

AMERICAN BANKER®

REPRINTED FROM OCTOBER 24, 2019

Her work here is done: CEO leaving Bank Leumi after transforming it

By Penny Crosman

Rakefet Russak-Aminoach, the outgoing CEO of Bank Leumi in Israel, has been credited with raising net profits and lowering costs through what she sees as a technological and cultural transformation of the institution.

Chief among them was getting over the idea that pushing customers toward digital channels would hurt revenue.

"There is a notion that if you move customers to a digital channel and they don't pay fees or they pay smaller fees, you cannibalize yourself," she said in an interview this week. "But that's true and it's not true: It's true that for a specific transaction, the customer will pay less. But at the end of the day, he will do much, much more and revenues go up. That's exactly what's happened."

Along with many other Israeli executives, Russak-Aminoach is leaving Bank Leumi in keeping with a law passed in Israel in 2016 that caps executive compensation at financial institutions at about \$700,000 per year, or no more than 44 times the net salary of the lowest worker in the company.

In the interview, she discussed some of the moves she made to turn Bank Leumi around, including building an AI-based virtual assistant, migrating to cloud computing and replacing an aging core system. Following is an edited transcript.

What steps did you take to make Bank Leumi prosperous again, and to what extent did technology play a role?



"Not to replace core systems and to stay with what we have — for me, it's not an option," says Rakefet Russak-Aminoach, CEO of Bank Leumi.

RAKEFET RUSSAK-AMINOACH: When I started here, in 2012, revenues were stable and expenses were going up 8% a year. I realized if we continued like that we'd get into the red very quickly. We decided to switch customers to digital as much as possible.

Nowadays, 75% of our banking activities are done outside the branches: 50% in online and mobile; 25% by phone and 25% on the branches.

Are Israelis more technophile than people in other countries?

I don't think so. Leumi today is the largest bank and the largest company in Israel market wise and in number of branches, we are No. 4. We were criticized for this because people thought we wouldn't be able to provide the same level of

service as banks with many more branches. So it's not an Israel thing, it's our way.

How do you been able to move customers to digital channels?

By being very focused on what we believe is best for the customer through phone, from mobile, from web. Share of wallet is increasing because at the end of the day it's much more comfortable and it's cheaper.

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You created one of the first digital-first banks, Pepper, which is mainly an AI-powered virtual assistant. [Bank Leumi's Pepper is unrelated to the Pepper robot created by SoftBank and used by HSBC and others as a branch or store greeter.] What is special about Pepper?

The thing about that Pepper is that it's a real neobank within a bank. I compare it to Monzo or N26. It's a full-service bank that offers tips and advice that get better the more you use it, because the AI machine learns you and can bring you insights and refer specifically to what happens in your account.

The latest new feature is Pepper Invest. Customers can go in and buy Microsoft or Ford stock. They can get articles and data. It's for people like my daughters, who have like \$10,000 to invest.

Bank Leumi is bringing Pepper to the U.S. in 2020. Are you going to try to Americanize it in some way?

I'm stepping down on Oct. 31, so I cannot tell you what's going to happen after I leave. But when we looked around at where to bring Pepper overseas, the U.S. was the best choice because this is an amazing market. It's very big,

there's one set of regulations, and it's very much behind the neobanks.

Since then we have talked with banks in the U.S. about Pepper and they love it. The question is always around, what changes would you have to make in the app to make it regulation compliant in the U.S.?

Is Pepper is being adapted for the U.S. regulations right now?

It's not being adapted. We are in negotiations with regional banks, if they want to take it, then we will adapt it and we will joint venture on it.

You've said you don't think a large tech company like Facebook, Google or Amazon will disrupt retail banking. Why do you think that?

Because they want to stay away from our very, very difficult, tight regulation.

What have you done with cloud computing?

We were the first bank in Israel to go to the cloud. Regulation didn't allow it. So we went to the cloud and started the work in parallel on getting the approval of the Bank of Israel. It took us 18 months to convince them that this was a good idea.

Have you put all computing in the cloud?

No, no, no, no. We used Salesforce in the cloud.

How are you modernizing your core system?

We are going to replace all our core systems to the new core systems of Pepper. When we started Pepper, we had to decide which core system we use because we knew Pepper would actually have two missions. One, to be our mobile bank for millennials, but two, to be phase one for replacing core systems for the whole bank. We chose Temenos, which is an advanced system but not as new as Mambu and others.

We wanted to be new and real-time, but we needed something that is experienced enough

to carry all Leumi, and this very day we are in the process of approving the change of the core systems of all the bank to Temenos: retail, SME, commercial, everything.

Did you have to do a lot of testing and such before you felt comfortable with that?

We have been in this process of scoping and testing 18 months. It took a lot of time; it's very difficult to change.

A lot of banks in the U.S. just don't do it because it's too hard.

I believe that the bank that will stay with the mainframe and the old tech legacies with one system on top of the other will reach very soon a glass ceiling with time to market on new products. My board has asked me, how do you evaluate our options? I say, not to replace core systems and to stay with what we have — for me, it's not an option.

What are you doing to grow revenue?

A couple of years ago we decided to build LeumiTech, our Silicon Valley Bank. Today, it's a very profitable division within the bank.

Because there are lot of tech companies in Israel and you're their bank?

Normally we have 30% market share in Israel. In tech, we have 60% market share. Most of the startups and technology companies work with us.

What have you done with the culture of Bank Leumi?

Leumi had 14,000 employees in 2012. Today we are 9,000.

Leumi had many subsidiaries and divisions. We had seven business lines within the divisions of the subsidiaries and today we have two. So the whole structure of the bank was changed and everybody has to work with everybody. This is a major change because people are used to having their own marketing and HR.

That sounds like a lot of layoffs. How do you keep a positive culture amidst all that?

Around 1,700 people left in a selloff. [Bank Leumi sold its Leumi Card business to Warburg Pincus for \$562 million last year.]

The rest are not layoffs — our banks are unionized and people have tenure. We offered early-retirement plans.

These packages were attractive, but they were not enough. You have to change the structure of the bank because when people get the same coffee, the same newspaper every morning, even if they have a package like this they don't take it; they want to continue to go somewhere. But we changed the whole bank with this structure. We merged subsidiaries, closed divisions and branches, and people found themselves in a totally different lifestyle. Together with the packages we got to the place we needed to be.