to 8% of all domestic deposits.

In a notice published in December, the FDIC asked for public comment on whether its decades-old rules should be updated. Given the Trump administration’s anti-regulation stance, the advance notice of proposed rulemaking seems more likely to result in the loosening of current restrictions than in the imposition of new ones.

In the fall, FDIC Chair Jelena McWilliams alluded to the impact that the internet has had on banking in explaining the reason for doing a review.
The banking industry has undergone significant changes since these regulations were put into place,” says FDIC Chair Jelena McWilliams.
needed,” William Isaac says.

Some people say this is a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 35-year-old rule. Well, it’s a 36.5% of domestic deposits were

brokered deposits can be charged higher deposit insurance premiums.

At Discover Bank, which is the deposit-gathering arm of the Riverwoods, Ill.-based credit card issuer, 36.5% of domestic deposits were classified as brokered as of Sept. 30, according to call report data. BMW Bank of North America reported that 82.6% of its domestic deposits were brokered. By contrast, many banks with substantial branch networks, including Bank of America, JPMorgan Chase, Wells Fargo and Citibank, reported that brokered deposits made up less than 10% of their domestic deposits.

Over the years, the brokered deposit restrictions have been used by the FDIC to block the development of nontraditional banks, argued George Sutton, a Salt Lake City lawyer. Sutton frequently represents industrial banks that do not maintain large branch networks and often pay higher deposit insurance premiums.

“They can bear that additional cost, but it’s unfair,” Sutton said.

Advocates for industrial banks have long complained that the FDIC also makes it too difficult to get the specialty charters approved. Since being confirmed as FDIC chair in May, McWilliams has voiced that the agency will move swiftly on those applications.

Branchless banks employ a different business model than traditional depositories, said James Barth, an economist who is affiliated with Auburn University and the Milken Institute. While these banks pay more for deposits, they offset those higher expenses by avoiding the costs associated with staffing and operating branches.

“The FDIC ignores those differences in the business models,” Barth said.

He acknowledged that some banks use brokered deposits to fund risky lending, but argued that is not true for all banks that rely heavily on such funding. In a study published last year, Barth found that banks that derive a large percentage of their funding from brokered deposits generally have fewer branches than other depositories. He maintains that such banks are not inherently more risky than traditional institutions.

“It’s a different business model that wasn’t possible 20 years ago,” said Alison Touhey, a senior regulatory adviser at the American Bankers Association. “It’s doesn’t mean there’s anything wrong with it. It just means that the rules haven’t been modernized to accommodate it.”

Touhey noted that if a bank adver-
The Deposit Divide

Banks with more than $10 billion in assets are more reliant on brokered deposits than smaller banks are.

Over $50 Billion

$10-50 Billion

$1-10 Billion

Under $1 Billion

<table>
<thead>
<tr>
<th>Share of Total Brokered Deposits</th>
<th>Share of Total Domestic Deposits</th>
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<tbody>
<tr>
<td>70.2%</td>
<td>68.0%</td>
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<tr>
<td>3.2%</td>
<td>8.0%</td>
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<tr>
<td>9.1%</td>
<td>11.0%</td>
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<td>17.4%</td>
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Barth found that banks that derive a large percentage of their funding from brokered deposits generally have fewer branches than other depositories. He maintains that such banks are not associated with staffing and operating expenses by avoiding the costs that are riskier than others. And there’s no question that when an examiner examines an internet bank, those deposits should be considered riskier than those that are coming from brick-and-mortar branches,” Cole said.

The FDIC’s public notice does not mention branchless banking specifically. But the 84-page document does suggest that numerous career staffers at the FDIC remain wary of brokered deposits, which played a role in both the S&L crisis in the 80s and the financial meltdown in 2008.

Some of the current restrictions are written into federal law, which limits the FDIC’s ability to pare them back. For example, banks that are deemed less than well capitalized may be barred from paying interest rates on deposits that are significantly higher than prevailing market rates.

In the notice published in December, the FDIC noted that at least 47 financial institutions that relied heavily on brokered deposits failed between 2007 and 2017. Those banks accounted for 38% of the losses to the deposit insurance fund during that period.

One example is IndyMac Bank in Pasadena, Calif., which was a poster child for high-risk mortgage lending. Brokered deposits rose from 18.4% of the bank’s total deposits in the fourth quarter of 2005 to 29% shortly before its failure in 2008.

After the financial crisis, the FDIC found that higher brokered deposit use is associated with higher probability of bank failure and higher insurance fund loss rates. But proponents of brokered deposits argue that there is no direct evidence that these types of deposits were a causal factor.

What it suggests is that the fight over the shape of the U.S. banking industry’s future will hinge in no small part on which interpretation of the recent past prevails.

RETAIL BANKING

Growth Stories | Austin, TX | March 26-28, 2019

This year’s Retail Banking program is all about Growth Stories featuring specific banks that have had exceptional growth whether in classic banking revenue sources like deposit, loan or fee growth; growth strategies such as wealth management, auto lending, small dollar loans, banking bitcoin; or those harder to measure areas of growth such as relationship expansion and brand loyalty.

Learn more at www.growyourbank.com
GreenSky matches consumers who are seeking loans for a range of services — from home improvements to elective surgeries — with banks that are eager to make them. The Atlanta fintech was flying high after its whopping $874 million initial public offering in May. But softening loan demand and increased funding costs — brought on by rising interest rates — forced the company in November to reduce its 2018 earnings guidance. GreenSky's shares plunged 37% that day.

So Zalik, GreenSky's founder and CEO, will be working to get investors excited about the company again. There's reason to be optimistic. GreenSky has added more bank partners — BMO Harris and Flagstar among them. And under another new partnership, American Express will market home improvement installment loans to select preapproved cardholders.

Social Finance wants to become a full-service provider of financial services for its young, upwardly mobile customers. But its big ambitions have been stymied in numerous ways over the last 18 months. First came the departure of co-founder Mike Cagney amid allegations of a frat-house culture. Cagney's exit led SoFi to withdraw its application to launch a federally insured bank.

Since Noto replaced Cagney as CEO in February 2018, rising interest rates have eaten away at SoFi's opportunities to refinance student loans and originate mortgages and prompted layoffs.

Can the company bounce back? The chief financial officer of JPMorgan Chase is among the strong contenders to eventually replace Jamie Dimon as CEO. But with Dimon planning to stay through 2022, industry watchers are wondering if Lake, who has never run a revenue-generating line of business at JPMorgan, will remain in her current role or move to a new one, to strengthen her credentials for the corner office.

Asked about her next move during an interview in the summer, Lake said that she was happy in her current job, but that she was keeping her options open. "I'm king of open-minded, about what could be next," she said. "There are a lot of interesting places to be in this company."

Decisions that Bezos & Co. are poised to start making this year could have a long-lasting impact on consumer and commercial banking as well as payments. What's more, banks may be underestimating the threat.

The Amazon-in-banking headlines were coming fast in the first quarter of last year. The tech giant talked to multiple banks about partnering on a credit card for small-business customers and on an Amazon-branded checking account for young consumers and the unbanked. Still other reports said it teamed with Bank of America to make loans to merchants that sell goods on its website and looked to hire a mortgage industry veteran to head a newly formed home lending division.

It will be interesting to see which of the pending projects that Bezos, Amazon's chairman and CEO, pursues.

Unlike nonbank threats in the past (remember Walmart?), bankers did not respond with the usual outrage.

But are they being too blasé?
GreenSky matches consumers who are seeking loans for a range of services — from home improvements to elective surgeries — with banks that are eager to make them.

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DAVID ZALIK

Anthony Noto

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Can the company bounce back?

Anthony Noto

David Zalik

DiNello, who became CEO of Flagstar Bancorp in Troy, Mich., in 2013, has been shifting its focus from mortgages to commercial banking. His challenge now is bulking up on deposits to support its fast loan growth.

A deal for 52 Wells Fargo branches last year was disappointing. More customers stayed with Wells than expected, and Flagstar ended up with only $1.8 billion of deposits, instead of the expected $2.3 billion.

DiNello also worries a website crash the day after Flagstar's conversion could create a bad first impression and drive more customers away. "If I could apologize to every customer that couldn't access their account on that day, I sure would," DiNello said in an interview.

Alessandro DiNello

Anthony Noto

Kevin Cummings

The share price for Investors Bancorp in Short Hills, N.J., trended down throughout 2018. And in October a miss on operating revenue, combined with fears over tepid loan growth and increasing funding costs, sent its shares tumbling further.

Then a report surfaced that Investors had hired investment bank Keefe, Bruyette & Woods to explore a potential sale.

Will Cummings, the chairman and CEO of the $26 billion-asset company, keep the growth story going? Or will Investors ultimately sell?

Kevin Cummings

Michael Corbat

Corbat did a lot last year to make restless investors happy about Citigroup's direction: He shuffled management, set bullish financial targets and announced plans for a digital bank.

He also played nice when the board decided to name an outsider as chairman.

Looking ahead two major questions are: Will the CEO and his team be able to deliver? And how well will he get along with the new chairman (who happens to be former Comptroller of the Currency John Dugan)?

The pressure will be on ex-regulator Dugan to avoid the compliance problems that have caused Citi to stumble in the past, and activist investors undoubtedly will urge him to push Corbat for better returns.
Bankers should heed New York Times financial columnist Andrew Ross Sorkin’s report about the connections of card purchases to mass killings, like the one in 2017 at Marjory Stoneman Douglas High School in Florida that took 17 lives. His key point is, “Many of the killers built their stockpiles of high-powered weapons with the convenience of credit cards.”

Sorkin doesn’t argue for a prohibition of those sales. He asks only that card issuers alert law enforcers about them. He contends issuers have the ability to detect potentially dangerous gun purchases before anyone else. And he is right.

His message is akin to the Homeland Security’s summons to patriotic duty: “If you see something, say something.”

Sorkin says issuers can “create systems to track gun purchases that would allow them to report suspicious patterns.” He notes they already do this to stop money laundering, fraud, terrorism and other crimes.

Card issuers are, after all, masters of mining, collecting, interpreting and exploiting trillions of bits of almost microscopic information about consumers. Their industry literature often brags that mining can detect a consumer’s market inclinations even before the consumer is aware of it.

Sorkin, in effect, argues for utilizing this mining skill to achieve a moral objective — to help prevent killings.

He recognizes there are other sides of the issue. One is that pressing issuers to track gun sales could lead to a slippery slope of demands involving other allegedly anti-social behaviors. Another is that it could raise consumer privacy concerns.

Let me reply to both charges. The risk of a slippery slope should never be a reason for banks to ignore potentially serious crimes they become aware of in the normal course of business, especially crimes of violence. A “see no evil” approach collects its own slippery slopes. One against the reputation (indeed the bad behavior) of banks for asserting it. Another risk is politicians imposing expensive remedies.

Issuers should keep in mind that the extensive legal regime they live under is largely the result of slippery slopes their industry ignored for decades. For example, truth in lending, discrimination, unfair fees, credit reporting, billing errors and collection practices. All of them once were slippery slopes the industry failed to take seriously.

That said, the card industry has a long, impressive history of self-regulation involving questionable customer behavior: gambling, fraud, theft, prostitution, hard-core pornography, dishonest merchants and more. It accomplished this in tandem with law enforcement agencies.

The other argument — that helping law enforcers via data tracking raises invasion of privacy issues — is preposterous. The bulk of the industry’s massive tracking already is done without the permission of cardholders. When all is said and done, card issuers play the game pretty much like Facebook, Amazon, Google and Apple.

When I was chief counsel in the 1990s for Citi’s card programs, I was always on the lookout for articles like Sorkin’s. I knew they could quickly get out of hand, generating negative media coverage, political attacks and even lawsuits. I warned management to get ahead of the risk, which often required changing our practices, making amends to our cardholders, alerting regulators or at the least putting together a believable defense.

To me, Sorkin’s article is that kind of déjà vu all over again.

Issuers should take the lead here by following Sorkin’s advice. Start by polling cardholders and consumers in general to see what they think. Ditto employees and family members.

I anticipate they’d offer resounding support for helping law enforcers on the sale of guns.

It is likely Congress will respond to this issue with some kind of proceeding. It’s even more likely the trial bar will see it as an opportunity, not only to garner headlines but to inflame jurors that bank negligence contributed to a mass killing. Only a fool would ignore those risks.

Duncan MacDonald, a banking attorney, was Citigroup's group counsel for its card businesses in North America and Europe before retiring in 1999.
BackPorch

DANIELLE NOUY
“Supervisors are not adventurers; they are not in general the sort of people who will try to go to the moon. They are reasonable and solid people.”
Departing chair of the European Central Bank’s supervisory board, on how staffing up its Single Supervisory Mechanism was different than recruiting for a tech startup

KATHY KRANINGER
“To be clear, I care much more about what we do than what we are called.”
Director of the Consumer Financial Protection Bureau, on keeping the CFPB abbreviation and dropping the name change her predecessor wanted

JEFF BEZOS
“If I were a big shareholder in JPMorgan Chase, I would just show up every Monday morning with, like, pastries and coffee for Jamie, and I’d be like, ‘So you happy? You good?’”
Amazon founder and CEO, describing Jamie Dimon as a “terrific” business executive

HENRI ARSLANIAN
“At first people thought it was just a lot of college kids or computer geeks in a garage working on ‘bitcoin things.’”
PwC’s fintech and crypto leader for Asia, saying Blythe Masters, departing CEO of blockchain startup Digital Asset Holdings, helped crypto gain credibility

ED MILLS
“In politics, one of the first lessons I learned is when you’re explaining, you’re losing.”
Raymond James analyst, saying how Wells Fargo and its CEO Tim Sloan fare with regulators is tied to whether more congressional hearings come about

JEFFREY SONNENFELD
“The old Rastafarian proverb goes, ‘A new broom sweeps clean, but old brooms know the corners.’ Sloan knows the corners.”
Associate dean at the Yale School of Management, saying pressure to remove Sloan as Wells Fargo CEO is misguided

JERRY BUSH
“I wake up every morning afraid what else they will take. And every morning I throw up blood.”
Owner of a Roanoke, Va., plumbing business that closed in August, on the unscrupulous behavior of some merchant cash-advance companies

LIM GUAN ENG
“Their figure is $1.8 billion. Ours is $7.5 billion.”
Malaysian finance minister, on what he wants Goldman Sachs to pay for its role in the 1MDB fund scandal versus what the bank set aside to cover it

ROBERT KAPLAN
“Patience is a critical tool we should be using.”
Dallas Federal Reserve president, urging a wait-and-see approach before raising interest rates again

ROBERT HOCKETT
“At some point, the ‘it takes a while to root it out’ idea begins to grow less plausible.”
Cornell law professor, saying patience with Sloan gets thinner each time more problems emerge at Wells Fargo
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