

SPECIAL REPORT

Banking's Digital Transformation Accelerates Through Pandemic

FINANCE: Demand for Smart Mobile Device Services Grows, But Brick-and-Mortar Banking Will Remain

■ By FRED GRIER

During a challenging business climate brought by the pandemic, many banks were forced to shift services to online platforms, restricted access to their branch lobbies and required customers use drive-up methods or make appointments.

As a result, the banking industry has experienced full digital transformation including seeing increase demand for smart mobile devices and digital banking services among consumers.

The *San Diego Business Journal* had a chance to discuss the importance of mobile banking, the future of brick-and-mortar banking and the role of artificial intelligence.

Mobile Banking

Joe Mishriki, region bank president for Wells Fargo's San Diego market, said from first-time digital accounts and mobile deposits, to requests for payment deferrals, millions of customers have flocked to digital banking at a near historic pace during the stay-at-home public health emergency of the COVID-19 crisis.

"In the fourth quarter of 2020, overall digital logins were up 11.2% from the previous year—with 1.5 billion logins coming through a mobile device. When considering the importance of mobile banking, we believe these additional 2020 Q4 statistics signal a permanent significant shift in our customers' behavior," he said.

Greg Garrabrants, president and chief executive officer at **Axos Bank**, said as a digital-first provider of financial services, the firm is in a strong position moving into the second half of 2021.

"We've seen record account volume both in small business and consumer since the pandemic started. We don't see it slowing down. We have a business model that serves customers well, given the circumstances we're in," he said.

Cindy Purcell, executive vice president of retail banking and administration, at **Banner Bank**, said mobile banking continues to grow in popularity since it was first introduced. Consumers found mobile



Cindy Purcell
Executive Vice
President
Retail Banking &
Administration
Banner Bank

"As basic transactions like check deposits shift to the digital space, it frees up our bankers to assist clients with more complex transactions as well as offering financial advice, which national studies show continues to be in high demand—especially among Millennials."

"We view the growth in mobile and other types of digital banking as a natural evolution in our industry," she added.

Mark Sutton, San Diego's consumer region executive at **Bank of America**, said roughly 85% of checks are deposited outside the four walls of a branch today.

"Because so many day-to-day transactions can be done using our mobile app or an ATM. Our financial center teammates can now dedicate greater time and attention to relationship-based services, learning about our clients' needs and helping them set and reach their goals."

Joe Kight, director of mid corporate banking at **Union Bank**, said that the importance of mobile banking cannot be overstated, noting that mobile banking is already here.

"Every bank and fintech is dedicating enormous resources to make sure they get the digital banking revolution correct," he said.

Relying on Artificial Intelligence

Today, firms are relying heavily on artificial intelligence (AI) more than previous years. **A.J. Moyer** president and chief executive officer at **C3bank**, said AI will

banking useful during the pandemic, as **Banner Bank** saw its mobile banking users grow 12% over 2020.

"At **Banner**, our mobile banking is free and includes remote check deposit tools for consumers and businesses, which are especially popular," said Purcell.

continue to play a significant role in all aspects of banking.

"Products already exist to help us monitor customer behavior, but as those products evolve, banks will be better equipped to prevent or catch fraud in a timely manner, by analyzing and identifying unusual bank activity, benefitting both the customer and the bank," he said.

It's too soon to know how big of a role AI will play in banking, said **Banner Bank's Purcell**, however AI is making an impact in nearly every industry, including financial services.

"AI can assist those with disabilities in reaching out to us," she said. "It helps provide all clients with 24/7 access to information, and is already being used to provide clients with answers to basic financial questions through existing AI solutions. We see AI as a compelling tool to enhance the client experience," she said.

Last November, Wells Fargo launched its Customer Engagement Engine (CEE), to better understand its customers and build stronger relationships, said **Wells Fargo's Mishriki**.

"It's a 'brain' powered by AI that is connected to all of our authenticated channels—Wells Fargo mobile app, website, and bankers in the branches—that will learn and decide the 'next best conversation' to have with a customer."

"This kind of real-time learning allows us to demonstrate our ability to listen, collect and, most importantly, respond to customer feedback based on their actions—and provide our bankers with a deeper understanding of our customers' needs in the moment, bridging humans and machine," he said.

Brick-and-Mortar

Despite the growing appeal of convenient options like online banking and mobile apps, most firms believe there is still a role for conventional brick-and-mortar banking.

"Branches are still incredibly important to our customers and continue to be a place for advice and education, something that has been especially critical as many customers experienced a loss of income or financial hardship

this year," said **Johnny Montes**, regional director for consumer banking in San Diego at **JPMorgan Chase**.

"Throughout the pandemic, we were still able to open nearly 200 new branches across the country. In addition to new branches, we have more consumer touch points—think ATMs, and digital and mobile banking," he said. These new channels allow us to continue to expand our branches, but with fewer than we needed five or ten years ago. And we still serve just as many customers, if not more."

Bank of America's Sutton said the firm sees more than 300,000 clients come into its financial centers every day, even during the pandemic. "Brick-and-mortar banking will absolutely still exist," he said.

"Even during the pandemic, we still have more than 300,000 clients come into our financial centers every day, including to our 70 financial centers across San Diego, where local clients made over 27,000 appointments digitally last year alone," he said. "We're also opening more new centers in San Diego that take this high-tech, high-touch approach to the next level of service and convenience."

For digital-first banks, that viewpoint differs slightly. **Axos Bank's Garrabrants**, said he doesn't think consumers will continue to use banks in traditional ways—especially for a lot of the transactional activity.

"If anything, traditional banks are having to reimagine what services they are putting in branches, and they are stuck between a rock and a hard place," he said. "After the pandemic, you'll continue to see branch consolidations and a focus on digital channels."

Nathan Rogge, president and CEO of **Bank of Southern California**, said he's confident most banks will no longer need a branch on every corner.

"I don't think it goes away," said Rogge. "It will definitely impact banks' size and overall footprint but there will be some banks that always offer a brick-and-mortar option. For business-related banks like ours, we want to have something in the market available for our clients."

Kris Ilkov, corporate banking regional director at **Umpqua Bank**, said "I think there will be fewer of them. Banks will likely be smaller and used primarily for a consultative experience and to support more complex transactions."



Joe Mishriki
Region Bank
President
San Diego market
Wells Fargo



Mark Sutton
Consumer Region
Executive
Bank of America



Greg Garrabrants
President and CEO
Axos Bank



Joe Kight
Mid Corporate
Banking
Union Bank



A.J. Moyer
President and CEO
C3 Bank



Nathan Rogge
President and CEO
Bank of Southern
California



Johnny Montes
Regional Director
Consumer Banking
JPMorgan Chase

Relationship Banking

Bank of Southern California's Rogge, said now more than ever customers should be building relationships with their bank or trusted advisor to get the most value from their financial providers.

"Talking to your bank or a trusted advisor is no different than talking with your lawyer, accountant, and information technology (IT) person," he said. "Clients should have a real phone number or email that they can reach out to on a regular basis. These experts help them better understand what the current trends to pay attention to."

"Over the last year during the pandemic we have seen an increase in mobile deposits, bill pay, and other features. We've also started to roll out a new Virtual Banking channel," said JPMorgan Chase's Johnny Montes.



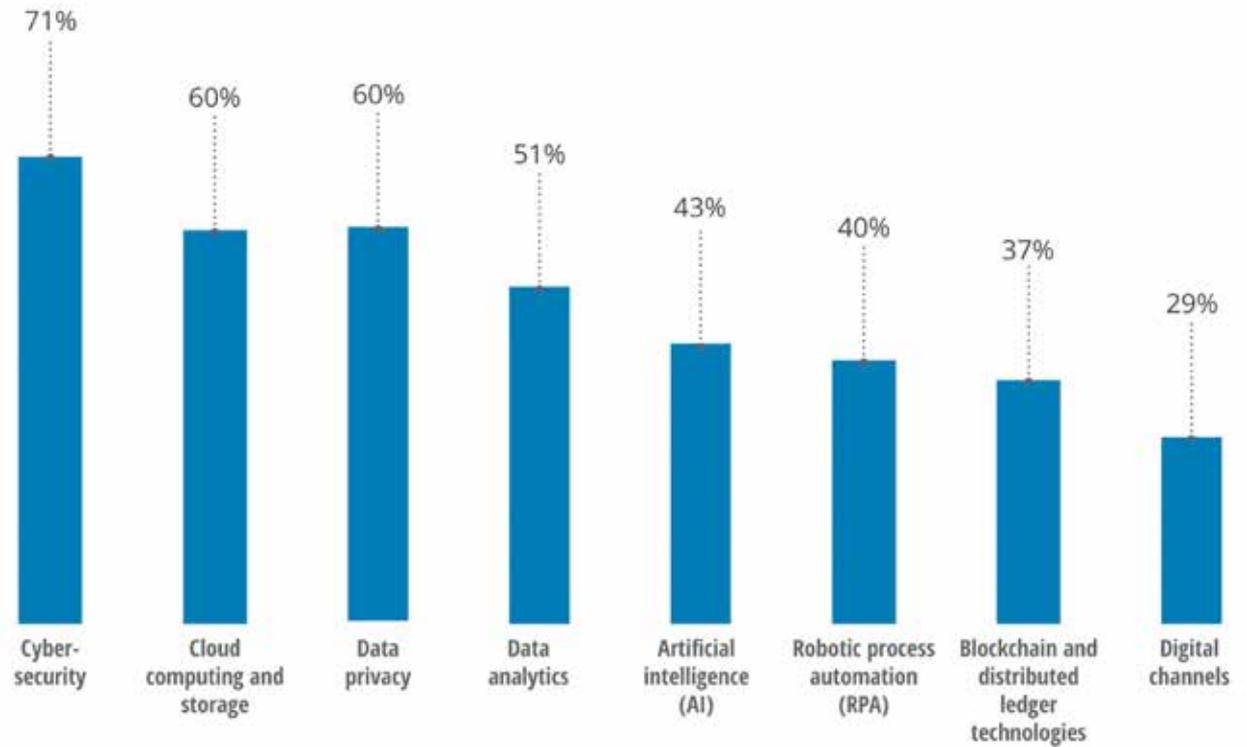
Kris Ilkov
Corporate Banking
Southwest Regional
Director
Umpqua Bank

"This new channel helps customers to establish a relationship with a banker over the phone, and eventually videoconference, to talk through everything from budgeting to saving for a down payment, and offers more flexible hours," he said.

"Providing face-to-face service will always be a vital component of how we serve our clients. This shift enables us to elevate the roles of our bankers by continuing to invest in education so they can meet the evolving needs of our clients," said Banner's Purcell.

Banks plan to increase spending on various technologies over the next year

Finance respondents whose organizations plan to increase spending



Courtesy of Deloitte Insights

Banks are expected to invest in cybersecurity more than any other vertical.

Post-Pandemic Outlook

Well Fargo's Mishriki said, moving forward customers will expect their digital interactions with us to keep up with the pace of innovation they see elsewhere in their daily lives—faster, easier, smarter and safer.

"Our customers value the personal connection they have with our bankers, and we will continue to enhance both the branch experience as well as digital options to ensure we are serving customers in the way they want to be served," he said.

C3's Moyer said, in the future there will be greater expectations to have more capabilities from mobile including administrative functions and system configurations which is primarily done from desktop computers today.

"There will most likely be continued integrations with third party providers which allow people to view their accounts, but also receive other relevant data like spending and savings habits, along with investment recommendations," he said.

Bank of America's Sutton said security of client information will be a top priority in 2021, as it's important to keep customers updated on the constantly changing landscape.

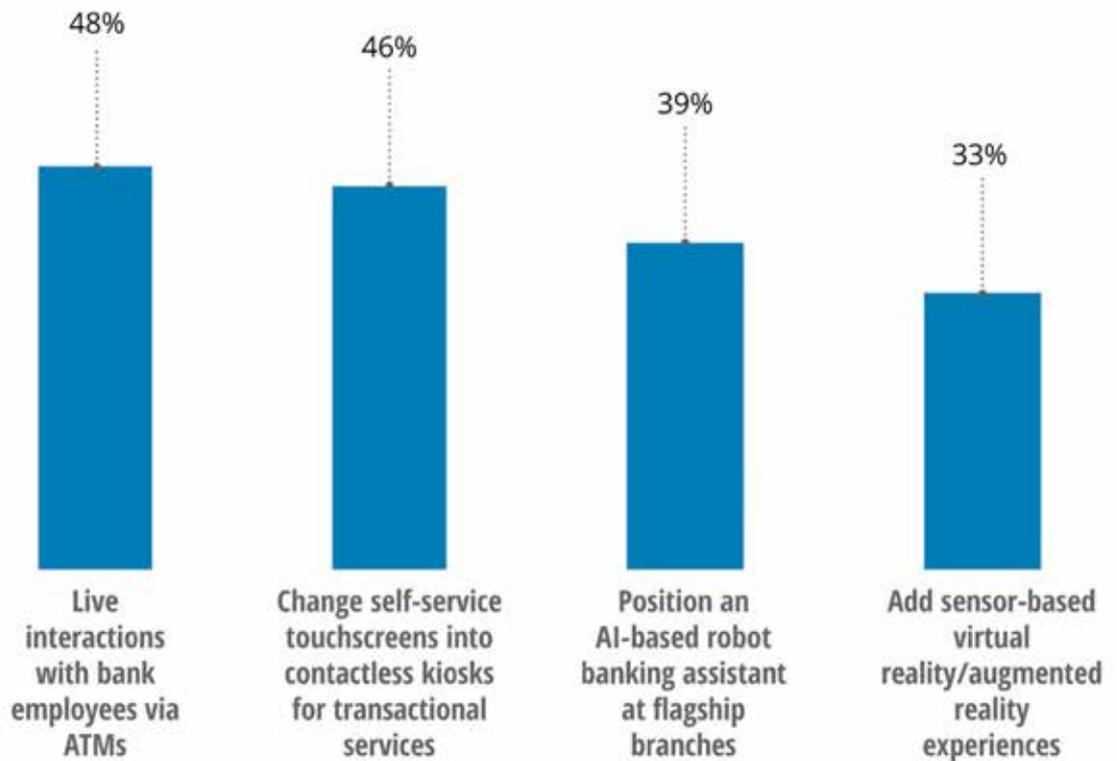
"Cyber security protects people and businesses not just at work, but also at home. It's a partnership between our technology information teams, our employees and customers to stay updated on the constantly changing landscape," he said.

"The future is hard to predict," said Umpqua Bank's Ilkov. "I think branches will continue to play a role in the mix of touchpoints banks offer."

"It's critical for banks to further strengthen their technology platforms to accommodate the growing demand for online capabilities and service, as well as to remain competitive against fintechs and other financial institutions," he said. ■

Some banks will add more digital capabilities to branches over the next year

Digital changes being considered



Courtesy of Deloitte Insights

Banks will continue to invest in digital capabilities over the next several years.

THE LIST BANK PERFORMANCE

San Diego County Based Banks

▶ Ranked by assets as of December 31, 2020 (latest available data from the FDIC)

Financial Institution	Assets (\$ thousands)	Deposits (\$ thousands)	Loans and leases gross	Tier 1 risk-based capital ratio***	Total risk-based capital ratio***
Axos Bank	13,301,163	11,667,556	11,791,216	11.45	12.44
Silvergate Bank	5,586,115	5,250,007	1,619,628	22.71	23.32
Bank of Southern California, N.A.	1,578,574	1,198,707	1,233,881	19.20	20.44
CalPrivate Bank	1,329,235	1,116,428	1,008,557	12.79	14.05
C3Bank	542,164	488,990	365,339	15.83	17.08
Endeavor Bank	390,032	246,478	281,779	13.40	14.65
Balboa Thrift and Loan	322,671	277,439	298,253	N/A	N/A
Home Bank of California	201,935	155,146	184,887	N/A	N/A
Hatch Bank	180,754	144,377	46,339	N/A	N/A
Neighborhood National Bank	112,895	72,733	59,037	25.29	26.56

*** Note: As of March 2020, not available for institutions that have elected the Community Bank Leverage Ratio (CBLR) framework and not available for most standard peer groups.

Source: Federal Deposit Insurance Corp.

Most Profitable San Diego County Based Banks

▶ Ranked by return on average assets as of December 31, 2020 (latest available data from the FDIC)

Rank	Financial Institution	% Return on Average Assets (% ROAA)
1	Home Bank of California	2.02
2	Axos Bank	1.83
3	C3Bank	1.48
4	Balboa Thrift and Loan	1.01
5	Silvergate Bank	1.05
6	Hatch Bank	1.02
7	Endeavor Bank	1.01
8	CalPrivate Bank	0.97
9	Bank of Southern California, N.A.	0.77
10	Neighborhood National Bank	-2.21

Source: Federal Deposit Insurance Corp.

Problem Assets As a Percent of Equity

▶ Ranked by percentage as December 31, 2020 (latest available data from the FDIC)

Rank	Financial Institution*	Problem Assets as % of equity
1	C3Bank	0
2	Endeavor Bank	0
3	Home Bank of California	0
4	Hatch Bank	0.15
5	Balboa Thrift and Loan	0.81
6	CalPrivate Bank	1.31
7	Silvergate Bank	1.59
8	Bank of Southern California, N.A.	12.31
9	Axos Bank	14.30
10	Neighborhood National Bank	29.20

* Top three Banks with 0% Problem Assets as % of equity are ordered alphabetically
Source: Federal Deposit Insurance Corp.

San Diego County Based Banks Real Estate Loans

▶ Ranked by volume as of as of December 31, 2020 (latest available data from the FDIC)

Rank	Financial Institution	Volume (\$ thousands)	% of loans
1	Axos Bank	9,178,119	77.84
2	Silvergate Bank	1,442,529	89.07
3	CalPrivate Bank	680,840	67.51
4	Bank of Southern California, N.A.	651,415	52.79
5	C3Bank	278,177	76.14
6	Home Bank of California	182,332	98.62
7	Endeavor Bank	112,796	40.03
8	Balboa Thrift and Loan	57,411	19.25
9	Neighborhood National Bank	33,253	56.33
10	Hatch Bank	14,733	31.79

Source: Federal Deposit Insurance Corp.

San Diego County Based Banks Loans to Individuals

▶ Ranked by volume as of as of December 31, 2020 (latest available data from the FDIC)

Rank	Financial Institution	Volume (\$ thousands)	% of loans
1	Axos Bank	336,363	2.85
2	Balboa Thrift and Loan	240,842	80.75
3	Hatch Bank	31,607	68.21
4	Bank of Southern California, N.A.	4,806	0.39
5	CalPrivate Bank	2,225	0.22
6	Endeavor Bank	1,013	0.36
7	Neighborhood National Bank	26	0
8	C3Bank	3	0
9	Silvergate Bank	0	0
10	Home Bank of California	0	0

Source: Federal Deposit Insurance Corp.



SINCE WHEN IS IT INAPPROPRIATE TO LOVE YOUR BANK?

We're here to share the love. Let's face it, when it comes to banking, passable is aiming high, so love is out of the question, right? Wrong. You see, we know that success is built on relationships, so we go the extra mile to make our relationships last. From a friendly hello by name to digging for a solution that others would dismiss as impossible—that's how we share the love. If you're ready for that kind of long-term banking relationship, we'd love to get to know you.



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