

# AMERICAN BANKER®

## Staying in the game: A small bank's bid to go digital

Allissa Kline | March 06, 2022

Five Star Bank in Warsaw, New York, was in the midst of upgrading its digital banking platform when the pandemic struck. Like its peers, the company shuttered most in-person branch services and pivoted rapidly to a remote work environment for most nonbranch workers.

Given the enormous pressure created by those circumstances, Five Star could have chosen to halt the digital upgrade. Instead, top executives decided to push the project along to make sure that its retail customers would have access to the bank during the economic shutdown.

By May 2020, the bank launched its new platform in collaboration with the fintech company Q2 Holdings. The project marked one of Five Star's first meaningful, noncore technology partnerships.

Today Five Star says it is actively working with 12 to 15 fintech partners and talking with at least two dozen more as part of a digital-first strategy focused on one thing: relevance. Since 2020, in addition to the improved consumer digital banking platform, Five Star has launched an enhanced commercial digital banking platform; stood up banking-as-a-service as a line of business; introduced a variety of new digital lending services and rolled out a bitcoin product.

Later this year, in collaboration with a national alliance of smaller, like-minded banks, Five Star will roll out an alternative peer-to-peer payments network with real-time capabilities. It also expects to introduce a new digital financing solution for large businesses.

"Banks are at a point where they are saying, 'OK, I can make investments and remain relevant and transform digitally and lean into that' or 'I'm going to plod along as a financial institution and we'll see what happens,'" said Sean Willett, Five Star's chief administrative officer since the fall of 2018.

"But we kind of know how that's going to play out," Willett said. "Those that don't innovate don't survive."

It wasn't that long ago that Five Star — and the four rural community banks that were consolidated in 2005 to form



Five Star Bank CEO Martin Birmingham has embraced a digital-first strategy. "It is a fundamental strategic pillar of our plan," he said in an interview.

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the present-day operation — were known for making loans to farmers in small-town communities in Central and Western New York. But over the past decade or so, the banking subsidiary of the \$5.5 billion-asset parent company known as Financial Institutions has embarked on an ambitious plan to reinvent itself, in part by diversifying its business mix and expanding its physical presence to nearby metropolitan markets.

It has built out fee-based businesses in insurance and investment management while opening branches in Rochester and Buffalo. Both cities continue to represent opportunities to take more market share, according to Martin Birmingham, who was promoted to CEO nine years ago.

Five Star is also expanding its commercial banking footprint, with the recent hiring of a team of four commercial lenders in the Baltimore and Washington, D.C., markets.

But the razor-sharp focus on digital innovation is driving much of the conversation at Five Star these days. The bank, which was by no means a straggler in the past, has "em-

braced” digital experiences as the chief component of the bank’s forward-thinking vision, Birmingham said.

“It is a fundamental strategic pillar of our plan,” he said.

The list of digital-related areas in which Five Star is investing, and the companies with which it is working, is wide-ranging. One of its early fintech partners was Numerated, which has a digital loan origination system. Five Star worked with the Boston-based company to process 1,500 Paycheck Protection Program loans during the second round of PPP funding in 2021.



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Numerated is now helping Five Star enhance its digital services for small businesses that need term loans, lines of credit and small-business checking accounts, Birmingham said.

Also in 2020, Five Star joined Alloy Labs Alliance, a consortium of small and midsize banks that shares ideas and costs related to digital innovation, and works together to leverage technology skills and partnerships that they otherwise might not be able to secure on their own.

This spring, Five Star will be one of 10 members of the Alloy consortium that will launch Chuck, an open network for instant payments that is powered by Payrailz, a digital payments company.

Five Star is one of the banks “that put skin in the game and put their resources and time into actually building” Chuck, said Amber Buker, director of insights at Alloy Labs

Alliance. She said Five Star is one of the most active participants in the 60-member consortium.

“They’re always raising their hand,” Buker said.

Digital currency is another area where Five Star is investing. By the end of the second quarter, customers will be able to buy, sell and hold bitcoin through Five Star’s mobile banking app and online banking platform. Five Star is partnering with NYDIG, a bitcoin company, on the project.

The addition of bitcoin services is “a great example of how we’re trying to lean into the tech-forward financial institution in terms of the intersection of technology and community banking,” Birmingham told analysts in January during the company’s fourth-quarter earnings call.

Five Star is also one of the growing number of U.S. banks with a banking-as-a-service offering, which connects fintech companies that want to offer banking services to actual banks that provide the back-end tools and capabilities.

In one recent example, Five Star has teamed up with Autobooks, a Detroit-based digital payments provider for small businesses, to enable the use of Five Star’s digital banking platform. For Five Star, such partnerships provide the opportunity to create more fee revenue, more interest income and more insight into consumer trends, Willett said.

That data, he added, then helps the bank develop new products and services based on customers’ needs.

Banks like Five Star that are getting into the banking-as-a-service business can use fintechs to acquire new customers, said Kate Drew, director of research at CCG Catalyst Consulting. It is also a way for banks to stand out from the crowd, she said.

“Really what it comes down to is how hard it is to differentiate [in banking] and how good fintechs are at differentiating,” Drew said. “Banks can now outsource that challenge of differentiation.”

Five Star has not disclosed how much it is spending on its digital transformation. But it is “a multimillion-dollar project” that is “spread out over a number of lines of business,” Willett said.

He classifies the focus on all things digital as an “existential opportunity” for the bank. Though Five Star is not leaving behind its roots in community bank lending and deposit-taking, it is leaning into digitization as the way forward, he noted.

“If we’re not able to keep pace, we truly think it’s a missed opportunity for us, and that goes to the heart of being relevant,” Willett said. “It starts an erosion of customers that will go to other institutions who can provide those services or, worse yet, nonbanking institutions.”