

FINTECH ONE-ON-ONE PODCAST 382-LAURA MERLING

Welcome to the Fintech One-on-One Podcast, Episode No. 382. This is your host, Peter Renton, Chairman & Co-Founder of Fintech Nexus.

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Peter Renton: Today on the show, I'm delighted to welcome Laura Merling, she is the Chief Transformation & Operations Officer at Arvest Bank. Now, we actually talk about what that title really means, but she was brought into Arvest to help transform the bank and she's in this multi-year process right now. It's just been so interesting to me to learn how she's going about this process, how the bank is trying to transform there, they're not a small bank, you know, \$26+ Billion bank, they are going through a complete transformation.

You know, we talk about the technology side of things obviously, but we also talk about the people side which is just as important, talk about some of the wins they've had along the way, how they're able to compete with the larger fintechs as well as the money center banks and we talk about what's sort of coming down the pipe and how this transformation process is going to unfold. It was a fascinating discussion, hope you enjoy the show.

Welcome to the podcast, Laura!

Laura Merling: Thank you.

Peter: Okay. Well, let's get it started by giving the listeners a little bit of background. You've had a very interesting career working at some of the biggest brands on the planet, I would say, so you came from Google to Arvest. So, tell us a little bit about your career journey to date.

Laura: It has been a journey. I spent the first 15 years of my career in software and technology so up and down the stack from databases so back in the day of Sybase all the way to middleware infrastructure and software development tools so spent that 15 years and then got into the wide world of APIs. In that space what was interesting was we spent the majority of our time actually trying to figure out how to convince industries or customers why they needed APIs, like here is how you're going to make new revenue using these APIs, this was 2006.

The only people back then that knew what an API was were really a bunch of startups so I was trying to teach people so I could sell them API management software and ended up then getting recruited to go lead an organization at Alcatel-Lucent and so that's how I got into telecom. I went from software

industry into telecom which was one of the first industries to really get disrupted by startups was telecommunications. And so, went from there to AT&T, they acquired my team and the product we were building and then had the opportunity to do work at Ford. That was taking what I'd learned at AT&T with connectivity and APIs and bringing that to autonomous and connected vehicles and then went from there to do aircraft and connected aircraft.

So, it was always around industries going through disruption and a lot of it had to do with at the genesis of it, I'd say connectivity and APIs, right. And so, how do you think about embedding your business elsewhere and creating an ecosystem of partnerships. That's kind of how I got through those and ended up in industry, took a little bit of a turn back into, you know, consulting and then Google thinking oh, I wanted to advise people more because I could have more of an impact. And then I was like yeah, I miss doing things.

Peter: Right, right.

Laura: (laughing) Advising is okay, but it's better to be a doer and so I switched back into do mode. Arvest reached out to me and financial services is going through disruption and disruption is here to stay and Arvest was well positioned to be excited about disruption and what it could mean for them and for the industry.

Peter: Can I just dig into that for a little bit because you had a job at Google and that's obviously a great company, very well respected globally. Arvest, while they're a decently large bank, they're not a national name that you'd recognize, what was it about Arvest that attracted you, that led you to jump from Google?

Laura: I get asked that often. I've spent most of my career doing transformational things even when I first got out of college. I was doing transformation for Pepsi when I was in college and doing things with hand-held devices so if you remember the Palm Pilot, like I did transformation for a long time, but most companies who do transformation go into it not knowing the risks or knowing how willing their organization is to do transformation. So, you kind of walk into what seems to be a change in transformation agenda without, I don't want to say without commitment because there's good intent, it's more about lack of awareness of what it really means.

What was interesting about Arvest that nobody that I'd ever worked for had done was they did a survey of their entire organization prior to finding, you know, me or getting this role and the survey was basically, how ready are you for disruption, right. It was their Drive Change survey and what's your readiness for change and they had insights going into so, you know, meet with them in the first interview and they're talking about, you know, what we know x% of our associates are really opposed to transformation and they mostly sit in these areas of the business. We know this group and they're kind of lukewarm about it, we know these folks are really into it and we have full commitment. I found that super interesting.

They also knew that it wasn't going to happen overnight, that there needed to be a commitment for a multi-year journey. I think a lot of times folks are looking for quick wins, quick flips or quick results, I

think knowing the history of the bank and watching others go through transformation in other industries, they had a level head about what it was going to take. And so, for me, I said, you know, I want to go do things and at Google I was doing stuff, but I was more supporting, like an advisory role as a CDO to kind of other companies in an advisory capacity. This was actually like hey, I actually get to go do it in a company that's ready for change and ready for the impact and knows it is a multi-year opportunity. So, for me, that was two things that when you look for all the stars aligning in your career to go do something really cool in an industry that's getting disrupted, all the stars aligned.

Peter: That's really great because, I mean, there are a lot of large banks out there, small and medium size as well, that say they want to do transformation and they may even have a chief digital officer or a chief innovation officer or something like that and you just don't see a whole lot of change happening, it's interesting the way that they framed that for you. Maybe we could just talk a little bit about your role, your LinkedIn says you're the Chief Transformation & Operations Officer. I know what a chief operations officer is, what's a chief transformation officer? I mean, you just kind of touched on it, but I'd love to get your definition.

Laura: It's more than just being about a digital transformation, right, it's people process and technology. That is why it is a whole transformation and not chief digital officer. It's everything from setting the strategy of where do we want to be in five years, what do we want to be known for and then based upon that, what do we need to do across people, process, and technology. A lot of the transformation components, honestly, start with transforming the processes, what do customers need from us, what do they expect looking from that customer-centric view, customer in versus bank out.

It's an un-learning and then a re-learning, but if you don't do that, you know, you could do digital transformation all day long, but if you take a current process that you're doing and you automate it with RPA, just because you've automated it doesn't make it better. You've taken a bad process and you've automated the bad process so what you have to do is re-think that process from a customer view in. And so, that's why it's transformation because they wanted it, they want to make a statement about look, this isn't just about a technology transformation, it's much bigger than that.

Peter: So then, being outside of banking, do you see that as an advantage or I mean, obviously there's a learning curve you'd have in any vertical, but I'm curious to kind of get your perspective on the fact that you don't know what these processes are necessarily so how is that being an advantage?

Laura: There's moments when it is an advantage and moments where it's a disadvantage, it's mostly an advantage (laughs) because you don't have a preset notion of how something is supposed to work, right, and so you can ask questions about why something works a particular way or you can reposition something in terms of how you ask the question or ask about it. It was interesting, that was a lot, my first 90 days here or so, a lot of folks were like gosh, I never thought about asking that question in that way because you get a different answer, right.

And so, it's been really kind of fun and enlightening in both directions for this as we've gone through the journey. I think it's also bringing in experiences of other industries that have gone through disruption so if you look at some of the recent hires we've made, it's also people outside of banking

that have been in other industries that have been through disruption and part of that is knowing what might be ahead next, knowing what roadblock might be coming. Again, is it a person, is it a process, is it the technology so having that kind of line of sight that also helps and then thinking outside the box, right, things that we did back at AT&T moons ago to reduce calls to the call center apply here to the bank today, right, how do we reduce calls to the call center. You can take lessons learned and bring them along from other industries.

Peter: Right, right. Before we go any further, we should have you describe the bank, you know, 90-second description of what is Arvest Bank.

Laura: Arvest Bank is a community bank based in a four-state footprint, primarily in a four-state footprint so our physical branches and the majority of offices are between Arkansas, Oklahoma, Missouri and Kansas and then we do have some broader reach across the 50-state footprint with other services like mortgage servicing, we have an equipment finance business and things like that. It's about \$26 Billion in assets, a little over that, and so we've been around for about...the original bank itself has been around about a hundred years, but under current ownership has been about 60 years.

Peter: I presume the different business lines are pretty typical for a bank of this size, they're doing a lot of real estate. Can you just maybe run through the different business lines?

Laura: So, we have, of course, the retail business and when you think about that, I mean, your traditional deposit products, we have a wealth management division, we have a mortgage division, we have a title division, we also have equipment finance as a division so on that commercial side we do commercial loans ranging from small business loans all the way up to large scale construction projects and equipment financing and as you might expect, agriculture, living in the heartlands so agriculture loans, row crops and cattle and poultry, things like that so it's a pretty broad range.

Peter: Right, right, okay. So then, you've been in the job, what is it, like nine or ten months now, I guess. You said there's a multi-year process, I mean, have you had any early wins or what have your priorities been?

Laura: You know, everyone about a 90-day plan, but we did spend the first 90 days kind of just assessing what we had so it was where are our strengths in the business, who are our customers, what do they look like, which channels do they prefer? We looked at the technology stack and did an entire technology assessment, we hired a third party and do a full assessment, we looked at all the metrics that we were using in our governance structure and then put in place a plan for where we wanted to go. Some of the things that we're doing are foundational. If you want to build a framework for where you're going, there's some underlying technology components that need to be in place so, for example, we are working on our new core banking platform.

We based it on Thought Machine, we're building our first set of loans that will be on that platform and it's the loans that are core to the business, right, so think some of the commercial lending aspects. We also did a partnership most recently we announced with Google and that is to get us both the infrastructure at scale and being able to meet the demands of the business and customers, but also

building out a new data platform, right. So, you know, everybody talks about being able to do things with AI, they want to do Artificial Intelligence and machine learning. You can't do it if your data is not in a place that gives you the ability to access it or if it's not clean and so it's thinking about what do we need for real-time data versus data at rest, what systems they need to go to, what data pipelines do they need to create so we're really kind of started on foundational things while we know where we're trying to get to. So, that's how we've spent a lot of this year is building out foundational aspects of the bank to support the future state.

Peter: Right, right, sure. So, I want to just touch on Thought Machine, we know those guys really well, they're also doing a deal with Chase, JP Morgan Chase that was quite well covered in the industry, but it's a big decision and it's a big process changing out a bank core of a \$26+ Billion bank, what's it actually going to do to help you compete in the market?

Laura: So, I think part of it is re-thinking how we approach that new core banking platform and, again, it goes back to flexibility, new services, new capabilities, you know, they have a thing called the smart contract where you can re-think about how you think about products and productization and what those offers are. For us, it's if we look forward we need to be able to keep up with the changing needs of our customer base and really it gives us that ability to do that and own it.

Now, again, with great flexibility comes great accountability (laughs), right, and so it's making sure also that we take lessons learned from the past and while we could highly customize things, where does it make sense to customize and where does it make sense to standardize. So, we are looking at it through both lenses, but we're looking for that flexibility that we want in the business and keeping up with demand in changing times versus having to wait for someone else to give you a new service or capability.

Peter: Right, right, understood, understood. I wanted to go back to something you said earlier, like you said Arvest did this survey of their entire employee base, you know, there were some people that were totally onboard, some were lukewarm, and some were not onboard, I'm curious about how you are getting the people who are not onboard or lukewarm, how are you getting them to really embrace what you're doing?

Laura: It has been, you know, and it will continue to be a process. A lot of it has to do with communication, we spend a great deal of time communicating every step of the way, everything that we're doing, the company is extremely transparent to the associate base. The work we were doing with Google, inside the company people knew much sooner than when we announced it because what we want to be able to do is show a win, like look we've done this partnership, we want to make sure we had some success under our belt before we go do it. We had the platform stood up, the foundations of the platform and we'd already migrated our first two applications over by the time we did the announcement.

We've looked at putting things in 90-day buckets of wins. Normally, when you think about a bank they'll do things and maybe big projects, like long durations, it can take two years, 18 months. One of the things that I started when I got here was this notion around quick wins, it is what can you do in 90 days

that moves us towards our future state but has an immediate impact where we can show a result. We did a vulnerability study which says, you know, how at risk are you, it's different than NPS, shows how at risk are you of losing customers, right, and we did it for us and we did it for others in the industry, all sizes of banks, both in our footprint and outside and when we looked at that, you know, we found some things where we were like okay, these are risks, how do we go fix them. We had seven key rocks in our shoes that led to 14 plus projects, those projects got done in 90 days, some took a little longer, but most of them were in 90 days and they all had measurable outcomes.

So, for example, one of the things that we worked on was addressing some issues that customers had that were forcing them to call the contact center. We were able to resolve one of those pretty quickly and within probably 30 days afterwards we were seeing a reduction in calls to the contact center by about a thousand calls a day. That is a level of operational efficiency that solves the customer pain point on two-fold. One, they didn't have to call the contact center and for those people that really did need to call the contact center, they now don't have as long of a wait time. So, it was finding those things where we were able to get quick wins and show results and then track and measure those results on an ongoing basis, it's showing the progress and then it's about making sure people feel a part of it.

We do a monthly transformation talk, we bring in different teams that they're working different pieces of the transformation, everybody across the bank is invited, it is then recorded, we did a whole skills assessment, and we created a whole re-skilling and upskilling program that starts initially with the technology organization and then we'll move across the rest of the bank. But it is a true, here's the assessment, here's the outcome, let's put together a plan, let's work on what you want to do, like we had somebody that was in an architecture role and now wants to be in a product management role and so they're now taking the learning, they're on a learning path towards product management. It opened up people's opportunities to a long-range future at the bank and it's helping us get some of the skills we need moving forward. So, sorry for the long answer, but it's a complex problem to solve and it's multi-faceted.

Peter: Yeah, I can see that. So, I want to talk just briefly about competition because you'd mentioned it and obviously, there's the fintech competition, you've got the Chimes and Varos and Blocks of the world that are offering new products digitally and then you've got the larger banks that are all looking to keep expanding their footprint. And so, you've got competition coming from multiple sides, how do you view the bank as being able to, you know, combat those dual competitive threats or multi-competitive threats, shall we say.

Laura: Yeah. I think it goes back to being hyper-focused, right, and being vigilant on that focus so through our research and study we know where our gaps are, both on our retail side of the business as well as on the commercial and small business aspects and we also know where our strengths are, right, so we know our strengths, think about it in agriculture, as an example. We're number 17 in the country, how do you leverage that as a focus, what else falls around that, what are adjacencies so, for us, it's taking where we have our strengths and leveraging those and really focusing on them, but where we have our vulnerabilities, it was really important for us to understand those so we can make sure that we were at least competing on par.

Part of that is making sure that we have the technology stack and capability to even make sure that we're competing, where do we want to compete and where do we want to lead and where do we just, we're okay with you know what. We're doing the same thing that all the other banks are doing and we are at least competing on par with everybody else. It's a process, but it's figuring out where your focus is going to be and I think a lot of banks figured that out, I mean, if you think about how fintechs have taken different pieces of the market away from the larger players and even smaller community banks, people that have existed for a while, is they're hyper focused, right. When they come into market, they're usually focused on an area that's a niche and they're hyper focused and so it's about us getting back to hyper focus on things where we are very strong.

Peter: Okay. So, the bank has been recognized in multiple different ways. I noticed that you were on Forbes list of best employers in 2022, you've been part of the world's best banks list multiple times so I imagine that really helped you make the decision to jump ship, it wasn't just an organization that was floundering in any way, I'm curious about what you think that's part of the culture that leads to those kinds of awards.

Laura: It's interesting because you'll tell people that the culture is different during the interview process and they told me that and even the folks that I've been bringing in and some other folks that we've hired recently, it's hard to describe, but I will tell you that the culture is one of...the associates here all really put the customer first. I mean, they will go to the nth degree to help a customer and I think that that customer-centricity, companies talk about it, but the bank lives it, it's a community bank, right, we're there.

It's about building relationships and you can see that through every aspect of the bank, from the back office all the way to the teller and people are just genuinely nice and they want to make sure everybody is successful, whether you're the teller or whether you're the person, you know, processing loans on the back end. Everybody's there to help ensure that the customer gets what they need and that they're successful, and so I think the relationship aspect of being a community bank is really what will help us be successful and differentiated and I think, for us, we're trying to figure out that is our strength. How do we continue to be the community bank in a digital world that continues to be focused on relationships, you know, I think that that's part of the culture that's really strong and appealing.

Peter: Right, right. When I was doing research for this interview, I read about the Million Meals initiative, can you share what that's all about?

Laura: I'm probably not the best person to ask about that one (laughs), this is really about feeding the community. Again, it goes back to we feel very strong and very tight with our community and the people in the community that we service. The Million Meals Program is just one program of many, right, we donate to local schools and other local initiatives and so the Million Meals one is just another, it's a very big one, but it's about feeding and helping and supporting our communities so I love that aspect of it. It's interesting when you think about the whole go local movement, banks like Arvest are already local and they're hyper local. You know, other companies want to be local, there's large retailers trying to be hyper local and so we've got that covered.

Peter: Right, gotcha, okay. So, you guys are based in Bentonville, Arkansas, obviously the home of Walmart and I believe that you guys are owned by the Walton family? Who also now own my football team, the Denver Broncos, but we'll leave that to one side (Laura laughs) so question is, is the Walton family involved, I believe one of the Waltons is Chairman, but are they involved in the daily running of the bank?

Laura: So, Jim Walton is the chairman, the Waltons are shareholders of the bank, but the day-to-day running of the bank is left to the bank executives, right, it's really run and operated by Kevin Sabin, the CEO and the rest of the Executive Committee run the day-to-day operations of the bank.

Peter: Okay. So, last question before we close, I mean, you've got this pathway ahead of you, you know, I imagine it's not going to end, right, you don't suddenly finish transformation and you're done, but I'd like to get a little bit of commentary about the path forward and maybe some upcoming initiatives that you're excited about.

Laura: (laughs) Oh my, my roadmap. To your point, transformation's ongoing, I think for us, we think there's more to do in things like the contact center so when we think about contact center as a service we think about things around consistent channel experience. So, one of the interesting pieces of feedback that I think isn't just for us, but it was a vulnerability across all banks is inconsistency across channels. So the experience, whether I walked into a branch or called the contact center or used an ATM or used my mobile device, the experience wasn't consistent.

And so, thinking about what that means and how we address that is definitely an area of one of the things I'm excited about and what that means and what we can do to transform it. The other thing that was interesting was a lot of times folks talked about, they'll say they want longer branch hours or more ATMs or more access, but what's really interesting is those same folks were the same people that also said that they preferred a mobile channel.

Peter: Right.

Laura: And so, what was interesting was because they couldn't do the full breadth of things on a mobile device that you might be able to do in your other channels like wanting longer hours, right. By the way, whether I'm a consumer or whether I'm a small business or a commercial customer, during your bank hours are the hours that I am working as well, right, so it's thinking about, again, how do you keep relationship banking in the community world and we're looking at well, so if we do the digital aspect how do we still keep it personable? One of the things that has gone over really well in the market, so far, is our ATMs with live tellers, right, so it's a combination of digital and physical and people love it, I mean, the feedback has just been phenomenal and so I think it's doubling down on those types of things.

While we continue to work on the foundation, you know, one of the reasons we partnered with Google was for their expertise in Artificial Intelligence and machine learning, both the platform as well as the teams and the knowledge and so figuring out where we can use that to create better experiences and

more operational efficiency. We believe that we have to start with some of the back office to really, you know, anytime you can improve operational efficiency, you're really probably solving a pain point for the customer. So we're trying to figure out how do we take out that pain out of the back office as a starting point as well.

Peter: Okay, We'll have to leave it there, Laura, really fascinating conversation, it's been great for you to share some of this journey that Arvest is on and let's stay in touch. Thanks a lot for coming on the show.

Laura: Thank you, appreciate it.

Peter: You know, as much as I love financial innovation, I think the thing that just kept on coming up for me in this episode was all about the people, like the transformation has to be a technology component, that's for sure and that's really important. She talked about some of the things they're doing there, but if you don't have the people on board and you can really see that Arvest go out of their way to make sure that their people are very centric to this process. You know, they talk about the different ways that they're helping people cope with the change, helping them not just cope, but upskill and helping become a more valuable member of the team, I thought that was just super interesting.

Anyway on that note, I will sign off. I very much appreciate you listening and I'll catch you next time. Bye.

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