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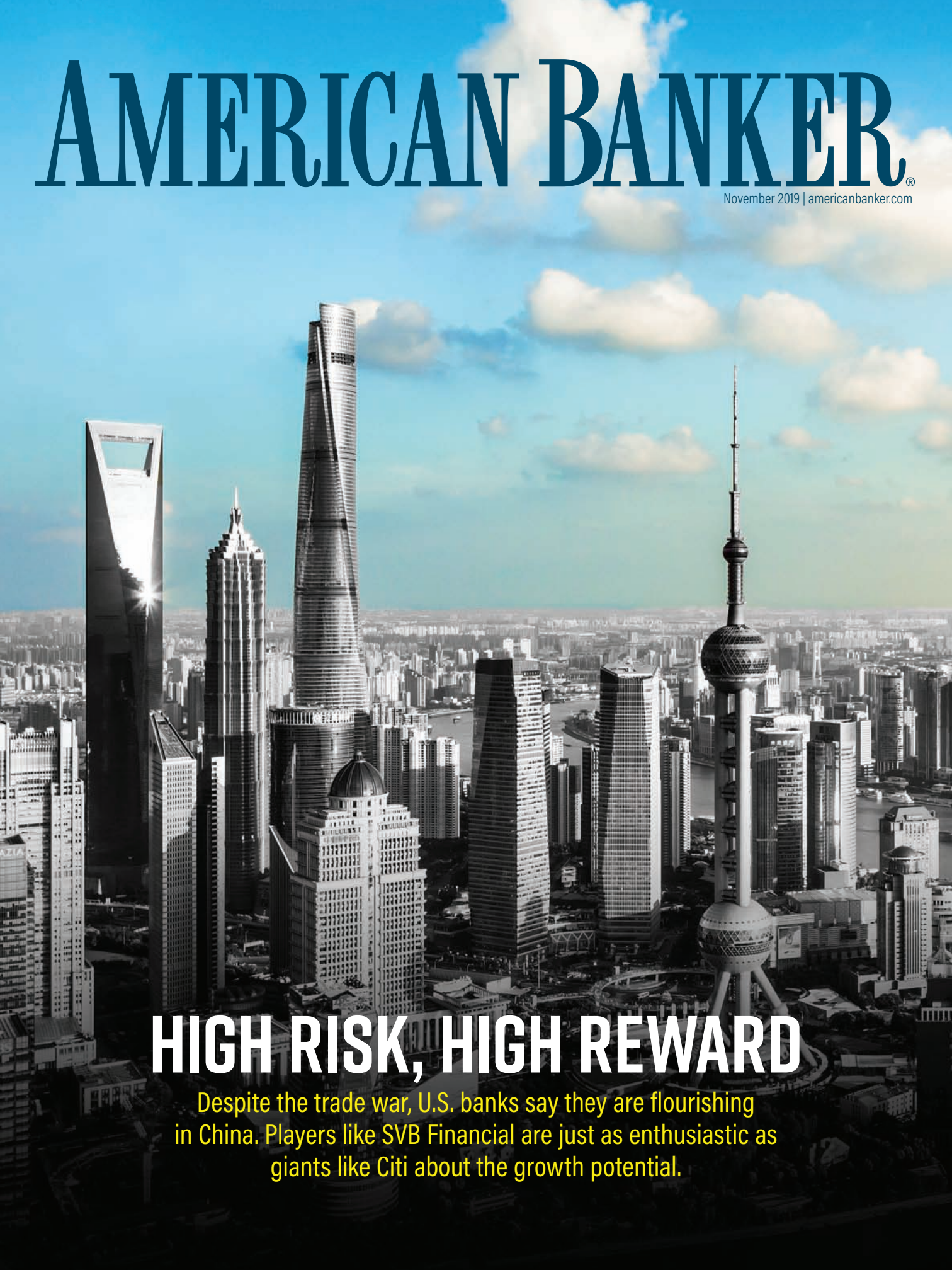

HIGH RISK, HIGH REWARD

Despite the trade war, U.S. banks say they are flourishing in China. Players like SVB Financial are just as enthusiastic as giants like Citi about the growth potential.

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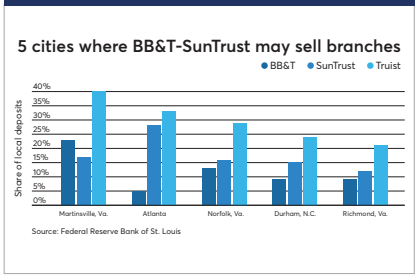

Whole lot of branches to unload

BB&T and SunTrust, which plan to merge to create Truist Financial, are expected to sell hundreds of branches in the Southeast to satisfy antitrust concerns and increase efficiency. Also going are about $1.4 billion of deposits.

MOST SHARED

Bloomberg News

CFPB looks into BofA accounts

During an investigation that grew out of the Wells Fargo scandal, Bank of America acknowledged instances of "potentially unauthorized" accounts but said that the number of examples was "vanishingly small."

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An online expansion in three acts

Having launched 'booyah' for college students, a Florida community bank plans to introduce two more digital brands targeting other niche markets

By Will Hernandez

As several large banks experiment with digital-only brands in the hopes of gathering deposits outside their branch footprint, Surety Bank in DeLand, Fla., is planning to launch three, each aimed at a different niche market.

The first one, introduced this summer, is called "booyah" and targets college students and recent graduates. Like its larger counterparts, the $122 million-asset Surety sees it as a way to boost deposits, in its case by appealing to specific customer segments outside its central Florida market area.

Two additional digital brands are in the works, which Surety's chief executive, Ryan James, expects to launch in 2020. Though James did not go into detail on those efforts, he said, "We're currently working with former and professional athletes on creating a digital bank to support professional athletes and fans."

The third target niche is yet to be decided.

Some other community banks also have created online-only offerings — the $231 million-asset TransPecos Bank in Texas launched a digital brand, BankMD, for medical professionals last year — but it remains relatively rare.

Surety partnered with the alternative core provider Nymbus to update its legacy system, which enabled plans for the new digital brands to move forward. (Nymbus also helped set up TransPecos Bank's digital brand.)

Booyah offers consumers many of the same features as today's most popular challenger banks: no overdraft or monthly maintenance fees, no minimum balance and early access to direct deposits. Surety said its ideal target market for booyah is 20- to 40-year-olds earning $50,000 in their first or second job out of college.

James said one of the digital brand's key differentiators is a referral program

that rewards the original account holder as friends of friends sign up.

A booyah customer receives $25 for what is labeled a tier 1 referral when that first friend or family member opens an account and meets the criteria for an active account for a set period.

A referral's account must either have a direct deposit of at least $1,000; an average daily balance of $1,000; or $1,000 in general deposits.

Then if that first referral recommends booyah to another friend, the original account holder receives $10, a tier 2 reward, for that second active user.

The original account holder can continue to earn referral rewards at different tiers so long as the new accounts remain active and meet the requirements.

"We are taking the traditional bank marketing customer acquisition costs and putting it in the hands of clients," James said. "This is something the client can be proud of to share with their friends, co-workers and family."

As a result of the referral program, James expects booyah's initial acquisition costs to decrease the longer the digital bank operates. "We'll have a large cost upfront for awareness," he said. "As awareness grows, your customer acquisition costs go down as opposed to doing traditional advertising."

Booyah says on its website that it can afford to pay the referral bonuses because it does not use its profits to advertise with Google and Facebook.

James declined to specify how many customers booyah has signed up, but he said it is test marketing in different areas, including cities like Miami and Orlando, as well as rural parts of Florida. "You can have large customer adoption in a rural setting because consumers there are used to running everything off their cellphone," he said.

David Mitchell, president of Nymbus, helped Surety choose its target market.

"Surety's asset is their charter," Mitchell said. "They can monetize that. And how you do that is looking to expand outside your brick-and-mortar footprint without opening up branches that nobody is walking into."

James said the name booyah stands out. "It's an exciting term, and we decided to attach a lot of different colors to it," he said. "Let's make it fun."

Why WaFd?

Though the rebranding is meant to add clarity, some say the new name is confusing

Washington Federal in Seattle had a minor identity crisis.

Ever since the bank shortened its name from Washington Federal Savings and Loan Association in 2011, it found that potential customers often assumed it was based in the nation's capital or had ties to a government agency.

Moreover, because "bank" was not in its name, many assumed Washington Federal was not even a bank.

So now the name is being changed again, this time to WaFd Bank. (It is pronounced WAH-fed.)

"The word 'federal' tended to be associated with credit unions, so there was an immediate assumption that we were a credit union," said Cathy Cooper, the executive vice president of retail banking at the $16.5 billion-asset WaFd. "We've been dying to get 'bank' in our name since we switched charters in 2013."

When the institution last rebranded, it was to better reflect its pending shift from a savings and loan association to a commercial bank. This time around, executives wanted to come up with a name without ties to geography.

Washington as a name can be a liability because some see it as synonymous with a political swamp that needs draining. Plus the bank operates in seven other states — Arizona, Idaho, New Mexico, Nevada, Oregon, Texas and Utah — and the idea is that a new name could play better outside of Washington.

Rebranding can be a tricky business. It is tough to find a unique name and tougher still to find an existing word that has not already been trademarked. Then there is the additional challenge of making it clear that the name belongs to a financial institution and not, say, a pharmaceutical company.

Asked about WaFd, several branding experts said they were unenthusiastic about the new name. In particular, they were hung up on the spelling and pronunciation — and its similarity to a certain large bank that failed spectacularly in 2008. "I immediately thought of WaMu, Washington Mutual," said Douglas Strickler, the chief executive of the advertising firm Hot Inc.

He added that he would have liked to see the new name include fed instead of Fd, but acknowledged that might not have resolved the confusion with federal agencies.

"I'd perceive it as a missed opportunity," added Steven Reider, president of the marketing and branch planning consultancy Bancography. "I don't like the fact that the pronunciation is not readily available. There's no clear cue to the consumer as to how you pronounce this name, which I perceive as a negative."

Still, a name is ultimately what a company makes of it. If people looked askance at Columbus Bank & Trust in 1989 when its name was changed to Synovus, a mashup of synergy and novus (Latin for new), few remember that now.

WaFd began the rebranding process about 18 months ago, Cooper said. Executives worked with a branding agency in Los Angeles and tested multiple options before settling on WaFd. It was the bank's ticker symbol for at least a decade, and the abbreviation was already being used in its email addresses and social media platforms.

Cooper said that customers have largely welcomed the new name, possibly because many were already referring to the bank as "WAH-fed" before the rebrand. "If the reaction from our customers and the public is fairly mild but positive, that's the best of all worlds," Cooper said. "We want people to feel like it just fits, and it wasn't a complete makeover." — *Laura Alix*

Rewarding Approach

A bank-fintech partnership produces a unique corporate credit card

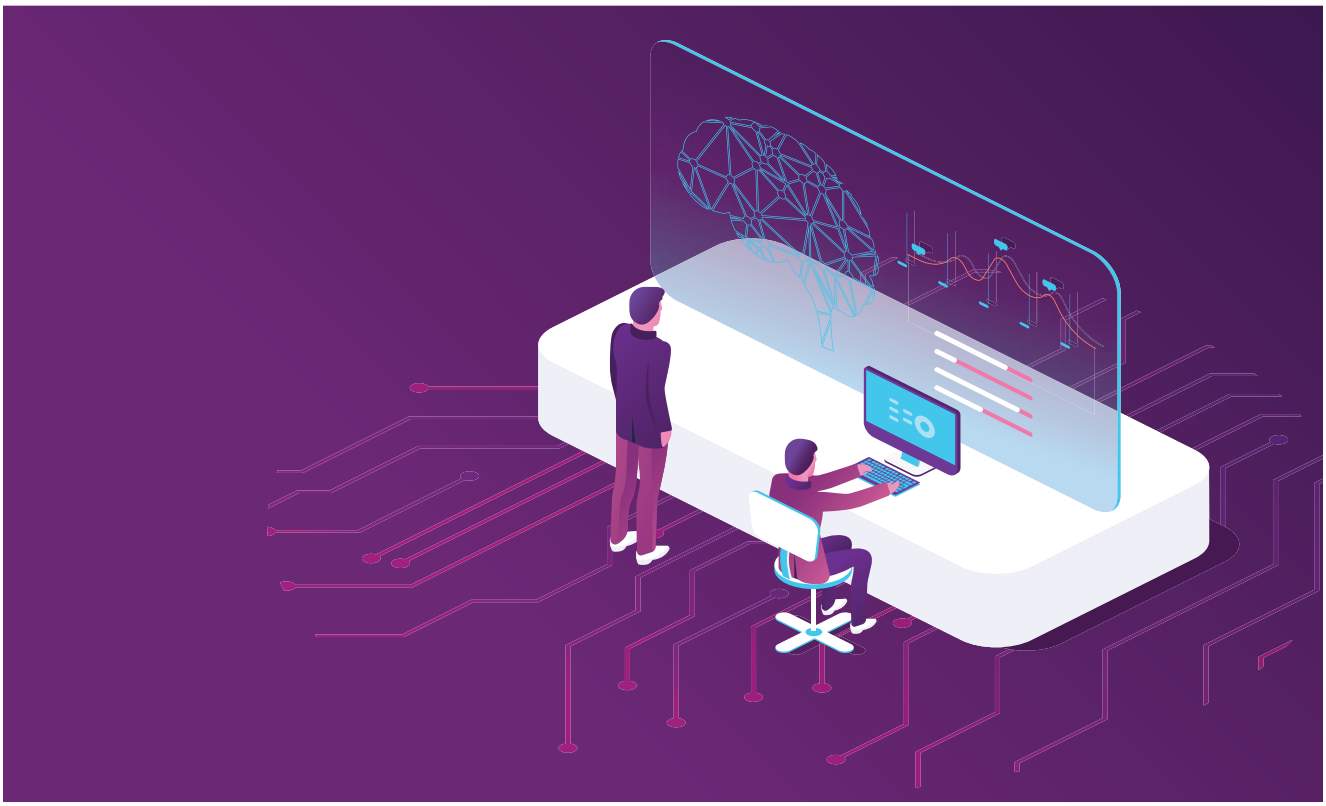
Radius Bank has partnered with Brex to launch a corporate cash management account that they believe is the first of its kind — it offers rewards for any type of payments a company makes.

The account, Brex Cash, combines a corporate credit card with a bank account. It pays 1.6% interest on balances and offers rewards on every payment type, including ACH, wire transfer or Brex credit card. It has no fees on wire transfers, ACH payments, payroll runs or credit card payments.

"There's nothing in the industry today that combines all those things into one product," said Chris Tremont, an executive vice president at Radius

This is just the latest move by the $1.4 billion-asset Boston bank to extend its banking-as-a-service offering to fintech partners. Besides Brex, Radius has partnerships with MaxMyInterest, Huddl, Stackin' and NorthOne, and plans to have seven more by year-end.

Brex Cash does compete with Radius' own corporate banking products, but the next iteration of the partnership likely will entail Radius offering the new account to its own customers. — *Penny Crosman*



BMO off to fast start in its AI journey

The team set up in January to focus on artificial intelligence has already built three customer-facing AI tools. Pilot results are promising.

By Penny Crosman

BMO Financial Group has latched on to artificial intelligence and is already seeing signs that the technology is going to help it meet efficiency, loyalty and sales goals.

The Canadian banking company formed a new enterprise AI team in January that's built three customer-facing tools. All three are in the pilot phase and are expected to go live within the next six months.

BMO executives hope the new technology will help the company become more efficient. The idea is that it will allow customers to migrate from fully assisted channels like the branch and call center to digital channels like mobile, tablet and voice.

The technology is also meant to help grow digital sales and strengthen customer loyalty at the same time.

The team working on this initiative has dealt with many cultural, organizational and hiring challenges that banks tend to encounter when they try to deploy AI.

But the approach BMO devised — which is so holistic that the company refers to it as building an "AI organization" — is proving successful.

The three AI engines

The first problem BMO, which has 12 million customers, decided to tackle with AI was customers' cash shortages.

"Forty percent of our customers have trouble paying an unexpected $500 expense," said Peter Poon, managing director of digital product management and innovation at BMO. "Something like winter tires, a lot of people have trouble managing their

cash flow to budget for it."

The new enterprise AI team built a system that mines customers' transaction histories and preauthorized payments to predict a cash flow shortfall 14 days in advance. In the pilot, these predictions have been right 95% of the time.

BMO has connected those insights with actions the customer can take. Customers can be automatically presented with a digital line of credit application with their data prepopulated. Or they can receive an authorized overdraft protection offer.

The second AI project created by Poon's group and the enterprise AI team is called BMO Quick Pay.

BMO focused on this because it found that 87% of Canadians pay at least one bill late per year.

To help customers deal with bills more efficiently, BMO used machine learning to create an automated bill payment tool.

Customers can take a picture of a bill or forward an e-statement to BMO. The software extracts the relevant data points from the bill (biller, amount, due date, etc.) and presents them to the customer over the mobile app or website. The customer types "pay" to confirm and the payment is made.

"Our customers are able to pay six times faster than the conventional bill payment process," Poon said. "On top of that, we've had well over 98% adoption amongst our pilot test base."

The third AI project in pilot is a conversational sales tool.

According to BMO, 5 million Canadians look for a better rewards credit card every year. This tool helps customers explore solutions and find the right card.

"Often customers find there's just so many choices," said Poon, who is based in Canada but has accountability for innovation, alerts and open banking for North America.

Peter Poon is the managing director of digital product management and innovation at BMO Financial.

The software analyzes existing customer data and their responses to questions about what kinds of rewards they'd like. Then it makes a recommendation.

What is an AI organization?

The journey BMO went through to create what it refers to as an enterprise AI organization started with deciding on a strategy and hiring accordingly.

"AI is hard," said Yevgeniy Vahlis, head of the artificial intelligence technology group at BMO. "You have to think, what are you going to build internally versus what are you going to contract out, and consider the IT implications of that."

A lot of larger enterprises take existing analytics teams and upskill them, converting them to AI.

"Our approach is different," Vahlis said. "We built an AI team from scratch."

That involved seeking out a different pool of candidates than is typical for a bank, he said. "The majority of the people we brought in come from technology. These are academics, people who worked on self-driving cars or satellite image analysis. They don't know much about banking, but they know a lot about AI."

The usual career path for such people is that they complete their masters or Ph.D. program, then before anyone else gets a chance to recruit them, they're funneled directly into Google or Facebook, Vahlis noted dryly.

However, BMO has an advantage: Its Toronto and Montreal locations are AI hubs, and the company has built connections with the academic community in those cities.

"But that alone is not enough," Vahlis said. "Why would they decide to give up the snacks and colorful furniture and fancy stuff they get at a place like Google and come and work at a financial institution?" (For the record, BMO does have snacks and brightly colored furniture.)

The answer today is they see opportunities, he said.

"It appeals to the ones that if they hadn't gone to grad school, they would have built a startup," he said. "The people who like the science but also get passionate about the product aspect of this: How do I build something?"

The next challenge is keeping these people happy in a bank.

"How do you keep them and how do you start bridging that cultural gap between the pure science/tech people and the finance and business culture?" Vahlis said.

"A lot of it has to do with creating the types of activities for these individuals that keep them engaged in the way with which they're familiar. It's a new world for them," he said. "They can be very comfortable with it as long as they get to solve hard scientific problems and they get to present their work and get credit for it."

Explaining AI and machine learning to the business people inside BMO is another challenge, especially since there are several data analytics groups in the company.

"Our customers are able to pay six times faster than the conventional bill payment process," Poon says.

"The way we've been explaining and promoting AI capability within the bank is, AI brings the ability to consolidate multiple types of data and decisions in an automated way," Vahlis said. "So it's less about taking a particular data set and producing an insight. It's about taking in all the data you can, understanding it and then producing a multitude of insights from that understanding."

Vahlis actually gets offended when someone calls his organization an advanced analytics group.

"It's a professional pride thing," he said.

His group tries to build direct relationships with the business groups that use the AI products, insights and predictions his organization produces. The intent is to help the business people better understand and better monetize what the group is delivering.

Clear performance indicators are important for AI and business people, Vahlis said.

"And it's important to hire the right leaders," he said. "They need to have technical expertise but also understand product and understand how to tie research work to products."

The AI team and Poon's group use agile delivery to pick up the pace of new tool development.

Where previously two or three digital banking projects were completed each year, today there are sometimes as many as 18 releases in a month.

"We went from one delivery every nine months to relatively agile delivery, with some projects completed in nine weeks," Poon said. □

SHANGHAI SHUFFLE

Oklahoma native Dave Jones is running SVB Financial's China outpost in the middle of a trade war — and he's still loving it.

By John Engen

SHANGHAI — Dave Jones remembers the day he volunteered, half-jokingly, to run a Chinese bank.

Greg Becker, the chief executive of SVB Financial Group, asked Jones to help brainstorm about who could be the next head of the Santa Clara, Calif., company's fledgling China subsidiary. "Don't forget I could be a candidate," Jones, then chief credit officer, recalled saying. "It just sort of jumped out of my mouth."

Seven years later, the mild-mannered Oklahoma native sits atop one of most ambitious efforts by an American bank to cash in on the rapid evolution of the world's second-largest economy.

That he's doing it at a time of intense trade tension between the United States and China has made Jones philosophical about SVB's dual identity.

"There might be people in the U.S. who ask why an American bank is helping Chinese startups," said Jones, the president of SVB Asia and the head of its Shanghai-based China operations.

"I've grown to understand that each country has its own experiences and perspectives," he said. "Sometimes the views are different, but that doesn't mean either side is wrong. They're just different."

What the two countries share, he added, is a desire to expand their economies. "I would say that good economic activity for both countries is in the best interests of everyone; in the best interests of world peace."

SVB Financial, the parent company of the $60 billion-asset Silicon Valley Bank, specializes in serving the "innovation economy" — early-stage growth companies, many with venture-capital funding, that require creative loan underwriting and some hand-holding.

It's a profitable niche and SVB has a stranglehold on it — both in the States and in places like London and Tel Aviv.

China, with its entrepreneurial fervor, surging venture-capital volume and a massive population that's willing — eager, in fact — to embrace new technology, is a natural fit.

Like his counterparts at Citi and Wells Fargo, SVB's Dave Jones is excited about the growth prospects in China

"It's an exciting part of SVB's growth story," said Aaron James Deer, an analyst who follows the company for Sandler O'Neill. SVB has about $4 billion in international loans and $11 billion in deposits — most of those from Asia.

"International is becoming a bigger piece of the pie for SVB," Deer said. "China, by virtue of being the largest venture market outside of the U.S., is likely to be the biggest chunk of that."

The Middle Kingdom has emerged as a hotbed for startups in the sharing economy, artificial intelligence, e-commerce and mobile payments spaces, among others.

In 2018, it attracted $105 billion in venture capital investments — second only to the U.S. at $111 billion, according to Preqin, a London research firm. The figure is up enormously from $5.6 billion in 2010

At year-end, the country boasted 88 technology "unicorns" — privately held startups valued at more than $1 billion — according to the Evergrande Research Institute in China. That also was second only to the U.S.

"An innovation company in China can grow two to five times faster than in the U.S.," said Becker, the SVB CEO, in explaining why the market appeals to his company. "There are more people, and they're embracing technology at an incredibly fast pace. If you find the right company with the right idea, the growth can be amazing."

SVB approaches China in two distinct ways. Wholly owned operations in Beijing, Shenzhen and Shanghai advise and help local startups manage overseas funding and relationships. Those operations are "hugely profitable," Jones said, but foreign banks like SVB face stiff limitations.

The franchise's domestic growth engine is a separate 50-50 joint-venture with Shanghai Pudong Development Bank — known as SPD Silicon Valley Bank, or SSVB — that operates much like SVB does elsewhere.

The $2 billion-asset SSVB turns a modest profit, most of which is plowed back into the operation to build for the long term. "We are a Chinese bank that is trying to replicate the SVB model with SVB's support," Jones, who runs both operations, said of the joint venture. "The language is different, but the essence of what startup clients need here isn't all that different from in the U.S."

This doesn't look like the greatest time for American banks to be expanding in China. President Trump's festering trade dispute with Beijing has sparked more questions than answers about the future of relations between the world's two largest economies.

Both sides have slapped tariffs on the other nation's products, threatening a global economic slowdown.

Concessions on both sides — in September, Trump agreed to temporarily delay tariffs on $250 billion in Chinese goods in response to China's cancellation of plans to increase tariffs on U.S. soybeans and pork — provided hope that an agreement could be worked out.

As this issue went to press, Trump was poised to meet with Chinese negotiators in an effort to head off another round of reciprocal tariff hikes.

But few expect a comprehensive trade agreement anytime soon, and Trump himself has warned that the dispute might not be resolved before the 2020 elections.

The uncertainty and risk of further damage is unnerving for all sorts of businesses, including American banks. "Everybody feels like it's going to be a while before anything gets resolved," Jafar Amin, Hong Kong-based regional president for Wells Fargo Asia-Pacific, said in an interview this summer.

Bankers with multinational clients engaged in cross-border business say they are seeing a slowdown in areas as diverse as trade finance, foreign corporate investments and cross-border M&A activity.

The trade dispute "has caused some corporate clients to rethink their supply chains," said Christine Lam, China CEO for Citigroup, which has had a presence in Shanghai since 1902. "Some have been holding back on investments to wait and see how things play out before they plow money into a new plant."

Even so, U.S. banks, ranging from Citi, Wells Fargo and JPMorgan Chase to smaller players like the $43 billion-asset East West Bank in Pasadena, Calif., are pushing expansion plans here, judging that the potential rewards outweigh the risks.

"The Chinese banking market is still considered very much virgin territory from a foreign participation perspective," Lam said in her office high atop Citigroup Tower in Shanghai's futuristic Pudong business district. "There are a lot of opportunities."

U.S. banks here play to their global strengths. Wells Fargo, a retail powerhouse at home, is known better internationally for trade finance, commercial-dollar clearing and assisting financial institutions. It has branches in Shanghai and Beijing, but doesn't lend to domestic Chinese companies.

"We don't work with Chinese small businesses or commercial clients," Amin said. "Everything is linked back to our U.S. dollar capabilities and supporting U.S. clients and Chinese financial

institutions by supplying dollar clearing and financing."

JPMorgan, a global capital-markets player, in March received Chinese regulatory approval for its own majority-owned and majority-controlled securities operation. The company projects that Chinese debt and equity issuances will grow to $120 trillion by 2030 from $20 trillion today.

Citi supports global multinationals doing business here, but Lam said the real opportunity lies in capitalizing on a domestic market with 1.4 billion people.

"Most of our clients are here because of the size of the China market," Lam said of the multinational segment. "They manufacture here to sell here, so trade war talk doesn't hurt them."

A powerhouse global consumer bank, Citi also has nearly 1 million Chinese retail customers — mostly affluent ones drawn to the brand.

Citi's consumer bank earnings in China grew 26% in 2018, according to Darren Buckley, who heads the unit.

"We have the potential to scale and grow our business in China at a transformational pace," Buckley said.

The question is, "are we comfortable as an organization with the amount of growth we could put on?" he added. "If we really opened up the full potential of China, it could become a disproportionate part of our global franchise."

For SVB, the Chinese government's eagerness to spur innovation, combined with an entrepreneurial culture, represents no less profound of a growth opportunity.

As it does elsewhere, SVB positions itself as a wizened hand that's been there and done that in the venture space.

It's comfortable lending on potential, not collateral, and boasts the in-house expertise to help clients navigate the world of venture capitalists and technology. "Everything around these companies is unsettled. That makes working with someone who is patient and has done this before extremely valuable," Jones said.

SVB counts roughly 2,200 clients between its two Chinese operations — some of them unicorns. Among them are household names in China, such as Mobike, a bike-sharing firm, and SenseTime, a maker of facial recognition technology.

Zhaogang, an e-commerce firm that operates a platform linking Chinese steel mills with thousands of steel wholesalers in China and eight other markets in Asia and Africa, got its start with the help of SVB in 2012 and became a unicorn five years later.

Zhaogang's offices, occupying several floors of a midlevel high-rise not far from SVB's Shanghai headquarters, have the look and feel of a startup anywhere.

The lobby features a computerized map that highlights the firm's busiest markets and updated steel prices in real time. Behind the scenes, groups of young people cluster around computer workstations, bantering as they punch their keyboards.

Zhaogang has gone through six rounds of venture funding, counting such big-name global VC firms as Sequoia Capital and Matrix Partners among its shareholders.

One of those shareholders introduced Zhaogang to SVB, said Ran Chen, Zhaogang's financial markets director. Today the relationship is part lending, part advice on topics such as expanding overseas, adding new products and moving money in and out of the country.

"They helped us to be pioneers," Chen said. "A lot of Chinese banks try to mimic their model, but they can't because the mindset is so different."

Much of the credit for SVB's success goes to Jones, a self-described introvert who can't speak the local language but has effectively transferred SVB's way of doing business in Shanghai as only a risk-minded former credit chief can.

Jones tries to take personal advantage of the posting, informally studying Confucius and his philosophy and visiting historical sites. But he's a workaholic at heart, and running what he calls a "startup bank" in a dynamic market is most rewarding.

"An innovation company in China can grow two to five times faster than in the U.S.," says SVB Financial's Greg Becker

"To be able to lead a startup when we work all day long with clients that are startups is an amazing opportunity," said Jones, sitting in his 21st-floor office in Shanghai's bustling Huangpu district, a prosperous area of high-rise residential and commercial buildings just north of downtown.

Jones' responsibilities here extend beyond running two banks. SVB's business model is unique — it includes occasionally taking equity warrants in its client companies as a risk-management tool — and government regulators (and some bankers) have been keen on taking notes.

They have sought Jones' advice and

cited SVB in official documents.

"China is very proud of its economy, but also understands that for it to remain the second-largest economy in the world — and to have any chance at becoming No. 1 — it's going to need a strong innovation environment," Jones said. "We are helping with that."

His efforts to educate regulators on SVB's underwriting and risk-management practices are helping modernize local banking regulations and practices around the startup space.

They've also won SVB praise in Shanghai, where last year Jones received a coveted Magnolia Award, given to foreigners who have made life better in this bustling city of 27 million.

"It's recognition more for the company than me," Jones said. "Innovation is very important to China."

Could sharing the secrets of its business model come back to bite SVB? The Chinese are known for borrowing (or even stealing) intellectual property from Western partners in exchange for market access. Those partners sometimes emerge later as competitors.

Jones said SVB has "willingly accepted the expectation of becoming a model bank for China."

He doesn't feel that he's giving away any trade secrets in the process.

"Even if I was smart enough to teach potentially competitive banks the science of what we do, I don't think the art of our business is easily transferred," he said. "It is our ability to absorb the constant pace of innovation and assimilate it in our business that may be our core intellectual property."

While SVB's success has spawned Chinese imitators, most struggle to get things right. Some feel tempted, for example, to view the warrants that SVB includes in lending agreements as a profit center, not a risk management tool.

"I've seen bankers get greedy," and ask for up to 10 times the warrants SVB typically accepts, Jones said. "You have to wonder what kind of risk the bank is taking to justify getting such a big warrant."

More common are those that don't bring the necessary commitment or flair to the task.

"Every bank in China will try to compete with us, but they'll do it with the same product offering that they would offer to a steel mill," Jones said.

"We don't take real estate as collateral and most of our clients are not profitable," he added. "Other banks aren't comfortable with that, but we are."

Ask if he dreamed of running a model Chinese bank when he was growing up in Tulsa, Jones laughs. He didn't even leave the U.S. until he was in his 40s.

Jones' first bank, First National Bank & Trust in Oklahoma City, failed in 1986, its remains acquired by the old First Interstate. His regional boss, John Dean, went on to become SVB's CEO in the 1990s, and eventually recruited Jones, then the chief credit officer for Wells Fargo in Oregon, to the same post for SVB.

It was a new world for Jones, who had an aversion to technology lending in his previous jobs. But he was a quick study, and got credit for helping to keep the bank out of serious trouble through the bursting of the internet bubble and the Great Recession.

The experience has proved valuable in his current gig, providing important credibility with Chinese officials.

SVB began doing business in China in the early 2000s and significantly increased its commitment in 2011, after intense internal exploration that included a weeklong board meeting in Shanghai.

Among the questions: Would SVB's business model fly in a market that had vexed so many foreign banks? Did it need a local partner? Was the board comfortable with potentially writing off the expected $80 million investment if things didn't work out?

The board ultimately decided to jump in. "At the end, it was … we really don't have a choice but to do this" because of China's importance to the global innovation economy, Becker recalled in a 2015 case study published by Stanford University.

"We have the potential to scale and grow our business in China at a transformatuonal pace," says Citi's Darren Buckley

The initiative was regarded as such a priority that then-CEO Ken Wilcox agreed to hand over SVB's reins to Becker and serve as president of the Chinese operations — a move that provided instant credibility in the eyes of government officials.

Jones arrived in 2012, just as the joint venture bank was getting off the ground — his willingness to move surprising friends who noted Jones' lack of international experience and reputation as a "finicky" eater.

"If you lined up 100 people at SVB and asked which one would be interested in moving to China, Dave would be picked last," Becker said. "But if you thought about what we were looking for over there — someone you can trust who sees the big picture — he

was a great fit."

Today, Jones maintains a busy schedule. He is front and center as SVB's figurehead and pitchman, appearing in online videos and attending elaborate, family-style dinners with clients. At a recent client dinner, "we had 10 people around the table, a Lazy Susan rotating in the middle, and you just grab things [with chopsticks] as they go by," he said.

It's a cultural adventure, to be sure. A Becker visit to Shenzhen last spring included an audience with the local Party secretary — the city's highest-ranking official. "We went into a room the size of a small ballroom, and it had two chairs at the head of the room, for Greg and the Party secretary," Jones recalled. "You have to get used to the formalities."

Jones said he is taking Mandarin lessons, but doesn't feel comfortable enough to have business discussions in Chinese. Like many non-native speakers, he occasionally gets flustered by the language's tones. Depending on the tone, "ma" can mean mother, horse or marijuana. "You don't want to make a mistake," he said.

But it doesn't seem to matter much, because he's fluent in the language of banking and has proved adept at transmitting SVB's model and mentality to the Middle Kingdom.

As the Trump administration's high-profile flip-flop earlier this year on whether to allow U.S. chipmakers to sell semiconductors to Huawei, the Chinese technology giant, played out, Jones spied opportunity. Huawei is reliant on high-quality foreign chips for its products.

"While the trade war may have an effect on the broader economy, it won't necessarily be bad for innovation," Jones told his team. "If there's an absence of foreign semiconductor chips, domestic innovators will fill the gap.

"We work with the entrepreneurs and VCs that build those businesses," he added. "It's an opportunity for us."

The initial plan called for Jones to spend two or three years in Shanghai. "But he's been there now for more than six years," Becker said. "He's built the culture, built the business, etc. … He's delivered everything I hoped for."

Jones has found an oddly comfortable niche in Shanghai — a capstone to a unique and rewarding growth journey for man and institution alike. "It's going to be hard to go back," he said. □

The future of fintech and the American Dream

The more things change in small-business lending, the more they stay the same, going back as far as 3,000 years. But in this book excerpt, Karen Mills, former head of the Small Business Administration, envisions momentous changes ahead.

By Karen Mills

Small businesses have been around since the time of early civilizations, and lending to small businesses is almost that old. The roots of traditional lending can be traced back to 3,000-year-old written loan contracts from Mesopotamia, which show the development of a credit system and include the concept of interest.

These ancient records include a loan to one Dumuzi-gamil, a bread distributor in the Mesopotamian city of Ur, according to William Goetzmann in his book "Money Changes Everything: How Finance Made Civilization Possible." Dumuzi-gamil and his partner borrowed 500 grams of silver from the businessman Shumi-abum, who appeared to be acting as a banker. Dumuzi-gamil became a prominent bread distributor within the region by operating institutional bakeries that supplied the temple. In fact, one tablet describes him as the "grain supplier to the King." This early businessman paid an annual rate of 3.78%. Some of his colleagues were not as lucky. Other loans of silver to fisherman and farmers were documented at rates as high as 20% interest for a single month.

Even 3,000 years ago, the structure of commercial activities required capital that the merchant could use to fund the business, and the owner of the capital required a return for the use of those resources. Remarkably, this initial contractual relationship still forms the foundation for the arrangements between small businesses and their lenders.

Small-business lending has been so consistent over time because the basic math of small-business operations has remained constant. A business sells a good or service for some margin over the cost of providing the product. Even in a high-margin business, the profits from each transaction are a small percentage of the sale. This makes it hard to accumulate the large amounts of capital that investments in land, animals, or supplies can require.

Enter the small-business lender, and the resulting arrangements of loan contracts, interest, and repayment over time. Over the centuries, many facets of these arrangements have evolved, with the establishment of money, banks, and traditional loan products such as term loans and lines of credit. But at their core, the needs of small businesses for capital have not changed.

Until recently, the modern market for small-business capital had been operating adequately, though not optimally. Large and small banks in the United States provided various loan products and relationship activities designed to address the needs of small businesses for working capital and expansion investments. For most of the 20th century, small-business lending saw little innovation and only incrementally used technology to automate existing processes. The customer experience was slow and paper-intensive, but the market felt little pressure to change.

Not anymore.

As we have seen, the financial crisis of 2008 and the entrance of new fintech competitors was a one-two punch that galvanized a new cycle of innovation in small-business lending. The frozen credit markets showed the importance of small-business lending to the economy and the slow recovery highlighted the market gaps. Entrepreneurs demonstrated that technology could change the built-in frictions in the traditional small-business lending process, and a new era of innovation was born.

In this new era, we ask a final set of questions: What will the small-business lending environment of the future look like? How will technology enable new products and activities to emerge? Will credit be more widely available? Will more small businesses be better off, or will many be taken advantage of by bad actors? Given the fundamentals of small-business needs and the changes in the lending markets we have explored, what exactly will be different in the future — and what

will stay the same?

Let's imagine a future state in which lenders and borrowers have much better and more transparent information, and there is an active and fluid market matching supply and demand for loans. What would be the benefits of a more perfect market for small-business lending, and what risks and uncertainties could undermine its functioning?

Better matching

In this market, big data and artificial intelligence would play a central role, helping lenders determine whether a small-business borrower is going to succeed. If technology can significantly improve the ability to differentiate creditworthy from noncreditworthy borrowers, everyone will benefit. Lenders who have greater clarity on which borrowers are poor credit risks would avoid piling more debt onto those who will be unable to pay it back, which in turn would allow them to lend to creditworthy borrowers at lower cost.

Reduced gaps

In a market with perfect information, there would be no gap in access to credit for any borrower who met the credit criteria. The result: more creditworthy businesses would be funded; in particular those seeking a small-dollar amount that never before had access to capital can buy the piece of equipment they need to operate. The lower costs of automated transactions would allow even these small loans to be made profitably.

Of course, in reality, perfect or complete information is unlikely to exist. No data source will capture the entrepreneurial talent of the small-business owner, which may be a critical factor in business success. It may be impossible to fully replicate the input of a relationship banker who knows the borrower personally. But the marketplace is now crowded with fintech innovators, large technology companies, and traditional banks that are turning over new ground in finding data that has predictive ability.

In the United States, no one knows the size of the gap in access to credit or what the improvement would look like if technology made markets work optimally. But even with small improvements, tens of thousands of small businesses could be affected.

At the margin, technology is likely to help lenders find more creditworthy borrowers, and the reduction in friction in the user experience should make borrowers' search costs lower, and make it easier for them to find a loan.

In a market with perfect information, there would be no gap in access to credit for any borrower who met the credit criteria.

Lower search costs

The perfect small-business lending market will offer a better customer experience. We have already seen applications that are short and easy to fill out, supported by automated data access through application programming interfaces (APIs).

Small businesses that used to spend 25 hours on an application now have a fully digital experience and a near immediate response. For small businesses that have been deterred by the time commitment and length of the process, new lending marketplaces of the future will be more open, transparent and usable.

This should bring more borrowers into the process and improve their ability to get matched with a loan if they meet the lending criteria.

Transparency and choice

Comparison shopping with full transparency and choice will be part of the future small-business loan market. Borrowers will be able to understand the costs, benefits, and risks of loan options, and be able to compare those options on an apples-to-apples basis.

We are already seeing this story play out in the personal credit card space. In the 1990s, almost all credit card offers came to consumers in the mail or could be found at bank branches. Then, in the early 2000s, banks began offering products online, which allowed consumers to shop and compare from the comfort of their own homes. Now, shopping sites like CreditCards.com, Credit Karma, and NerdWallet are providing aggregation services that enable consumers to compare prices and shop bank by bank online. Consumers have complete information written in plain English about all available products, pricing, and approval odds in a central location.

Although small-business loan products are more complicated, comparison marketplaces such as Fundera and Lendio already exist, and their functionality will improve. The question facing credit providers in this new environment will be, as Frank Rotman of QED Investors puts it, "Would a rational consumer armed with perfect information choose your product?"

Excerpt from "Fintech, Small Business & the American Dream," Palgrave Macmillan, March 2019

How tech managers can help gender imbalance

By Jacob Kosoff

The number of data scientists and quantitative associates at banks is growing tremendously and an increasing share of that talent is female. On the model risk management and validation team that I manage at Regions Bank, 46% of the associates are female. That's up from 13% when I started in 2014.

My views on management have evolved over those years, and I have learned a great deal from both women and men on my team who are seeking to progress in their careers about how companies — and individual managers of data scientists — can help in that journey. There is an opportunity for us as an industry to create an environment that better supports women in tech, a sector that has historically been dominated by men. In doing so, we can be more appealing to all, regardless of gender.

First, listen to what associates want and do not assume you know what they want. When I started as a manager, I imagined associates would come to me most often with requests for increased compensation. I was proved wrong year after year. Most conversations I have with associates, both male and female, tend to be about a preference to work remotely, whether from home or a satellite office; a desire for flexible hours; options for changing roles or managers; or assistance finding a job for a spouse.

Second, as a manager, you are a talent agent for the associates on your team and for the company overall. Developing your team members for other roles in the company will not just benefit them, but also help with recruiting and retaining the best talent. Have honest career development conversations. Be proactive in asking associates about their talents, needs, interests and goals. Learn how you can be a partner in preparation for future opportunities.

I have found each person wants different things, so truly listen. Some will ask for advice on roles that offer work/life balance or that could be done from another location. Others will request introductions to potential mentors or need guidance on certifications. A few also might look to join a team where they are not interrupted when they speak at meetings. Every associate is different and your support has to be tailored accordingly.

Third, regularly ask your team members to assess the workplace culture. Ask for their ideas on how to improve skills development and provide more flexibility. Empower individuals to incorporate their outside-of-work passions, such as volunteering, continuing education and community service, into work. Do your best to seek feedback from the entire team, especially in cases where women or other groups are underrepresented. If you do not do this, those who get hired because they seem like a match on work responsibilities could end up quitting to go somewhere with a culture that feels like a better fit. Listen more to understand each associate's vision for the team culture.

Fourth, partner with individuals to help them find a neutral and honest mentor outside of your department. This allows them to gain a broader understanding of the company and gain valuable career perspective. Understanding each person's unique needs will help in identifying a mentor who aligns with those needs.

Big changes across an entire industry really happen one person at a time, and managers are uniquely positioned to address the diversity challenge in tech and in banking. To become a better people manager, remember that everyone has a natural bias based on their own life experiences, recognize those biases in yourself and work to address them. Keep in mind that developing the strongest talent is the best strategy for the success of the company and support associates taking roles in other departments. Create a culture that embraces a diverse set of needs, work styles and associate goals.

If you do not adopt this kind of flexible and inclusive management style, you will only hurt your own chances of success. □

Jacob Kosoff is the head of model risk management and validation at Regions Bank.

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"If JPMorgan's institutional investors were throwing up all over this, they should have known."

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