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The difference during this crisis? Customers trust their banks.

By
Rob Blackwell
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A prominent robo-advisory firm CEO proudly predicted last December that banks were obsolete and disliked by customers.

“Everyone hates their cable guy and everyone hates their banks,” he said at a media event.

That kind of rhetoric is nothing new. For the past decade, Big Tech and fintech startups have derided banks as dinosaurs that will inevitably be replaced.

But the rapid spread of the coronavirus has reminded the world that banks are not so easy to displace — and that isn’t liable to change anytime soon. Banks may not always be as fast as some of their newer competitors, but when push comes to shove, they remain central to the economic system.

They also have the one thing most needed at a time like this — public trust.

That may sound strange to say, considering how damaged bank reputations were following the 2008 financial crisis. The Troubled Asset Relief Program provoked widespread anger on both sides of the political spectrum.

Public scandals at a few large banks added more fuel to the fire. Reputation surveys consistently ranked banks poorly. In 2019, only one industry — telecommunications — had a worse reputation than banks, according to a survey by the Reputation Institute and American Banker.

Although many people disliked banks in aggregate, however, it turned out they liked their own institution just fine. Despite public campaigns to move money away from banks — to fintechs or new mobile apps — none took hold in a significant way.

While some of that was likely due to inertia (it remains difficult to change bank accounts), it also seems clear that most consumers are just more comfortable with their money in a bank.

The advent of the coronavirus has only made that clearer. Since the spread of COVID-19, domestic deposits have been flooding the banking system as part of a flight to safety.

Deposits have risen by nearly 8%, or by more than $1 trillion, since the start of the year, according to statistics released by the Federal Reserve last week.

The Trump administration, meanwhile, has made banks the cornerstone of its efforts to grant loans to small businesses imperiled by the crisis. As any community banker can tell you, the $349 billion Paycheck Protection Program's implementation has been anything but smooth.

Yet fixes are being made, and some are saying the situation is improving. Meanwhile, so many loans are being approved by banks that Congress is expected to reauthorize an additional $250 billion for the program soon.

For all the program's flaws and difficulty getting off the ground, it should ultimately help thousands of small businesses stay afloat in the weeks and months ahead.

The Fed, too, has put banks at the forefront of its rescue strategy. On Thursday it launched the $600 billion "Main Street" lending facility, which will provide loans to businesses with up to 10,000 employees. Banks make the loans, selling the vast majority of each loan to the central bank.

Even old foes are temporarily burying the hatchet. On Wednesday, the Fed moved to allow more flexibility on Wells Fargo's growth cap that was put in place after a string of scandals. Far from being outraged, Better Markets, a well-known community advocacy group in favor of stricter bank reforms, said the Fed's "temporary tailored actions are appropriate."

Neither Better Markets nor the Fed was letting Wells Fargo off the hook, just acknowledging that right now the bank could help businesses and borrowers across the country if it were temporarily given more leeway to work outside the penalty box.

While banks have been central to all these massive relief efforts, fintechs in contrast appear to be largely sidelined. Some have even quietly closed their doors.

Moven, one of the country's first challenger banks announced last month it would shut down its banking unit by the end of April. Some other fintechs have furloughed workers and cut back operations.

To be sure, this is not the case for all fintechs. Some, like Chime, have tried to get stimulus money to customers ahead of government checks, and others have stepped in to assist their small-business customers.

But the crisis will ultimately test many of these upstarts, separating those who were riding good times to profitability versus firms that have built a sustainable model capable of weathering a severe shock to the economy. It would not be a surprise if several don't make it, particularly if the crisis drags on for months.

Eventually, of course, the crisis will end. And when that time comes, the rhetoric from tech firms will return. They'll market a faster, improved way to do banking. But they are likely to find a less receptive audience than before.

During the last financial crisis, banks were seen as the cause of the problem. Tech firms took advantage of that, promising a better path forward.

In this crisis, however, bankers are liable to emerge for many as the steady rock that helped borrowers and businesses get through tough times. And who will listen to the pitch from tech firms then?