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Fifth third must invest in tech to manage regulatory risk

Bank's headcount fell 3% in Q2

by Vaidik Trivedi — July 19, 2024 in Retail Banking Reading Time: 4 mins read

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Fifth Third Bank applied legacy practices to its digital account opening process, which has led to regulatory scrutiny.

The **Consumer Financial Protection Bureau** alleged that the Cincinnati-based bank [opened fake accounts in its customers' names](#) and used a cross-selling to boost its product and services sales, according to a CFPB July 9 release.

The bank "took the requirements associated with the legacy model of opening accounts and applied those to a technical model," said **Jim McCarthy**, who is a former founding CFPB member and current chairman of financial advisory group **McCarthyHatch**, told *Bank Automation News*. "And unfortunately, the controls associated with a legacy model for opening accounts in person does not cover the risks concerned with online account opening.

The lack of technical guardrails in the digital account opening process could have allowed the bank to open the false accounts, he said.

"You cannot skip steps in investing in the technologies necessary for covering the risk in [the digital account opening] space," he said.

On July 9, the bank was fined \$15 million for the account opening and sales accusations from an active 2020 CFPB lawsuit, according to the release.

According to the CFPB directive, Fifth Third is expected to provide damages to customers affected by its actions and has to "submit a comprehensive written plan to the bureau for non-objection within 30 days for providing redress," a CFPB spokesperson told *BAN*.

Nearly 37,000 customers had unauthorized accounts opened in their names and subsequently were charged fees, the CFPB release stated.

The bank's response

The bank reported its second-quarter earnings today and Chief Executive **Tim Spence** said the fine is a one-time expense "and that's where it is going to start showing up on the income statement."

"You shouldn't expect any incremental ongoing expense because these are issues that are so old, anything that needed to be done was already done from an ongoing [operational perspective]," he said.

BY THE NUMBERS: During the second quarter, Fifth Third reported:

- Noninterest expenses remained flat year over year at \$1.2 billion;
- Net interest income remained flat YoY at \$1.4 billion;
- Headcount fell 3% YoY to 18,607; and
- The efficiency ratio increased to 58.5% from 56.2% during Q2 2023.

Fifth Third shares were trading up 2% at \$40.94 at 3:51 p.m. ET Friday. Fifth Third has a market capitalization of \$29.9 billion.

MARKET REACTION: Fifth Third's shares were trading at \$40.99, up by 1.89% on Friday.

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(Courtesy/Fifth Third Bank)



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Fifth Third Bancorp (FITB) is trading at \$41.85 (2.12%) as of Jul 25, 2024..

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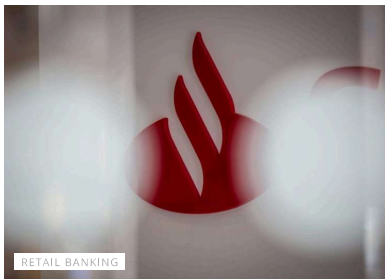
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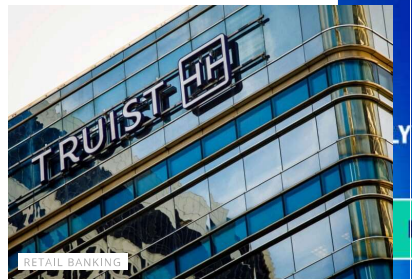
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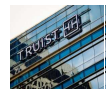




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