

What's Happening in Digital Banking? by Charles Wendel

Last week I had the opportunity to Chair and speak at a track of Source Media's Digital Banking conference. I thought it might be of value to summarize what I saw as some of the high points of the three-day information packed conference.

First thing: AI, AI, AI, AI, AI and then some more AI. This is the one...finally. The answer that all banks have been looking for, the secret sauce revealed to all.

Now of course before AI, banks were told that the answer was CRM software or Six Sigma or, Total Quality Management, or, way back, Reengineering or one of a dozen or more slick concepts that IT firms and consultants have used to generate some business and trick ever hopeful bankers. But, this time, this is the one.

Not really. Business Intelligence and Artificial Intelligence are both incredibly useful tools, but they are tools and means to an end rather than ends in themselves. The end is an improved customer experience resulting in improved returns to the bank. As much as bankers and vendors try to get away from them, the basics still prevail: customer focused organization, streamlined processes, and a customer service orientation, et al.

My point is that all things AI were key components of the conference and appropriately, so given the value it can provide. But, as always, without the right leadership and infrastructure, its use will lead to as much frustration and disappointment as its use fails to deliver the Promised Land.

The presenters in the afternoon sessions I moderated each described targeted strategic approaches that leveraged technology but based their success on knowing what they wanted to achieve and how to do it. AI and other tools support that focus. Here are some quick examples:

Jeremy Takle spoke about Bionic Banking and described Barclay's online only bank and how it can provide dramatically higher deposit rates than the biggest banks due to its significantly lower cost structure. And, rather than waiting for a customer to apply for a loan or go elsewhere first, in the UK the bank pre-underwrote its 10mm checking account customers, simplifying the loan process.

He also mentioned that the bank had needed to change the way it thought about underwriting. They knew their customers' cash flow from the checking account data, and they used that information to determine how much each customer could afford to borrow and pre-approved them. But, he highlighted the bionic nature of banking because while technology is critical, so too is personal involvement. The banker may change his focus but is unlikely to disappear even with technology: "It should not be necessary to talk to a banker to get a loan...but many talk to bankers for information and reassurance."

Shayan Khwaja runs consumer lending for BBVA, certainly one of the most digitally savvy banks in the world. But, how does this digitally smart bank attract new customers? No surprise to many, but direct mail remains a key sales tool. When I arrive home from a typical week's travel I might find circulars from: Capital One, Marcus (several). BBVA, Fifth Third, Wells, as well as several no name loan providers.

For me one of Shayan's most intriguing comments was that BBVA had a much better response rate when mailings hit neighborhoods near branches. Maybe not a surprise but another indication that branches (reconstituted for sure) still have value.

Dave Van Niekerek runs a company named My Bucks, which focuses on microlending in 13 countries in Africa. In their case they developed an AI predictive model that scored borrowers and tells them the precise day that My Bucks needs to debit their customer's account in order to get their loan repayment. Dave said that if they miss that day they are out of luck until the next month. I was impressed how, leveraging technology, the private sector is moving into an area in which many public groups continue to flounder.

Ken Meyer of Sun Trust spoke about one approach to digital banking, that is, using a bank's capital to buy and expand a digital player. LightStream will be approaching \$3B in loans this year, impressive growth.

In addition, Jane Clynoweth of ACORN Oak North provided the perspective of Oak North, a challenger bank in the UK SME space. As ACORN, they are using the BI and AI capabilities of Oak North and providing them to banks in North America and elsewhere. The difference here is that they are aiming their platform at assisting banks in the lower end middle market and beyond, loans from \$500K to \$25 mm. Most Fintech solutions have focused on small loans, but no more.

One final comment: This conference was very well run and extremely well attended with numbers up by 20-%+ from the prior year. But, more senior bankers need to break away from endless internal meetings and attend this type of conference, walk around the vendor spaces, and hear what their competitors are up to. Otherwise, they may be lulled by the steady drone of AI, AI, AI and miss the fuller picture.