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Banks’ Plan to Disrupt Payday Lenders’ Game

Well, it was a nice idea, and one Pew’s Nick Bourke liked. But the new small-dollar loan products that several banks had in mind won’t work under the CFPB’s most recent proposed rules for payday lending.

I Told You So, Marketplace Lenders

The hits that alternative lenders like OnDeck Capital are taking shouldn’t be a surprise for an industry built on unsustainable business models, consultant Todd H. Baker wrote.

Banks at the Mercy of Regulatory Absolutism

Regulators have abused their role of implementing law, and are causing economic malaise with their sustained assault on the financial services industry, Eric Grover argued in a BankThink piece.
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Why Leadership Trumps Performance Now

What a bank stands for matters more than the products it sells.

Depending on your view, that could be a radical idea or a familiar one. But either way it’s a key insight to remember for banks that want to work on bolstering their reputation, says Stephen Hahn-Griffiths, a vice president at the Reputation Institute.

“We see a continuing pattern around how the enterprise behind the products is increasingly becoming more important. In other words, the perception of the bank and who you are and what you stand for is more important than the products and services that you keep developing and innovating,” he says.

“So you can’t just drive reputation by coming out with new technology or new smartphone solutions or new creative ways of borrowing money or new credit card offerings. You drive reputation around enhancing the perceptions of the enterprise.

“And that’s not just important for customers, it’s especially important for noncustomers.”

Humanizing the corporate identity of banks is an emerging trend across the industry — one that’s proving critical in helping build reputations back up after the damage of the financial crisis.

Integral to this approach is leveraging leadership — chief executive officers and beyond — to give the bank more of a personality, make it more relatable and help raise its visibility in the community.

“It’s not about putting the CEO on TV and having him say great things. This is about elevating the entire leadership of the organization,” Hahn-Griffiths says. “That’s how we become viewed as more human and less the bean counters.”

Efforts must go beyond press releases and blog posts. Hahn-Griffiths suggests getting executives involved in important local projects and prompting them to offer thought leadership on social issues, rather than just having them be a mouthpiece for quarterly earnings.

It’s about creating and sharing compelling content — “videos and sound bites” — that bring the personalities of executives to life with transparency and emotion, he says.

The Reputation Institute is our partner on the annual Survey of Bank Reputations featured in this issue. As part of the survey, it gathers data on seven factors that influence how people perceive a brand and assesses which of those factors carry the most weight in the minds of customers and noncustomers.

This year leadership replaced performance as one of the top three drivers of bank reputations overall — a shift in emphasis that Hahn-Griffiths considers telling.

“Trust, especially in this political election year, has become such a valuable commodity,” he says. “Performance is a measure of financial stability and it solidifies your relationship with the bank. But it’s not enough to inspire trust. So we see the elevation of leadership as being a metric of trust that says, ‘I trust the people leading that company.’”

For banks that want to capitalize on this insight, an important consideration involves rethinking efforts focused on marketing and customer acquisition.

The prevailing wisdom is to entice people with sweet deals — free checking or a credit card with no fees, for example. Banks spend millions on marketing messages like these.

“Most banks go into conversations around customer acquisition very much blinded by brand market communication,” Hahn-Griffiths says. “Hey, if we spend $10 million, how many new customers are we going to drive?”

But, Hahn-Griffiths argues, resources could be better spent on efforts that cast banks in a positive light and help create goodwill in the minds of consumers, so that when they see or hear a marketing message, they are more likely to respond positively.

“If you could start to divert some of those resources from just customer acquisition and brand messages, and re-deploy some of those resources around telling the corporate story about the company behind the products, you’d actually be more successful,” Hahn-Griffiths says. “Very few banks are that strategic in their ability to manage the conversation.”
ARE YOUR BANK BRANCHES AS CONNECTED AS YOUR CUSTOMERS?

The number of bank branch offices is growing 10% per year, and 90% of all new bank employees are assigned to branches. Yet while the central headquarters has generally boasted a strong network, the branches are lagging when it comes to sophisticated, high-speed connectivity. It’s time to dramatically improve productivity, increase revenue and strengthen security.

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Buckling Convention, Some Banks Add Branch Staff

Rather than close down branches, two banks found a creative solution to bring in more revenue instead

By John Reosti

SOMETIMES IT MAKES SENSE TO PUT more employees in branches.

That’s the perspective of CenterState Banks in Davenport, Fla., and Union Savings Bank in Danbury, Conn., after the companies experimented with placing more decision makers in their branches.

Each bank had its own distinct rationale for making changes: Union wanted to take one more swipe at salvaging an underperforming branch, while CenterState was concerned about competition from bigger banks and alternative lenders.

The decision to decentralize operations runs counter to the current trend where most banks aim to streamline and consolidate operations to reduce costs. In fact, that was a priority for the $5 billion-asset CenterState in the years following the financial crisis.

“We were centralizing as much as we could because of efficiency,” said Chris Nichols, CenterState’s chief strategy officer.

CenterState, however, started to fear it might lose business to nimble competitors. So the company began introducing underwriters to its branches. By working on-site with commercial lenders, the underwriters can theoretically make faster decisions with a goal of going from application to loan commitment within a matter of days.

The early returns are encouraging. Loan production has increased for three straight quarters, topping $226 million in the first quarter. Nonperforming loans fell to 0.85% of total loans at March 31, down from 1.15% a year earlier.

We’re seeing teamwork in the best sense of the word, ” Nichols said. “Silos are less of an issue. ”

A lingering concern involves risk management, particularly in underwriting decisions.

“So far things have worked well, but we’re a little scared of the model,” Nichols said. “Traditionally, you never want credit folks” to work closely with underwriters.

But CenterState executives are cautiously optimistic. “We’re probably three-fourths of the way to removing our skepticism, but we may not be completely convinced until after the next downturn,” Nichols said.

At Union, the goal was to rescue “a beautiful branch” in Monroe, Conn., that was severely underperforming, said Cynthia Merkle, the $2.2 billion-asset mutual’s president and chief executive.

“I guess we believed if we built it, customers would come, but they didn’t,” Merkle said. “Deposits weren’t growing. Transactions weren’t occurring. ”

A bigger bank might have opted to close the facility. Union, however, viewed its southernmost branch as a logical step toward capturing business in lucrative Connecticut coastal markets such as Bridgeport, Norwalk and Fairfield.

Union addressed its problem by creating a so-called solutions team that included a mortgage and commercial lender, along with treasury and wealth management.
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The team, which operates with little interference from top management, was deployed to the branch as part of a pilot program.

Merkle hoped that having the team work under the same roof with the branch staff would yield better results. So far the experiment seems to be working, she said.

The solutions team has booked $45.7 million in business and residential loans since its formation in mid-2014. The team also has added 14 treasury and eight wealth management relationships, while significantly boosting deposits and branch traffic.

Cross-selling has improved at the branch, reflecting an approach where multiple team members call on customers. Previously, Union employed a big sales committee that met regularly to sift through customer lists to identify leads.

“It was different silos sitting at a table,” Merkle said. “After the meetings, people would go back to their offices” and return to business as usual.

Big meetings were replaced with conversations among team members in more intimate, localized settings that Merkle likes to refer to as “little families.”

Word of mouth has helped the cause. Merkle recalled one commercial client who approached the Monroe team for a commercial real estate loan. “By the end of the day, we’d booked the loan and [acquired] all his operating and cash management accounts,” she said, adding that the client has provided at least six referrals since then.

The pilot went so well that Union has since set up solutions teams at two other branches. The teams are marketed heavily on billboards, in social media and at community events.

“We always talked about a relationship strategy, but we didn’t know what the words meant,” Merkle said.

A Tip, Instead Of a Fee
This startup lets customers use its services for free, but most pay anyway

MAYBE PEOPLE ARE NOT AS AVERSE to fees as bankers believe.

Though the banking industry has struggled to get customers to pay for basic banking services, a nonbank says it is having success with a model where paying is optional.

Aspiration, a Marina Del Rey, Calif., firm that offers online checking accounts and investment products, is getting a majority of its customers to voluntarily pay fees by letting them decide what they think is a fair price for its products.

Customers can choose to pay what Aspiration calls a “tip” on checking accounts, ranging anywhere from nothing up to $6 a month.

More than two-thirds of Aspiration’s checking account customers pay a fee, said Chief Executive Andrei Cherny. And more than 90% of investment customers pay a fee for those services.

Cherny, who declined to provide the average amount paid, said the optional approach is fairer to customers. “It just creates a different relationship with the customer — and they know we’re working hard for them.”

He credits Aspiration’s customer service and perks such as free access to any ATM worldwide with helping attract people who are willing to give the company a tip.

They also appreciate the decent interest rates – 1% for balances over $2,500 – without “onerous and unfair fees,” Cherny said. The company frequently waives overdraft fees as well, he said.

Other financial services firms have tried – and abandoned – the optional fee model, said Sam Maule, director and senior practice lead of digital and fintech at NTT DATA Americas. Green Dot initially
took the pay-what-you-want approach with its GoBank, but later switched to a flat monthly fee that it waives if certain requirements are met.

“I don’t see this revenue model flying off the shelf,” Maule said. “I think you get a group of early adopters that are technology savvy and want to have the latest and greatest and will pay for these solutions.”

An a la carte model might work better, allowing customers to select the features they want, such as paper checks, then charging a nominal monthly fee to cover the bank’s expenses, said Lynn David, CEO of Community Bank Consulting Services.

“I can’t see having the option to pay nothing,” David said. “You’re getting into giving away things that have a hard cost to the bank. Why would you do that?”

The $296 million-asset Suncrest Bank in Visalia, Calif., is among the many banks tweaking their checking accounts in an effort to boost noninterest income.

It has launched two options: one free and one with a fee. The free account pays 1.5% interest on balances up to $25,000 if the customer meets certain requirements; otherwise, interest defaults to a lower rate. A separate account that has a monthly $5 fee comes with access to a national database of discounts on products and services.

“Checking accounts have been boring and uneventful for a long time,” said Ciara McMullan, Suncrest’s president and CEO. “Now, from the biggest banks to Suncrest, we are focused on building core banking relationships. To do that, we have to get more creative.”

McMullan said he thinks people are willing to pay under certain circumstances — “if the service is good, if all of the features are there that they need and those features work, and if there is some kind of emotional attachment or other value added on.”

Banks, especially smaller institutions, “can’t afford to ignore” companies such as Aspiration, Maule said. Bigger banks tend to have more options, such as an ability to buy fintech firms, he said.

Radius Bank in Boston has taken that message seriously. Radius — which is Aspiration’s processing bank — has also partnered with an online marketplace lender and a mobile payments firm, said Christopher Tremont, the $790 million-asset bank’s executive vice president of virtual banking. Radius has even collaborated on a rewards product that pays down student loan debt.

The bank gets two to three offers a week to partner with new fintech firms. Though it turns down the vast majority of those pitches, it could add one or two more partnerships in the next year, Tremont said.

“At Radius, we have always been more about how do these two industries become friends rather than it being fintech versus the banks,” he said.

“I don’t have a crystal ball” on how Aspiration’s pay-what-you-want model will turn out, “but early on the signs are very promising,” Tremont said. “It’s about attracting a client base that is proving they will pay for good products and good services and compensate an organization for that.” — Jackie Stewart

The Branch Stays in the Picture
CEOs debate the value of a brick-and-mortar strategy

CHIEF EXECUTIVES AT LARGE U.S. banks think differently about the future of brick-and-mortar banking, reflecting a split between those that still have a big physical footprint and those that never had one.

On one side of the divide is JPMorgan Chase, which operates more than 5,000 branches across the country. “The branches are critically important,” Chairman and CEO Jamie Dimon said at an investor conference in New York this spring. “Facts are the facts, folks.”

On the other side is Ally Financial, which does not have physical branches. “Because we have no branch operating expense, we can share those efficiencies with our customers, in the form of better rates and lower fees,” argued Ally CEO Jeffrey Brown.

For several years, traditional banks have been facing difficult choices over what to do with their physical locations. The rapid rise of mobile banking — a survey by the Federal Reserve Board found that 43% of mobile phone owners with bank accounts used mobile banking in 2015, up from 33% two years earlier — makes the issue more urgent today.

Last year, 93,283 bank branches were in operation, which was the lowest total since 2005, according to data from the Federal Deposit Insurance Corp. Branch count peaked at 99,550 in 2009.

In recent years, banks with scores of branches have promised to make those locations smaller and more dependent on technology. But they also argue that branches will remain important as ways to gather low-cost deposits, dispense financial advice and serve as billboards for the bank.

U.S. Bancorp Chairman and CEO Richard Davis, who once worked as a bank teller, is among those who believe that the industry would be foolish to abandon its storefronts too quickly.

“We have 3,200 branches, so we are not trying to make a statement of closing locations,” Davis told the audience in New York. “The average branch in America is 53 years old. The average branch has got that much legacy.”

Davis acknowledged that U.S. Bancorp could become more efficient in the short term by closing a few hundred branches. But he argued that the Minneapolis company would eventually pay a price for that decision, in the form of higher funding costs.

JPMorgan Chase, which has one of the largest databases of discounts on products and services, finds the face-to-face interaction serves as a “bump” for the firm.

“With the high touch of the bank, the customers may stay and get that “wow” which is very vestigial in this digital age,” Tremont said.

The CEO of Dime Bank, which has 18 branches, noted that “enemies have become friends” in the tech versus the banks, "he said. "They are going to have to close two more partnerships in the next year, and other institutions are going to have to keep buying new technology."

A guide to the CEOs of online-only banks are eager to attract those customers who shrink from the traditional look and feel of the branches.

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CEO of 808 Federal Credit Union, which operates in eight states but that is seen as an outlier in the industry, 360. His credit union’s members were an outlier in their attitude toward mobile, and will continue to be so."
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JPMorgan Chase, which has one of the largest branch networks in the country, finds itself in a similar situation. Dimon said that the megabank would adapt in the face of changes in customer behavior.

“While the branch will get small, and the head count may drop a little bit,” he said, “the advisory part of the branch may grow a little bit. Think of small-business advisers, mortgage loan officers, investment officers.”

The CEOs of online-only banks argued, though, that their banks would have the advantage in the future. Brown said that Ally’s bank unit was built from the ground up for the internet. The bank had $55.4 billion in retail deposits in 2015, up from $21.8 billion five years earlier.

“We’ve been able to differentiate ourselves because we don’t have the baggage or cost load of brick-and-mortar institutions, nor the unfriendly approach of endless fees,” Brown said.

“And we’re not saying that branches are completely going away, but they are shrinking every day,” he added. “The traditional banks know that branches are the way of the past, and digital is the way of the future.”

David Nelms, the chairman and CEO of Discover Financial Services, said that many transactions are being originated through direct channels now, rather than branch visits. “That’s going to be a challenge for the traditional banks,” Nelms said. “They are going to have to put other products through branches to try to keep the capacity utilization up.”

Capital One Financial Chairman and CEO Richard Fairbank came down somewhere in between the incumbents and the upstarts. Capital One operates branches in eight states plus the District of Columbia, but the McLean, Va., company also has an online franchise called Capital One 360. Fairbank argued that many consumers still want a tangible connection to their money, and predicted that impulse will continue for a long time.

But he also said that the number of visits to branches is plummeting, and that a majority of Americans now prefer to transact digitally.

“There will be physical distribution. The physical distribution will have value. But that physical distribution has to be reinvented around a very technology-first kind of architecture,” Fairbank said. — Kevin Wack and Kristin Broughton

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Mortgages Simplified
A new low-down-payment option from Wells Fargo is less complex for first-timers

WELLS FARGO HAS INTRODUCED A low-down-payment mortgage to serve as an alternative to Federal Housing Administration loans for low- to moderate-income borrowers and first-time homebuyers.

The “yourFirst Mortgage” was developed in partnership with Fannie Mae and is modeled after the low-down-payment offerings the government-sponsored enterprises introduced with limited success last year.

However, qualifying is much simpler – addressing a key disadvantage of such programs. “The problem in this space is that it’s too complex for people to figure out,” said Brad Blackwell, an executive vice president and portfolio business manager at Wells Fargo. “Loan officers and real estate agents walk away from it because it’s too complex and consumers don’t understand it.”

Blackwell estimated that Wells, the nation’s largest mortgage lender, originated only 200 of Fannie’s HomeReady loans during the first quarter. The new program’s volume should be a lot bigger.

“We’re not interested in doing a handful of loans. We’re interested in making a big impact on the first-time-homebuyer market by creating a better alternative for customers,” he said.

Some of that expected increase in volume will come at the expense of Wells Fargo’s FHA production at a time when many lenders are scaling back their involvement in the government mortgage insurance program. Lenders say they are concerned about being unfairly targeted by the Department of Justice for violations of the False Claims Act.

Blackwell would not say whether the recent challenges with FHA lending had any bearing on the decision to introduce the new low-down-payment program. Borrowers will be able to choose the loan program that fits their needs, he said.

The GSEs’ foray into 97% loan-to-value mortgages last year found few takers, due in large part to the programs’ strict eligibility requirements. In response, Fannie’s HomeReady and Freddie Mac’s Home Possible created “enhanced” low-down-payment programs. These were designed to be easier to qualify for, but reserved for low-income borrowers or those purchasing homes in Census Bureau tracts with higher concentrations of minority populations.

Wells will not restrict eligibility for its new product by imposing the maximum income threshold and high minority Census tract location requirements that have stymied HomeReady. Nor will it require consumers to complete a homebuyer education course to qualify for the loan. Instead, those who take such a course will get a discount on the loan rate.

“We changed the entire positioning of homebuyer education from an impediment and a reason you can’t get a loan to an incentive,” Blackwell said.

While the initiative shares similar goals to one that Bank of America also introduced recently, one difference is that Wells Fargo intends to sell loans originated in its program to Fannie and retain the servicing “from start to finish,” Blackwell said.

Helping Hand
Why Bank of the West is loaning out a star employee to a nonprofit for a year

DESPITE BEING EAGER TO INVEST IN their communities, most banks would not go so far as to send one of their star employees to work at a local nonprofit for an entire year.

Not so Bank of the West. As part of a new community ambassador program, the San Francisco bank has embedded one of its client services personnel with JVS San Francisco.

JVS – formerly called Jewish Vocational Services – is a nonprofit that provides educational programs and job training to the unemployed.

Bank of the West has been a partner of JVS since 2003, with its employees volunteering to hold mock interviews and resume reviews for participants of the nonprofit’s job-placement programs.

But the ambassador program, for which the bank receives Community Reinvestment Act credit, signals a new level of commitment both to JVS and to the Bay Area – a commitment the bank hopes will pay dividends in the form of leadership training for its people and a greater understanding of the needs of nonprofits, which can be an important customer segment for banks.

“We are building our leadership position in the community,” said Jenny Flores, the head of community affairs at the $76 billion-asset bank. “We are developing a talent-management program that helps us retain top-performing individuals. We’re learning a tremendous deal from this opportunity, and it’s helping us to refine other partnerships we have across the 19 states that we serve.”

Daniel Tondeau, an assistant vice president at the bank, began his one-year stint at JVS in November. During his tenure, Tondeau, a 15-year veteran of Bank of the West, is focusing his efforts on BankWork$, a free eight-week program that gives job seekers the skills they need to obtain entry-level positions at financial institutions, with an eye toward preparing them for long careers in banking.

The target wage for graduates, according to Flores, is $26 an hour.

BankWork$ began at JVS Los Angeles in 2006 and has since spread to Portland, Seattle and San Francisco. In all, nearly 1,500 people have graduated from BankWork$, with about 75% of them having immediately found jobs in the financial services industry. — Brian Patrick Eha
Online Lending Shakeout Hurts Some, Helps Others

Which banks are best positioned to benefit from marketplace lending’s recent woes?

By Kevin Wack

ONE AFTER ANOTHER, SOME OF the biggest names in marketplace lending have been humbled by a variety of negative developments since the end of the first quarter, including Lending Club, Prosper Marketplace, Avant and OnDeck Capital.

Though each faced different setbacks, all are connected to a sudden reversal in sentiment among institutional investors who fueled the rapid rise of the sector.

But banks would be unwise to dismiss this lending model as a passing fad. After the financial crisis, startups built more efficient processes for approving borrowers, while also delivering better customer experiences. Those breakthroughs will surely endure, even if some of the companies that pioneered them do not.

“The consumer still wants this product,” said Anthony Hsieh, the chief executive of the online mortgage lender LoanDepot.

As the troubles in the marketplace lending sector play out, some banks stand to benefit, while others – particularly those who struck up assorted partnerships with these companies – are likely to suffer alongside their online brethren.

Here’s an analysis of how banks are
likely to be affected by the shakeout – both good and bad.

**Banks on the Back End**
Several small banks, including WebBank and Celtic Bank in Utah and Cross River Bank in New Jersey, made themselves indispensable to the rapid growth of online lending by facilitating the loans that marketplace lenders make to consumers. They are probably the banks with the most to lose.

Over the last few years, so-called issuing banks developed symbiotic relationships with marketplace lenders. Their banking licenses allowed the digital lenders to avoid state-by-state interest rate caps, which helped fuel the sector’s phenomenal growth. For the banks, the relationships could be quite lucrative.

But assuming the online lending industry is now in the midst of a substantial contraction, revenue at these banks will likely sustain a significant hit.

The lending slowdown comes at a time when both judges and regulators are starting to express skepticism about these partnerships. So for this group of small banks, which have been riding the marketplace lending wave, the good times may have been about to come to an end anyway.

**Banks Getting Help with Online Loans**
Some banks struck up alliances as a way to offer better digital lending options to their own customers. These institutions recognized that they were at risk of losing business to online competitors and decided that the fastest way to adapt was by partnering with one.

Examples of banks that adopted this approach include JPMorgan Chase and Regions Financial.

The partnerships take different forms. Some of the banks operate co-branded websites, built with an online lender’s loan-underwriting tools, where the bank’s own customers can apply for credit. Other banks rely on an online lender’s technology, but in ways that are invisible to the customer.

Today, one potential risk for these banking institutions involves the possibility that their partner will have to shut down.

Another possible pitfall involves reputational risk. If a digital lender gets a black eye – or if that is the perception of banking regulators – it could harm the partner bank.

“A bank’s regulators are going to be looking at any companies that they partner with,” said Alex Johnson, an analyst at Mercator Advisory Group.

**Banks That Are Buying the Loans**
This category ranges from some of the biggest names on Wall Street all the way down to small community banks.

These institutions saw an opportunity to make an investment profit by buying the loans underwritten by marketplace lenders.

In some cases they held that debt on their own balance sheets. In other instances, they bought loans with the intention of bundling them into bonds and reselling them.

If more consumers and small-business borrowers start missing their payments on these loans, the banks that bought them may be vulnerable. Credit performance in the industry has recently started to worsen, as loans to borrowers with lower credit scores are showing signs of deterioration.

But these arrangements are more transactional than strategic for the banks that entered them, which means that they should be relatively easy to exit cleanly.

In addition, a consortium of more than 200 small banks has halted its purchases of Lending Club loans, at least temporarily.

In the end, the purchasing banks may have more leverage over the troubled online lending platforms than the other way around.

“I think that Lending Club would have to work hard to regain the trust of banks.

That’s for sure,” said James Wu, the chief executive of MonJa, an analytics firm that caters to institutional investors.

**Banks Looking for an Acquisition**
It is unclear how many banks are interested in pursuing a strategy that involves acquiring an online lender. So far, it has not been a popular option, as banks were scared off by the sky-high valuations that venture capitalists assigned to lending startups.

But in the current environment, the price tags on these companies seem likely to fall. “The calculus for many bankers on how to approach alternative lending is changing rapidly,” Javelin Advisory Services wrote in a report published in May.

Banks that waited for the right acquisition opportunity allowed their competitors to get a head start. But their patient approach may yet be vindicated.

**Banks That Built Their Own Platform**
Wells Fargo and Goldman Sachs are among the banks that eschewed partnerships with online lenders and instead went it alone.

This approach has taken longer to get off the ground than some partnerships involving rival banks did. But in light of the recent upheaval in the online lending sphere, building a platform internally looks like a smart approach.

Banks that built their own platforms should be able to marry the banking industry’s stable, low-cost funding base with at least some of the advantages pioneered by marketplace lenders.

“It does seem like the tide is turning back toward banks, which we think is great,” said Dan O’Malley, chief digital officer at Eastern Bank in Boston.

Eastern built its own platform for small-business lending in its innovation lab, and after several pilots with small groups of customers, recently launched it across the bank.

O’Malley said he’s not surprised by the upheaval with the online lenders. “We’ve expected it.”
Swift Security Measures
After an $80 million cybertheft, U.S. financial services firms take stock

NEWS OF THE CYBERTHEFT OF MORE than $80 million from the Bangladesh Bank’s account at the Federal Reserve Bank of New York earlier this year — and speculation that the hackers may have gained access to the payments-related messaging system Swift — has caused many U.S. banking companies to take stock of their internal security precautions.

Executives across banks of all sizes — from the likes of JPMorgan Chase to the $2.4 billion-asset Stonegate Bank — said they reviewed how they handle Swift transactions and, in some cases, tightened their controls.

At JPMorgan Chase, employee access to the Swift payments system has been adjusted.

The New York banking giant grants different levels of security access to the Swift system. While some employees have permission only to view activity on the system, others can work in it directly. Following the cyberattacks, the company reviewed the security rights that each employee has to the Swift system, and scaled back the number of employees granted direct access.

Bruce Livesay, chief information officer of First Horizon National in Memphis, Tenn., immediately began a review of his bank’s own Swift environment, paying particular attention to potential vulnerabilities tied to usernames and passwords.

“We looked at how do we have this configured,” said Livesay, whose $26.9 billion-asset bank has an international division. “Do we have it on a separate network, what software are we using, how do we manage user IDs and passwords and make sure we do authentication correctly. Things like that.”

In its Swift environment, First Horizon uses a tool called CyberArk that allows a separation between the user ID and password. “The tool prevents people from knowing what their own password...
is,” he said. “They couldn’t even give up their password inadvertently because they don’t know it.”

The software also records every action the user takes. Computers running Swift software are blocked from networks other than Swift’s.

Some community bankers say they are also monitoring the issue either because they are in niche businesses that use Swift or because they fear spillover regulatory risk.

Stonegate in Pompano Beach, Fla., uses Swift because of its business dealings with Cuba. But Dave Seleski, its chief executive, said it has had no issues so far.

“Our volume is very low with Cuba, so it is easy to monitor at our end,” he said.

For its part, Swift says it is being transparent with its users about what has happened and what steps banks should be taking to protect themselves.

“We are sharing information on fraudulent payment cases known to us, notifying our community of any related malware used in customers’ local environments and providing indicators of compromise,” among other things, a spokeswoman said.

She said the majority of banks’ questions are technical or operational, as they try to ensure they have the most up-to-date measures in place.

Although some fintech companies claim to offer an alternative to Swift, several bankers said they do not see anyone providing a real alternative anytime soon.

“People don’t understand the magnitude of Swift,” said Suresh Ramamurthi, chief technology officer of CBW Bank in Weir, Kan., which is a member of the Swift network. “Outside of the U.S., every bank has a Swift ID. There’s no alternative way to get every bank in the world.”

The $22.7 million-asset CBW requires two-factor authentication for Swift transfers; Ramamurthi did not want to get specific about what kind. And if a customer is trying to send money to an entity that’s not a preapproved beneficiary, the bank will stop the transaction and review it.

CBW also uses statistical modeling to try to find red flags on transactions.

Heath Tarbert, a former Treasury official who is now a partner with Allen & Overy, said banks should consider the incident “a big wake-up call,” especially after word came down in late May that the hostile North Korean government might have been involved in some recent breaches.

“This is a bank robbery – a cyber bank robbery,” Tarbert said. “I think in that respect it represents something new, and in this particular case it’s a cyber bank robbery of a central bank. If a community bank lost $80 million, that would be catastrophic.”

– Penny Crosman and Kristin Broughton

Citi Brings Beacons into Branches
Bluetooth pilot provides cardless access to ATMs

CITIGROUP IS TESTING BLUETOOTH technology in a pilot that gives customers cardless access to branch ATMs after business hours, among other services.

The beacons, small devices that communicate with mobile apps over Bluetooth, effectively turn mobile phones into “keys” that unlock the door when they sense a customer is near, removing the need to fumble for bank cards to gain entry to the ATM vestibule.

Mike Anzola, Citi’s vice president of mobile product management, likened the feature to keyless car entry, where doors unlock by sensing the driver’s proximity.

The beacon “doesn’t know anything about the owner of said key, it just knows that it’s in sight,” Anzola said. “The same applies for us. The phone and the app are the key and [the beacon] is like the ignition and battery that help operate the whole thing.”

Beacons are more commonly used in retail settings to inform shoppers of discounts as they navigate a store. A large department store may use beacons to provide an offer that is specific to the department the shopper has just entered, for example.

Citi started testing beacon technology with iPhone and Apple Watch owners in New York City in March. A pilot rollout to 10 branches was recently finalized, according to Deirdre Leahy, a spokeswoman for the bank.

Customers that opt in to the pilot can also receive “contextually relevant” location-based notifications if they’re within roughly 30 feet of the branch, Anzola said. (The range actually varies depending on environmental factors Citi is taking into account during this testing phase.)

For example, Leahy said, in the winter some branches offer customers hot apple cider when they come inside. With this technology, passing customers would receive an alert informing them of the option to warm up inside with a hot drink.

“We want to make it fun. We want to make it useful for people,” Anzola said. “It’s not just a question of serving marketing messages to people – I think that’s the fear,” that customers could feel spammed with notifications, especially in densely populated New York, where one could conceivably pass three branches in just a couple of blocks.

“There’s a frequency limit on all of these [notifications], so if you work across the street, you’re not going to get this message every hour or every day,” Leahy said.

The customer also can choose not to acknowledge the notification, Anzola said. “It disappears on its own; you won’t have this huge thread of notifications.”

How long the pilot runs will depend on customers’ responses. Leahy said 450,000 customers are currently eligible to participate, and those who have opted...
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When Digital Is Critical

Online customers are the only ones that Ally has, so it must excel technologically to keep them happy.

OFFERING GOOD DIGITAL BANKING capabilities is important to all banks these days, but for Ally Bank, it is an absolute must.

As a direct bank, Ally has to provide its customers with everything they might need on their desktop or in their palm if it intends to keep its customers happy and get new ones to sign up.

“Digital is very critical for us,” said Carrie Sumlin, the digital consumer executive of the $111 billion-asset Ally. “Our philosophy is to put a high value on the digital customer experience. There’s not a backup plan for them to walk into a branch and complete a transaction.”

In the past year, Sumlin and her team have enriched the customer experience by streamlining Ally’s online banking channel, making logins simpler and predicting what customers might need once they do log in.

One place where branches have an advantage over digital banking is in financial advice. Without branches, Ally has had to come up with ways to fill that void.

To that end, the bank launched its Ally Assist function in May 2015 on its mobile banking app for Apple users.

Using automated intelligence and customer data profiles, Ally Assist analyzes accounts and transactions to generate useful information, including smart reminders, potential issues and financial recommendations.

The service also acts as a virtual assistant in responding to specific customer requests, via speech or typed entries, to provide customers with timely responses and information based on their specific needs.

The system learns from individual interactions and transactional behavior to determine the likelihood of needed information, Sumlin said.

“It does a review and analysis for what customers might be needing assistance on, based on their transaction history,” Sumlin explained. For example, a customer can use Ally Assist to initiate bill payments, request more detailed information on a particular transaction, or ask for insight into their spending and savings habits.

“And if the customer isn’t interested” in what Ally Assist predicted they might be, “they can navigate elsewhere,” Sumlin said.

Ally has also simplified its mobile login experience by taking it from a two-step process to a one-step process. Before, customers had to enter their username and passwords and then pick their trusted image from a lineup. Now, customers register their device with a code Ally sends the first time they log in with that device. From then on, the username and password suffice.

Sumlin said this was done to make the login process speedier.

“It’s not less secure; it just adds to the overall experience and removes a step that customers previously had to do to log in,” she said.

While mobile banking is a hot topic, approximately half of Ally’s retail deposit customers primarily use online banking. Last year it overhauled its online banking platform with streamlined navigation, a faster login process and a consolidated snapshot of all accounts.

The move also gives the bank greater flexibility and control in introducing future enhancements.

Sumlin said the online banking platforms across smartphones, tablets and computers are now consistent experiences. “We created a new interface and design, and also made it mobile-centric,” Sumlin said. “If you access online banking using a tablet web browser, and then later on a desktop, the navigation and functions would flow seamlessly together and not appear disjointed at all.”

Offering top-notch digital capabilities is critical for a bank like Ally, because it is the primary avenue for building loyalty and value with its customers, said Jacob Jegher, senior vice president at Javelin Strategy & Research.

“If your customers don’t have anywhere to go other than digital channels, the pressure is on you to perform,” he said. “For a bank like Ally or other types of direct banks, it creates interesting opportunities as well as challenges for them. Every bank wants to be the best” at digital, “but they have to be the best.”

— Bryan Yurcan
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Despite Bernie Sanders’ best efforts, the banking industry managed an ever so slight rise in popularity this year. The reputation of the industry as a whole nudged up to 67.1 on a 100-point scale, helped by an improving economy. The score is just average, by the Reputation Institute’s reckoning, but that is not so bad for an industry devastated by the financial crisis in recent memory.

“We’ve seen some improvements broadly around financial services, but there’s still a hangover effect from the Great Recession,” said Stephen Hahn-Griffiths, a vice president at the Reputation Institute. “I think it’s still a work in progress in many ways.”

To put things in perspective, banking is still below other industries the Reputation Institute tracks, including health care and energy. But it has seen a consistent rise in reputation since 2011 and its increase of 1.5 points this year is slightly better than the average increase of one point across all industries.

Some standout banks are doing far better than average. Of the 33 banks evaluated in the American Banker/Reputation Institute Survey of Bank Reputations this year, five have strong overall reputations, when taking the perceptions of both customers and noncustomers into account.

That’s up from just two last year. Breaking down the overall scores to separate customers from noncustomers shows how much harder banks have to work to create a favorable impression with the general public.

Banks generally have a strong reputation among customers, with a score of 78.4. But their reputation is just barely average among noncustomers, with a score of 60.5. The gap of 18 points between the two scores is unchanged from last year.

“If you’re not an everyday customer, your opinion is formed by what others tell you, what you hear and read and observe. And right now the general sentiment around banks is still in recovery mode,” Hahn-Griffiths said. “There’s still some skepticism out there.”

Even so, a dive into the rankings yields some success stories. A handful of regional banks are showing significant progress with improving their reputations. Another noteworthy trend in the data is how large banks have improved as a group.
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### OVERALL REPUTATION RANKINGS

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REGIONALS AT THE TOP

All five of the institutions with strong overall reputations are regional banks – Regions Financial, Synovus Financial, Cullen/Frost Bankers, KeyBank and FirstMerit Bank – and nearly all of them posted meaningful gains from last year.

KeyBank, which is fourth in the overall rankings, had a whopping nine-point increase, the largest improvement of any bank.

Dennis Devine, co-president of Key Community Bank and head of Key Consumer and Small Business, attributes this to a focus on living out its corporate purpose, which it expresses as “KeyBank helps clients and communities thrive.”

Devine pointed out Key has eight consecutive outstanding ratings under the Community Reinvestment Act – which, he said, “is unequaled by almost every one of our peers and is a function of our real genuine focus on communities.”

Key also recently made a splashy announcement to commit $16.5 billion in lending to low- and moderate-income communities in several states, as part of its acquisition of First Niagara.

The agreement Key signed with the National Community Reinvestment Coalition essentially doubles its lending to low- and middle-income borrowers and expands its community development lending by $4.5 billion, among other benefits.

The Reputation Institute also credits Key’s corporate social responsibility initiatives with helping drive its improvement in the rankings, along with its strong community presence and exceptional customer service.

As a group, regional banks’ reputation score with customers is strong at 78.5, roughly the same as last year.

The stalled momentum for the regionals makes Key stand out all the more.

Hahn-Griffiths said the best way for banks to pull ahead of their peers is to put effort into the reputation drivers that matter most.

This year the three factors most heavily influencing how people perceive banks are products and services, governance, and leadership, according to the Reputation Institute’s calculations.

“If you succeed on those fundamentals, the chances are you’ll probably outperform” on reputation compared with the rest of the industry, Hahn-Griffiths said.

“Why? Because you’re focusing on the stuff that’s most important to customers,” he said.

Leadership has replaced performance as one of the top three factors.

So Hahn-Griffiths recommends banks make top executives approach key stakeholders strategically.

“Creating a purpose around the organization is really important. Banks that are doing a good job of making sure that’s the front of their businesses are ones that you’ll see perform better,” he said.

LARGE BANKS START TO WIN SOME LOVE

Among the three categories of banks — large, regional and community — they continued to be the biggest three.

But there is a glimmer of hope for the larger institutions.

The most notable change, according to Hahn-Griffiths, is that large banks are getting better at reputation.

“Three years ago a lot of people were decrying whether or not banks could change and improve. ‘It’s not going to happen,’ they would say. ‘They don’t really have a culture around this,’” the executive explained.

But “I think banks have learned that reputation is an important asset,” he said.

JP Morgan Chase’s bank unit is a case in point.

It is also the only large bank that enjoys an excellent ranking this year, up from No. 30 last year.

It vaulted to No. 10 on the customer score board from No. 19 last year.

Chase posted a customer score of 80.2, the highest of any large bank.

JPMorgan Chase’s bank unit is a case in point.

Leadership has replaced performance as one of the top three factors — and the 8.1-point gain in the rankings shows how much they have improved.

“Presenting a more human face for your banking operation is a critical aspect of this,” Hahn-Griffiths said.

Barry Sommers, the chief executive of consumer banking at Chase, credits the improvement to efforts to make the bank more customer-centric.

“Leadership has come to the fore. We have recognized that leadership is important, that it’s a customer-facing asset,” Sommers said.

So Hahn-Griffiths recommends banks make their top executives focus on the customer.

“The CEO and the president of the bank need to be on the front lines,” he said.

And the CEO of the bank needs to be in the front offices – where they operate and where they have core customers – “seeing and doing the right thing,” he said.

If you succeed on those fundamentals, the chances are you’ll probably outperform” on reputation compared with the rest of the industry, Hahn-Griffiths said.

“But don’t think for a minute that reputation is going away,” he said.

“It’s not like it’s a fad. It’s here to stay. The brand is an asset.”
“Why? Because you’re focusing on the stuff that’s most important.”

Leadership has replaced performance as one of the top three reputation drivers since last year.

So Hahn-Griffiths recommends banks make their top executives more visible in the community and demonstrate thought leadership on social issues.

“Presenting a more human face for your banking organization and what it stands for has become more important,” he said. “We’ll see banks that do a better job of elevating their leadership and making them more front and center as part of the rhetoric are probably the ones that are going to do better.”

**LARGE BANKS START TO WIN SOME LOVE**

Among the three categories of banks – large, regional and nontraditional – the scores for large banks still put them in third place. And in the overall rankings, the three banks with weak reputations are all large ones.

But Hahn-Griffiths said it is the large banks that are the bigger story this year, thanks to an improvement with their customers.

Their customer score is at 75.8, up five points. And Hahn-Griffiths said the changes they’ve made to rack up that increase are notable.

“All the action is around the bounce-back of large banks. In the court of public opinion, I think the larger banks have done a better job of engendering themselves to their customer base, meaning within the footprints of where they operate and where they have core customers,” Hahn-Griffiths said.

“They’ve just done a better job of romancing those customers, taking better care of them, whereas you don’t see that continuing momentum at the regional banks.”

JPMorgan Chase’s bank unit is a case in point.

Chase posted a customer score of 80.2, the highest of any large bank, and its improvement of 8.1 points is one of the biggest increases with customers among the 33 banks in the survey. It vaulted to No. 10 on the customer ranking this year, up from No. 30 last year.

It is also the only large bank that enjoys an excellent reputation with customers.

Barry Sommers, the chief executive of consumer banking at Chase, credits the improvement to efforts that have been underway for years.
“We’re spending massive time with our customers, getting feedback, taking bus trips, listening to employees,” Sommers said. “Those conversations have led to hundreds of changes to the way we do business.”

The bus trips started six years ago, with Jamie Dimon, the company’s chairman and CEO, spending about a week on the road visiting branches, talking to employees in local markets and hosting town halls.

“We pull branch employees on to the bus — we take hostages, as a fun thing, and we say, ‘Tell us everything,’” Sommers said.

Last year the bus went to three states — Wyoming, Utah and Colorado. This summer it will travel through California.

“The feedback we’ve gotten from the trips really changed this place,” Sommers said.

Now the listening has expanded to a constant thing, with an “ear” icon on the bank’s employee website that they can click on to offer feedback and suggest improvements.

All of the feedback is reviewed and acted on. “We get thousands of comments, and they all go to a central group that makes sure they get to the right areas and literally, without exception, we respond to every single one of those emails,” Sommers said. “And it’s not always a ‘yes.’ Sometimes we actually find that it’s a great opportunity for us to communicate Why we can’t do certain things. One of the things we learned from this whole process is, sometimes the second best answer is to give a quick ‘no’ and to really explain to our customers why.”

One example of a change Chase has made because of customer feedback is its decision to increase the limits for its Quick Deposit and Quick Pay products, Sommers said. “Customers loved our new technology, but one of the frustrations they had was with the limits, so we addressed that and raised the limit,” he said.

Though he appreciates the validation provided by the Survey of Bank Reputations, Sommers said it is actual business results that really underscore how well Chase is doing in polishing its reputation.

In the first quarter of the year, its consumer banking Business achieved record deposit growth of $41 billion, a 10% increase from a year earlier. Attrition also is at an historic low of 8.6%.

“We haven’t see attrition this low ever,” Sommers said. He thinks it is likely not a coincidence that the reputation and business results coincide for Chase.

“The best way to gauge how you’re doing with customers is by customers making you their primary bank, giving you more money and staying around longer,” he said.

**Industry Comparison**

Though still below other industries, banking has seen a consistent improvement in its reputation since 2011.

<table>
<thead>
<tr>
<th>Industry</th>
<th>2016 Score</th>
<th>2015 Score</th>
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<tbody>
<tr>
<td>CONSUMER</td>
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<td>72.5</td>
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<tr>
<td>INFORMATION &amp; MEDIA</td>
<td>72.5</td>
<td>72.3</td>
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<td>RETAIL</td>
<td>72.3</td>
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<td>69.4</td>
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<td>HOSPITALITY</td>
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<tr>
<td>BANKING</td>
<td>67.1</td>
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</table>

Source: Reputation Institute
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SURVEY METHODOLOGY

COMPANY SELECTION:
△ Companies drawn from the Federal Reserve’s list of large commercial banks, with final selections by American Banker based on size of assets and deposits
△ Only those with significant retail brands were considered

RATINGS:
△ Ratings were collected via online questionnaire in the first quarter of 2016
△ All companies were rated by at least 100 customers and 100 noncustomers
△ Each respondent was very or somewhat familiar with the companies they rated

Synovus Financial struggled along with its customers during the financial crisis. Now that it’s healthy again, it credits the strong ties it built with those customers, and the involvement of its executives in the communities they serve, with helping restore its status as one of banking’s most reputable brands.

By Alan Kline

Photography by Ryan Gibson

FOR MOST OF HIS BANKING CAREER, Synovus Financial Chairman and Chief Executive Kessel Stelling believed that borrowers who failed to pay their debts were “bad people” who should be written off by banks. “It’s kind of how you were raised in this business,” Stelling said. “If you lost money on someone, you never did business with them again, period.”

Then the financial crisis struck and Stelling’s views began to change. While he still had little sympathy for borrowers who had the means to repay and chose not to, he wanted to help those who fell behind on payments because they had lost their jobs or their businesses went bust.

Even with investors and regulators pressing the Columbus, Ga.-based company to quickly dispose of problem loans, Synovus chose to be patient with delinquent borrowers who were making an effort to pay their debts. Stelling also vowed then that when the crisis was over and the economy – and Synovus – returned to health, the company would be there for down-and-out customers. “I saw people lose their life savings, their businesses, their homes,” Stelling said.
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From left, Gloria Banks, chief compliance officer; Kessel Stelling, chairman and chief executive officer; and Liz Dukes Wolverton, chief strategy officer.
saw good people get hurt and still try as hard as they could to honor their obligations. We want to lend to people with good credit, but we have to look at the circumstances and be willing to give people a second chance.”

There were sound business reasons for trying to work through problem loans rather than unloading them for pennies on the dollar.

Chris Marinac, a managing principal and head of research at FIG Partners in Atlanta, said that many banks “gave away value” when they quickly sold off troubled loans following the 2008 real estate crash. The decision to be more patient with borrowers may have hurt Synovus in the short term – the company lost roughly $3 billion over a three-year stretch and was one of the last regional banks to repay the Troubled Asset Relief Program – but looked smart years later when real estate values rebounded and Synovus was able to move assets off its books at higher prices, Marinac said.

Mostly, though, Synovus’ decision to wait was about doing right by customers. “We had a fiduciary responsibility to look out for our shareholders, but we were also trying to treat borrowers with dignity and respect,” Stelling said. “We weren’t trying to get the last nickel out of every deal.”

For decades, Synovus had prided itself on its culture of service to its customers and communities, and Stelling’s view was that the company would ultimately “be judged by how it treated people during the crisis.”

THE IMPORTANCE OF GENERATING GOODWILL

It would be a stretch to suggest that the $29 billion-asset Synovus is healthy again because of its compassion. Two capital raises, the consolidation of its 30 separate charters, a de-emphasis on real estate lending and a painful but necessary round of layoffs all helped Synovus get through the crisis and emerge a stronger, more diverse company.

But the bonds it maintained with its customers and communities played no small part in the recovery, said Liz Dukes Wolverton, Synovus’ chief strategy officer.

Many of its bankers have been with the company or predecessor banks for two or three decades and, during the dark days, they worked overtime strengthening relationships, resolving problem credits and assuring longtime customers that Synovus was a bank they could trust, she said.

“There was a lot written, pretty accurately, about our financial condition,” Wolverton said. “If we didn’t have that local connectivity and presence in the community, it would have been very easy for a lot of people to walk away from Synovus.”

Those outreach efforts during the crisis – and since – have gone a long way toward helping Synovus regain its status as one of the banking industry’s most reputable brands.

In the annual American Banker/Reputation Institute Survey of Bank Reputations, Synovus came in at No. 2 on the overall ranking this year, based on how well it rates with both customers and noncustomers.

Among existing customers, it was part of a select group of banks to receive an “excellent” score – above 80 on a 100-point scale – for two years running. Perhaps even more tellingly, Synovus vaulted to the No. 1 position among noncustomers, up from No. 10 last year.

Stelling suspects that the improved standing with noncustomers is a result of its bankers’ high visibility in the communities they serve throughout Georgia, Florida, Alabama, Tennessee and South Carolina. Synovus makes it part of the job description for local market executives to chair nonprofits and economic development organizations – not merely serve on their boards – and Stelling said that type of leadership resonates with customers and noncustomers alike.

It resonates in Statesboro, Ga., for example, where one of Synovus’ market CEOs, Darron Burnette, co-chairs a downtown revitalization effort that has put Statesboro in the running for a national award that comes with a $3 million cash prize.

It resonates in Cobb County, Ga., where another market CEO, Rob Garcia, chairs an economic development agency that was the driving force behind luring Major League Baseball’s Braves from downtown Atlanta to the northern suburbs. (The Braves will begin playing in the new Cobb County stadium next year.)

And it resonates in tiny Tallapaloo- sa, Ga., where a local branch manager helped raise $20,000 to feed the hungry.

“We see what we are doing, they read the articles, they hear the messaging at the local church about what we’re doing to address hunger,” Garcia said. “All that translates into goodwill.”

CRISIS CLEANUP

Stelling has been the public face of Synovus since mid-2010, when he replaced Richard Anthony as CEO just three months after being tapped to become Anthony’s top deputy. It was supposed to be an interim gig, but when Anthony, who was suffering from a rare blood disorder, was unable to return, the board removed the “interim” tag and named Stelling full-time CEO in late 2010. (He added the chairman title soon after.)

It was a rapid ascent for Stelling, who less than a year earlier was responsible for running just one of Synovus’ subsidiary banks, the $4.7 billion-asset Bank of North Georgia. With his promotion, he was suddenly in charge of a pub-
he was suddenly in charge of a pub of North Georgia. With his promotion, for running just one of Synovus' subsid less than a year earlier was responsible the chairman title soon after. (He added moving the “interim” tag and named Stel order, was unable to return, the board re to be an interim gig, but when Anthony, Anthony's top deputy. It was supposed months after being tapped to become vus since mid-2010, when he replaced articles, they hear the messaging at the see what we are doing, they read the helping raise $20,000 to feed the hungry. It resonates in Cobb County, Ga., another market CEO, Rob Gar...nion cash prize. It has put Statesboro in the running for a...market CEOs, Darron Burnette, co-chairs...ment organizations — not merely serve...n their boards — and Stelling said that...serve first. Synovus also has made significant strides in boosting fee income, largely by recruiting teams of investment advisers and wealth managers from rival firms. FIG's Marinac said that Stelling deserves much of the credit for Synovus' turnaround. While it's true that Stelling...low that Synovus had just raised close to $1 bil...lion in stock price trading at under $3, Stelling...aise the story to people I'm recruiting. "Now I'm out telling our...I had a game plan and grabbed his team by..." Marinac says.

"Kessel came in at a time when they needed someone to rally them and that's the role he played. He had a game plan and grabbed his team by the shirt collar and said 'We can do this,' and they did."

Stelling, for his part, said he probably gets more credit than he deserves for guiding the company through the crisis and not enough blame for his role in the events that got it into trouble. Nonetheless, he is grateful that the board put its trust in insiders like him to fix the problems rather than bring in people from outside who were unfamiliar with the culture.

He's grateful, too, that he's no longer spending the bulk of his time with regulators. "They were just doing their jobs, but talking to them all the time wasn't fun," he said. "Now I’m out telling our story to investors. That’s fun. And I’m telling the story to people I’m recruiting. That’s a lot of fun, too."

SWEEPING THE DETAILS
There’s no question, though, that the experience of the crisis changed Stelling and his view of what a bank should be. He has become a bigger believer in financial education and, to that end, Synovus has teamed up with Operation Hope to offer financial literacy training for adults in Atlanta and Columbus, Ga., and financial education for students in...
Birmingham, Ala. The company also is partnering with Operation Hope on an affordable-lending program under which it is offering low- or no-down-payment loans to qualified homebuyers in and around Atlanta.

John Bryant, Operation Hope’s CEO, said that he used to view Synovus as being “provincial,” but found in working with its leaders – particularly Stelling – that they are very progressive.

“As soon as the bank got out of its financial difficulties, I got a call immediately, saying, ‘We’re through the darkness and we want to work with you,’” Bryant said. “It wasn’t tokenism; it was a serious commitment [involving] serious dollars.”

Bryant noted that he deals mostly with top-level executives, including Stelling and General Counsel Allan Kamensky, rather than community reinvestment people in the lower ranks. “I’ve met with most of the people in the C-suite more than once,” he said.

That type of engagement at the top is unique for a company of its size, according to Gloria Banks, who is Synovus’ chief compliance officer and oversees its community reinvestment initiatives. Shortly after joining Synovus in 2012, Banks created a Community Reinvestment Act and Fair-Lending Council to make sure the company “was doing all the things we needed to be doing” for its communities.

“And on that council,” she said, “there are at least five executive vice presidents or higher, right off of Kessel’s management team, as well as market CEOs. It’s very rare to see people at that level actively engaged in CRA and fair lending.”

Stelling himself seems to sweat the details. He personally reads every customer complaint that comes through the company database, and as Synovus got ready to launch a major advertising campaign two years ago (with its “Bank of Here” tag line), he would sometimes irk his marketing team by tweaking scripts and rejecting certain actors. His communications team said Stelling is also expert at catching typos in news releases that have already gone through several proofs. “To me every word is important because it’s an extension of the company,” Stelling said. “I feel that way about everything Synovus does.”

A CULTURE OF INVOLVEMENT

As with many banks, high-ranking executives are expected to be very active in their communities. At Synovus, it’s an expectation that predates Stelling, who joined the company in 2006 when it bought a bank he ran and merged it into the Bank of North Georgia.

“We don’t dictate to our people which organizations they support, but we do expect them to be leaders in their community,” Stelling said.

Darron Burnette, the CEO of Synovus’ Sea Island Bank in Statesboro, is doing his part by serving as co-chair of community revitalization effort that involves sprucing up a tired, one-mile stretch between the bank’s downtown headquarters and the campus of Georgia Southern University. His bank also is heavily involved in the effort, offering low-interest loans to business owners or developers looking to set up shop on the strip.

Things are going so well – several retail businesses and roughly 80 new residential units have moved into the neighborhood in the last 18 months – that Statesboro has entered a first-of-its-kind contest called “America’s Best Communities.” More than 300 communities entered the contest, sponsored by Frontier Communications, the Dish Network, the Weather Channel and CoBank, when it kicked off last year, and after the most recent round of judging in April, there are eight left, including Statesboro. The winner, to be announced in New York next spring, will receive $3 million to put toward its revitalization.

Burnette said the America’s Best Communities initiative is a huge source of pride in Statesboro. Though the bank’s involvement has helped it attract new customers, what’s more important to him is the help the bank is giving to its hometown. “We are making a difference not by going into our bank every day, but by being engaged in activities that are vital to keeping an area thriving,” he said.

The connection Synovus has with its communities is a big reason why so many small banks have opted to sell to the company over the last two or three decades, said Stelling, who once made that very decision himself. He had many suitors when he was shopping Riverside Bank more than a decade ago, but opted to team with Synovus because it was the most community-oriented.

“I almost sold Riverside to a company I wouldn’t have worked for, but I got cold feet,” Stelling said. “How do you sell your company and your employees to a company you wouldn’t work for?”

Now that Synovus is healthy again, Stelling said he has fielded numerous calls over the last two years from small banks gauging his interest in buying them. Synovus has plenty of capital for acquisitions, but Stelling said he won’t strike a deal “just to get our name in the headlines.”

“I’ve had enough headlines over the last five years and most of them weren’t good,” he said. “If we do a deal, it has to make good financial sense for Synovus. We’re going to be very disciplined.”

Marinac, the bank analyst, said there’s no need to rush. “Synovus has a nice footprint, a good healthy balance sheet, a lot of capital to buy back stock, and strong market share in a lot of different areas of the Southeast,” he said. “This is a company that doesn’t have to do anything.”

□
DON'T MISS THESE UPCOMING CONFERENCES

CyberSec 2016
July 19, 2016
Convene Midtown East
New York, NY

Blockchain + Digital Currencies
July 28, 2016
Convene Midtown East
New York, NY

PayThink 2016
September 12-14, 2016
Hyatt Regency
New Orleans, LA

Marketplace Lending + Investing
September 27-28, 2016
New York Marriott Marquis
New York, NY

2016 Women in Banking Awards Ceremony
October 6, 2016
Cipriani
New York, NY

Banking Analytics
October 20-21, 2016
Marriott
New Orleans, LA

eSign Records 2016
November 2-3, 2016
Ronald Reagan Building and International Trade Center
Washington, DC

Small Business Banking
November 9-11, 2016
PGA National Resort & Spa
Palm Beach Gardens, FL

In|Vest Europe
November 15, 2016
London, UK

For more information, please visit www.americanbanker.com/conferences

Presented by AMERICAN BANKER Payments Source Financial Planning
It’s hard finding a good hacker these days — a hacker to work for banks, that is. Even though cybersecurity jobs can offer six-figure salaries, generous signing bonuses and other perks, banks are struggling to find people to hire.

Part of it is perception — banks don’t seem nearly as cool as all of the other industries that are just as aggressively targeting the same talent pool.

But another — and more serious — factor is that the demand for cybersecurity experts is vastly outstripping supply. The digital security firm Symantec estimates there are 500,000 to 1 million open cybersecurity jobs across the nation that cannot be filled due to a shortage of skilled candidates. By 2020, Symantec expects that number to increase to 1.5 million.

Gary Warzala, chief information security officer at PNC Bank, describes the cyber workforce as experiencing negative unemployment. “Clearly, the demand for talented people has never been greater,” he said.

The stakes could not be higher for banks, which are expected to have fortresslike protection. Indeed, 77% of the 161 directors and senior executives who participated in Bank Director’s 2016 risk practices survey ranked cybersecurity as their top concern.

Industry insiders and experts say the usual recruiting tactics — such as attending college career fairs — aren’t enough in this market. So banks are getting more creative with their efforts to lure cyber talent.

“You really have to get in front of the people doing security,” said Jeff Combs, founder of J. Combs Search Advisors, which specializes in information security recruitment.

That’s what PNC’s Warzala has been doing. He serves as a board member of the Economic Crime & Cybersecurity Institute of Utica College. He also speaks at security events like the CISO Executive Summit and has participated in cybersecurity contests.

Some banks are hosting coding events, allowing college interns to work remotely during the school year, and demoing security hacks to teens. They also are send-
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ing their senior executives to mingle at ethical hacking competitions and global information events like Black Hat.

These bankers, so often decked out in suits, are noticeably dressed down for such occasions, the better to connect with the young people they are seeking to hire. Jamie Dimon, chairman and chief executive of JPMorgan Chase, wore a tracksuit to one of these events a few years ago.

Eastern Bank began working with Northeastern University of College of Computer and Information Science about a year and a half ago to help its recruitment efforts, according to Ive Gonzalez, the bank’s vice president of talent acquisition and inclusion director. The $9.9 billion-asset Eastern also has joined security LinkedIn groups, among other things, to find candidates.

Later this year, Gonzalez plans to host a meetup in the bank’s innovation lab to demo technology and to debunk the idea that banking is dull.

“It’s about pipelining,” she said.

While the youth focus is essential in recruiting for these roles, those working in the field are more diverse than the cybersecurity stereotype of young men in hoodies.

“Don’t get me wrong, we have those people and we need them,” said Ash Khan, head of information security for Citi's Global Consumer Banking division.

But Khan also needs people who can easily explain risks to senior executives, among other competencies. “Cybersecurity is a very broad discipline,” he said.

Cyber want-ads reflect that. They are seeking everyone from individuals with process engineering skills to those with an aptitude for teaching. One of the most-sought after traits is an analytical mindset.

At least some of the factors limiting banks are of their own doing – like getting hung up on whether a candidate has a college degree rather than focusing on whether they have the skills to excel in the job. “To find the best people, you have to be willing to hire those without degrees,” Combs said.

When a software-as-a-service company sought to hire someone to uncover its security weaknesses, it found a strong candidate banks may have overlooked: a 21-year-old without a college degree.

“They recognized his value,” said Mark Aiello, president of Cyber 360, a cybersecurity staffing firm hired by the SaaS company.

Despite the lack of a degree, the company offered around $150,000 a year with a $40,000 signing bonus. “It’s a seller market, not a buyer’s market,” Aiello said.

Drug screens are another potential hiring limitation for what is known as the cybersecurity startup or seller market, not a buyer’s market, “Aiello said.

Hiring those who worked for the military is an increasingly common recruiting tactic for banks. Warzala, for example, happily hires those with military or law enforcement backgrounds.

Companies such as Bank of New York Mellon and Capital One have partnered with Girls Who Code, a program designed to close the gender gap in technology. Citi also launched its own “Women in IT” program a few years ago in Florida, including Khan — try to spark an interest in information security among teenage girls. But it’s not easy.

Khan recalls an occasion when he asked a group of 16 girls whether they found cybersecurity interesting. Two hesitant hands went up in a group of 16 girls.

These are scenes from the “Women in IT” program Citi has in Florida. In the photo above, participants help design and program robots. At top, another group works to complete tech challenges assigned by Citi execs.

For those not in this category, the rule is the same: Cyber 360’s Aiello said that, in states where marijuana is legal, drug testing could cause recruiting setbacks. “With pot becoming legal in some many states, it can get in the way of hiring ethical hackers that may enjoy recreational substance on weekends but are still very talented at what they do,” he said.

Even the government has run into recruiting setbacks. “With pot becoming legal in some many states, it can get in the way of hiring ethical hackers that may enjoy recreational substance on weekends but are still very talented at what they do,” he said.
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Even the government has run into this challenge. FBI Director James Comey caused a media frenzy in 2014, when he said the bureau couldn’t staff enough hackers because too many failed its drug test.

Additionally, recruiters say banks should strengthen their pipeline of potential candidates by backing initiatives that support women as well as veterans.

Dakota State University runs cybersecurity camps – sponsored this year by Citibank and First Bank and Trust – for female middle school and high school students.

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Citi also launched its own “Women in IT” program a few years ago in Florida, where the company’s global consumer technology division is based.

During the program, Citi execs – including Khan – try to spark an interest in information security among teenage girls. But it’s not easy.

Khan recalls an occasion when he asked participants whether they found cybersecurity interesting. Two hesitant hands went up in a group of 16 girls.

Then, he talked up some of things that make the field jazzy, such as when the security team helped Citi launch an Apple Watch app. At the end of his talk, when he asked his original question again, every hand went up.

Hiring those who worked for the military is an increasingly common recruiting tactic for banks. Warzala, for example, happily hires those with military or law enforcement backgrounds.

JPMorgan Chase, which has been aggressively courting military members, last year hired retired Army Gen. Raymond Odierno as a senior adviser on cybersecurity and other issues. And Huntington Bancshares recently added a cybersecurity expert who formerly worked for the National Security Agency to its board of directors.

“You get some wonderful training from the military,” said Doug Johnson, senior vice president for payments and cybersecurity policy at the American Bankers Association.

To help overcome the problem of too few candidates for too many jobs, industry insiders say banks must continue to try to inspire people to work in this field.

“It will get worse every year, unless we encourage the younger generations to get involved with cybersecurity,” said Dr. Kevin Streff, the department chair at Dakota State University Center for Cyber Security and a managing partner for Secure Banking Solutions, a consultancy that helps community banks tackle cyber threats.

Through his work at the university, Streff happens to know a few potential up-and-coming cybersecurity experts.

But even Streff doesn’t have an endless pipeline of candidates for his other employer, Secure Banking Solutions.

He said all of the 500 students currently studying cybersecurity at Dakota State will find jobs. “We have 100% placement rates,” Streff said. “That will continue.”

And many of them will just be more excited by the prospect of working for the FBI, Google or a hip startup, rather than a bank.

But for all their supposed dullness, banks have at least one advantage in recruiting cybersecurity talent.

The dangers banks continually face work in their favor when it comes to hiring: People in cyber prefer working for high-risk employers so they can actually use their skills. □
Coin-counting machines came into vogue in the 1990s when Commerce Bank started installing “Penny Arcades” in its branches throughout New Jersey. They were a huge hit for a while.

Vernon Hill, Commerce’s chief executive at the time, used to credit the presence of coin counters with helping drive deposit growth at his bank in the early 2000s. But banks have soured on the machines in recent years as usage declined and maintenance costs increased. Capital One pulled the plug on its machines in 2014 and two of its rivals, TD Bank and PNC Bank, followed suit this year.

Here are some milestone moments in coin-counting history. —Alan Kline

1990s

A Matter of Convenience
Commerce Bank in Cherry Hill, N.J., started installing its Penny Arcade coin-counting machines in all of its branches in the late 1990s as part of its quest to become “America’s Most Convenient Bank.” Under founder and CEO Vernon Hill, Commerce became famous for staying open seven days a week and offering free dog treats. It even welcomed non-customers to use the coin counters in Commerce branches free of charge. Hill credited that increased foot traffic with helping to drive deposit growth.

2005

TD Bank Ramps Up
When it bought Commerce in 2008, TD Bank said it would not only keep the Penny Arcade coin-counting machines in the Commerce branches, but also install new machines in its own branches as well. It eventually had coin counters in more than 1,100 branches along the East Coast.

2008

Competitive Pressure
Commerce’s rapid expansion up and down the East Coast led some banks to take a more Commerce-like approach to consumer banking. In preparation for Commerce’s entry into the Washington, D.C., market in 2005, Chevy Chase Bank stationed ATMs in most Metro stations and installed coin counters – also free for non-customers – in many of its branches. It was around this time that PNC Bank, which competed with Commerce in New Jersey and Pennsylvania, began rolling out coin counters in its branches.

Note

Roughly two years after buying Commerce, TD dropped its free-for-all policy and started charging noncustomers a 6% fee for using its coin counters. The bank’s retail chief said at the time that it discontinued the free service because it was distracting employees from helping actual customers. The move may have also been an attempt to reduce wear and tear on the machines, which tended to malfunction when odd objects – such as paper clips or lint – would get mixed in with the coins. Around the same time, Capital One Bank – which inherited coin counters when it bought Chevy Chase in 2009 – also started charging noncustomers.

No longer a free-for-all

Vernon Hill replicated the Commerce model in Great Britain with the launch of Metro Bank in 2010. Like Commerce, London-based Metro offered extended hours, free pet treats and, you guessed it, free-for-all coin counters.

The Rise and Fall of Bank Coin-Counting Machines

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Capital One Pulls the Plug
In 2014, Capital One started to remove the coin counters from the former Chevy Chase branches in the Washington area, saying they were unreliable. TD, though, remained steadfast in its support of the machines. Though overall usage had been declining as consumers’ payments’ habits were changing, customers “find added value in the convenience” that the coin counters offer, a TD official said at the time.

A Question of Accuracy
TD said in April that it was temporarily suspending its coin-counting service after undercover investigations by two news organizations found the machines were miscounting coins and shortchanging customers. Consumers reacted quickly, filing a federal class action in New Jersey claiming TD’s machines undercounted coins for years and gypped consumers of millions of dollars. Meanwhile, PNC, which had already begun phasing out the machines due to waning demand, responded to the reports by removing its remaining coin counters.

A Leap Across the Pond
Vernon Hill replicated the Commerce model in Great Britain with the launch of Metro Bank in 2010. Like Commerce, London-based Metro offered extended hours, free pet treats and, you guessed it, free-for-all coin counters.

End of an Era
TD announced in mid-May that it is discontinuing its coin-counting service and will remove all Penny Arcade machines from its branches. Citing reports that the machines shortchanged users, Michael Rhodes, TD’s head of consumer banking said, “We have determined that it is difficult to ensure a consistently great experience for our customers. In addition, the usage of our coin-counting machines has declined steadily over the past few years. For these reasons, we have decided to retire the fleet.”
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To Transform Banking
Start with Employees

Most organizations want to become customer-centric. Unfortunately, they often focus on the wrong things, believing that somehow they can create a customer-friendly layer around their existing customer-ignoring culture. They can’t.

Engaged employees are the cornerstone of a customer-centric culture. Our data shows that, compared with unengaged employees, engaged employees are more than four times as likely to do something good for the company that is not expected of them, four times as likely to make a recommendation for an improvement at the company and 2.5 times as likely to stay late at work to get things done.

The challenge is most organizations fall short of inspiring this level of enthusiasm in their entire workforce. Only 26% of employees in the financial industry are highly engaged, according to the 2016 Temkin Employee Engagement Index, and the percentage of highly or moderately engaged employees in this industry is down seven points from the prior year.

When we researched how large organizations can successfully become customer-centric, we uncovered a critical insight: The way to change the customer experience is to change the way employees do their everyday jobs.

Mastering these five practices will help with aligning employees:

1. **Vision Translation: Connect Employees with the Vision.** Clearly define and convey not only what the future state is, but why moving away from the current state is imperative. When BMO Financial began its customer experience journey, it aligned employees to its vision by explicitly translating its brand principles into eight actions that every employee could demonstrate, like “Our heads are up, not down.” Managers led the rollout and received a launch kit with materials that covered key messages along with anticipated Q&As to prepare them to lead discussions with their teams.

2. **Persistent Leadership: Attack Ongoing Obstacles.** Realizing that change is a long-term journey, leaders commit to working together until the organization has fully embedded the transformation into its processes. One way leaders can actively sustain momentum during the inevitable ups and downs is by highlighting successes. At Eastern Bank, “wow alerts” are sent to leaders when a customer survey response mentions an employee who delivered great service. Alerts like this can be used to celebrate those who demonstrate the behavior that will make the change successful.

3. **Middle Management Activation: Enlist Key Influencers.** When asked which groups of employees are the toughest to change, executives almost always say middle managers. But if you want to create sustainable change, then middle managers are a critical building block. ATB Financial’s branch managers were one of the earliest audiences to learn about its new brand story and culture. The launch event began with a bankwide livestream, and managers were charged with leading discussions with their teams immediately following the broadcast. Managers received a launch kit built around a series of questions to ask their teams (for example, what does the story mean to us, and how are we already doing some of the things the story talks about?).

4. **Grassroots Mobilization: Empower Employees to Change.** Front-line employees should help to both shape the change and deliver it. SunTrust gathers input about upcoming changes from an online community of employees. A weekly set of company-generated posts spur discussions, and when changes vetted by the community roll out, they are branded as “reviewed by the Bright Ideas community.”

5. **Captivating Communications: Share Impactful Messages.** In any transformation, communication plays an essential role. Share information about the change through a variety of means that balance the practical with the inspirational for each target audience. One way Fidelity Investments shares customer experience messages is via its “Voice of the Customer Ambassadors” program. These ambassadors inspire their peers with local evangelism and dialogue around customer experience efforts in their respective phone centers and branches.

Is being customer-centric a goal at your bank? Then focus on employees.

Aimee Lucas, a vice president, and Bruce Temkin, a managing partner, are customer experience transformists for Temkin Group.

For more viewpoints on industry issues, visit the BankThink page on [AmericanBanker.com](http://AmericanBanker.com).
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ANNE VLADECK
“You may no longer have strippers coming for afternoon entertainment, but that doesn’t mean you are treated as an equal.”
Labor law attorney with Vladeck, Raskin & Clark, discussing the 20th anniversary of the infamous “Boom-Boom Room” lawsuit and saying bias against women persists on Wall Street.

JOSEPH FOCA
do not hallucinate.

CAMDEN FINE
“We all are now operating banks with Washington as our co-CEO.”
Chairman and CEO at First National Bank of Dennison, urging big and small banks to call a truce and push for regulatory relief together.

JAMIE DIMON
“I think the guy who wrote that is a jerk, OK?”
Chairman and CEO of JPMorgan Chase, reacting to what Fine said.

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“I failed retirement after I realized that working in flower gardens and baking breads wasn’t all it was cracked up to be.”
Newly appointed CEO of HCSB Financial, on why she decided to come out of retirement to helm a struggling bank.

LORD ADAIR TURNER
“The losses on peer-to-peer lending which will emerge within the next five to 10 years will make the worst bankers look like absolute lending geniuses.”
Former U.K. regulator, predicting big losses ahead for marketplace lenders and describing their borrowers as bank rejects.

ROSS DELSTON
“We should be calling it the pillow-top regulation.”
Attorney with anti-money-laundering expertise, saying a new rule requiring banks to better track corporate customers is too soft to help combat financial crime.

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