

Old Dog Learns New Trick

by Charles Wendel

I felt embarrassed for myself when a client told me what he had done. He said he had been unable to sleep one night thinking about the project we were working on. During his restlessness, he came up with an idea for an analysis that he followed up on the next day.

Prior to this, FIC had held multiple meetings with key stakeholders to discuss whether and how the bank should work with a Fintech in a particular lending area. For various reasons internal enthusiasm around committing to this effort was muted. Then, my sleepless banker saw the results of the analysis.

It reviewed his bank's current customer base and quantified how many of its customers were already borrowing from a Fintech. Banks can get a good idea of this by looking at payments going out to the 10-12 biggest Fintech lenders. Without going into too much detail, the number of customers using Fintechs was significant and could not simply be ignored.

Even more striking, a large percentage of those borrowing from Fintechs either were currently or had recently borrowed from the bank

Even more disturbing, many of the borrowers were clients of the bank's most essential business line

Worse, some of the loans were made by high interest MCAs, a lender most clients should avoid due to high rates

Still worse, some of those clients provided high levels of increasingly precious deposits

When I showed the results of this analysis (I gave credit for coming up with the idea where it was due!), the reaction of one senior exec was: "Wow!" At first another exec dismissed the result saying that the borrowers were likely uncreditworthy. Then, he found that many of them were his current borrowers as well.

Several messages emerge from this experience:

- Don't assume you know your customer base; they are changing.
- All banks should do this analysis now. The "leakage" from your clients to Fintechs may currently be small, but it is likely to grow. For example, in the last month FIC has received by mail and email preliminary loan offers from American Express, Funding Circle, Kabbage, and On Deck.
- Once the analysis is done, then bankers need to get on their phones to check in with those clients who have gone elsewhere for loans. How do you get the best customers back?
- Banks need to exploit the benefits that a Fintech partner can provide (among them, lower cost to lend, stronger analytics, the ability to lend to more customers). The time for hesitancy in working with Fintech is over

One additional issue emerged from this exercise. A leader of the bank's Product group came up with the idea for this analysis. At this bank Product is independent from the line. As bankers

know, continual discussion takes place about whether Product should be part of the line or independent. My bias tends to be more line oriented. **BUT**, in all likelihood this analysis never would have happened if Product had belonged to the line. The head line banker had other priorities and would probably have directed Product's limited bandwidth elsewhere. An independent Product group can offer great value, opening up the line's eyes to areas it might not otherwise consider.

When the Product banker mentioned that he was doing the "leakage" analysis, I realized that it should have been obvious to me early on that the bank should do this. On reflection, it is a fundamental part of the "fact base" that we always develop at the start of a project. So, why didn't I ask for this analysis? Like many others at the bank, I had been lulled into thinking this bank's customers would never go the Fintech route. Only weaker, smaller, less attractive borrowers would go to Fintechs. I should have and did know better. I saw no need on the bank's clients' part...but the bank's clients did.

When I told this story to the head of the bank, I said him that, going forward, I will always ask my clients to do this analysis, and I already have. He immediately asked if his bank would receive a royalty for the insight I received. (I think he was kidding.) I immediately answered, "No.". But the sleepless banker has my gratitude and respect, and I appreciate the lesson he taught me, even at this stage of my career.

As we enter the New Year, we all need to think about how we get into patterns of thought and action that we need to pull back from and reconsider. That (as well as the ever elusive 10 pounds of weight loss) is my New Year's resolution.

Best wishes for a safe, happy, and healthy New Year. It should be quite a ride.