

Lending to Capture Deposits by Charles Wendel

Weeks ago I wrote about Malcolm Gladwell's brilliant new book, *Talking to Strangers*, in which he discusses how we often misinterpret the people we meet. If example, if someone has a sloppy desk, some of us (me) assume they have a sloppy mind, but that could be a wrong conclusion. One of his examples was much more serious; Chamberlain met Hitler three times and thought he could negotiate with him.

Yet, there I am sitting at a presentation at last week's Source Media Small Business Conference watching a startup Millennial CEO talking with incredible self-confidence about his company's innovative approach, one that will make life better for all small businesses. But, he is wearing a dark V-neck sweater, black outfit, long hair, and designer stubble beard, and all I can think of is how much he looks like Adam Neuman, the disastrous (but rich) former head of WeWork. And before seeing him I had read on CNBC.com about the woes of www.aspiration.com, a challenger socially conscious bank funded by sophisticated executives like Leonardo DiCaprio that has been presenting itself as a billion dollar valuation unicorn, but, apparently, is on the verge of running out of capital. (A brief aside: go on the www.aspiration.com website, read their strategy and try to figure out how they thought they would be profitable.) In addition to presentations and panels, the conference provided the opportunity for startups and others to present demos that profiled some new niche concepts as well as allowing more established vendors to pitch their capabilities.

Five years ago or so conferences of this type centered on challenges related to small business units working with their branches; two years ago much of the talk was about Fintechs transforming the industry and the existential threat they posed to traditional banks. This year the big focus was digital: digitalization, providing a digital customer experience, using AI for credit decisioning, etc.

But, that was less the focus with the panel I moderated highlighting the role of lending in generating deposits and featuring Tom Doherty from CIBC US, Eric Feldstein from M&T, and Scott Witter from City National, three highly experienced managers. While each is currently leveraging and will continue to leverage digital to reduce costs and allow greater customer access, they use digital as a tool, one among many. They succeed in capturing and retaining deposits through targeted strategy and rigorous execution; some digital proselytizers may view that as old fashioned, but it works.

There was remarkable agreement across these three experts concerning the factors critical to success. I doubt any of them will be surprising to the reader; it may be their ability to execute on them that is differentiating. The initiatives they emphasize include:

- *Emphasis on addressing the working capital and Treasury/Payments needs of the business.* Payments related activities receive primary emphasis.
- *Dedicated small business group: sales, operations, credit, and Treasury Management personnel all under the control of the business segment.* A dedicated group allows for greater expertise and customization to segment needs.
- *Dedicated small business product set (separate from middle market, focus on non-analyzed).* Again, a small business specific product set pays off.
- *Focus on cross-sell of deposit generating services; Merchant, Payments, Treasury.* Payments' activities as a constant theme.
- *Focus on certain deposit-rich industries, e.g., non-profits, HOAs.* Those best at deposit generation target high potential groups.
- *Focus on SBA 7a as a relationship creator and long-term deposit source.* CIBC mentioned that it is building a national 7a effort based largely on certain industry specialties.
- *Compensation changed to emphasize deposits, often from new customers.* Each banker spoken of the critical importance of aligning compensation
- *Require operating account of borrowers.* While all bankers say they will get the operating account, these banks check to make sure that happens and take action if it does not.
- *Branches and RMs share goals and incentives; no internal competition.* Breaking silos is critical to success.

Digital applications, leveraging Salesforce, digitalizing internal processes are all important, but they are secondary to the strategic and tactical choices outlined. What's more old school than strategy and execution? What's more essential?