FEB 11

Tom Auchterlonie

Q&A: Piermont Bank's founder and CEO on why 'it's actually more advantageous to be small'

Article

Copyright © 2022, Insider Intelligence Inc. All rights reserved.

Wendy Cai-Lee
Founder and CEO, Piermont Bank

Wendy Cai-Lee is the founder and CEO of New York-based Piermont Bank. Founded in 2019, Piermont has positioned itself as a B2B institution that's primarily digital with a banking as a service offering. It also enjoys the reputational advantages of a state-chartered bank. That's an unusual strategy for a small or mid-sized bank: While such banks are keenly aware they need to develop value-added digital customer experiences, they often have less to spend on tech than their competitors and are less likely to follow a "build" strategy.

Insider Intelligence spoke with Wendy Cai-Lee about why Piermont's size is more of an asset than a liability, why she thinks banking as a service is now in roughly its third generation, and what lessons banks can learn from working alongside fintechs.

The following has been edited for clarity and brevity.

Insider Intelligence (II): Tell us something about your background.

Wendy Cai-Lee (WC-L): I started about 27 years ago at Chase—pre-JPMorgan and pre-Chemical Bank. I'm an investment banker by training, but I've spent over a decade now in commercial banking. I did turnaround work for East West Bank after it took over United

Copyright © 2022, Insider Intelligence Inc. All rights reserved.

Commercial Bank, the FDIC's second-largest bank at the time, and I worked on growing loans, building new markets, and taking the bank beyond California.

Back in 2017, I saw the impact that fintechs and tech in general had on consumer behavior and on the supply chain. My thinking was: "**If we don't change as a bank, we'll be acquired or go out of business**. It's time to take our heads out of the sand and figure out what a commercial bank should look like in today's world and how we're going to stay relevant."

Piermont is my second startup—my first was during the dot-com wave. But it's hard to call a bank a startup because so much capital is involved, and you can't start a bank without experienced bankers.

II: Why did you start Piermont?

WC-L: For years, I've seen the same banking pain points and heard the same customer complaints. But banking has been around for so long and has been so profitable that there's no real incentive to change. If you're making money, who's going to say, "Let's spend $10 million to bring in some new technologies and do this differently"?

Even when an institution recognizes that it needs to change, it happens in bits and pieces. It takes a long time to work through the system, convince management to make an investment —and most importantly, to change users' behavior so they actually start following the new process or using the new product.

When I saw what a broad impact fintech was having on consumer banking and how quickly it was taking shape, I thought, "**If we think that it's not gonna come and impact commercial banking, we're kidding ourselves**. It's just when and how."

Fintechs have figured out the user experience, which banks traditionally don't do well. When fintechs build their tech stacks and interfaces, they always take the user's point of view. They've got a lot to learn about risk management, compliance, and product development, but the banks also need to learn from them about building the user experience.

That was Piermont's genesis. I asked myself: "If we start with a blank slate and don't have any legacy issues, what would that look like?" From there, I asked what kinds of products are most relevant to small and mid-sized companies—which are 82% of the US economy—and what kind of delivery would make sense for them.

II: What are the challenges of being a small bank?

Copyright © 2022, Insider Intelligence Inc. All rights reserved.

WC-L: Ten years ago, I would have said the challenge is pretty daunting. When you're small, you don't have much geographic coverage or capacity to build and launch new products. Each product requires subject matter expertise that you may not have, and as a regulated entity, the bank needs to meet compliance requirements.

But a decade of technological innovation has actually made it more advantageous to be small. **It's easier to move quickly, to pivot, and to stay relevant** by retooling and fine-tuning our products and services. If you're changing user behavior at a small bank, you're not changing 30,000 or 150,000 people. You're just convincing a few dozen people internally that this is what our clients want, and this is how we're going to give it to them.

The challenge small banks still have is how quickly they can scale, create new products, and make the investments needed to serve their clients.

II: What sets Piermont apart from other banks that offer banking as a service, and how does Piermont use marketing to differentiate itself?

WC-L: We differentiate on relevance. With Piermont, we took a step back and said: "Okay, instead of trying to build another bank, why don't we take a product company approach, like Apple or P&G?" With a product company, **it's always about identifying a need and creating a product that's relevant and resonates with the audience**. Traditional banks don't usually do that. Their approach is: "These are our products, and this is how we do it—so, do you need it?"

Also, our setup with fintechs lets them access the bank without any middle parties. Essentially, we've become their mid- and back-office. When their end customer is missing a payment, it's really critical that the fintech can reach the bank for help.

The other thing we differentiate on is speed. Most other banks get into banking as a service as a side business for additional revenues from deposits and fees, but it's not core to them: Their products or processes are still traditional banking. So there's often a disconnect between the way they do it and the way the fintech wants to serve the client. Our back-end processes are built like a fintech's or a tech company's. That's a huge advantage and differentiator because the integration is faster, and **once we get going, we run as fast as they do—in some cases even faster, so they're trying to keep up with us**.

As an example, normally it takes a bank several days or weeks to open a commercial account. **We can do it in hours**. We can complete a commercial loan in less than 22 days—that's from getting the client a term sheet with the rates and the loan structure to putting $5 million into

Copyright © 2022, Insider Intelligence Inc. All rights reserved.

their account. That helps with word-of-mouth marketing. If you look at our banking as a service business, even though we just launched about a year ago, we're already one of the go-to banks for it—because word got around that we can integrate fintechs faster than other banks.

II: What does Piermont's banking as a service offering consist of?

WC-L: Banking as a service is probably in its third generation. In the first generation, the bank stayed anonymous. It provided the FDIC insurance, the debit card/credit card BIN sponsorship, and the clearing, but the customer didn't know who the bank was. If you kept scrolling down the fintech's website, you'd find it all the way at the bottom because regulators caught on and said: "You have to disclose that these products are actually being offered by a chartered or regulated bank."

We do third-generation banking as a service: **The bank takes center stage when working with a fintech**. We have API partners that provide the technology, and we have a direct client service model. We speak with the fintechs, problem-solve with them, and negotiate the contracts directly with them. If the fintech has a customer service issue, they get to talk to the bank directly rather than going through two different steps to reach somebody who can actually solve the issue.

With third-generation banking as a service, the fintechs work with us to co-develop new products. That lets the fintechs thrive and scale and makes them more responsive to their end customer.

II: Who are some of your banking as a service clients?

WC-L: One is Zeta, a household financial management app for couples and families. We also have a fintech that's focused on the trucking industry. It pre-negotiates gasoline prices and then issues a debit card to truckers driving long-haul 18-wheelers so that as they drive across the country, every time they swipe that debit card at any gas station, they pay a pre-negotiated gasoline price.

We have fintechs that handle co-investment in commercial real estate and the private jet business. We have fintechs that focus on the gaming industry. We have a fintech that focuses on the financial well-being of adolescents and provides a product that lets them learn how to manage their finances.

Copyright © 2022, Insider Intelligence Inc. All rights reserved.

The list is pretty broad—that's what makes this business interesting and fun. It also helps us diversify and avoid any industry overconcentration risks, as banks have always done.

II: Will Piermont enter the embedded finance space and offer banking as a service to non-financial companies?

WC-L: Yes, because in our view, **even if they're not a fintech, they're still our partner in doing client acquisitions**. What we have built into the products and the tech stack can easily and effectively serve non-financial institutions. Fintechs really are more tech companies than financial institutions.

The real question fundamental to embedded financing is: How quickly can this get you credit? Right now, banking as a service essentially is card processing, a debit or credit card, checking accounts, ACH processing your wires—but that's it. Now, we have a pilot program called BancFi, which is the credit and lending component for banking as a service. We just launched that toward the end of last year, and we're only selectively offering it to existing fintech clients. Everybody wants to get into that program.

Copyright © 2022, Insider Intelligence Inc. All rights reserved.