BANKERS as BUYERS

2023

Editor's Letter

April 2023

Living With or Unwinding Yesterday's Decisions

Borrowed from a friend's presentation, "I am who I am because of the choices I made yesterday," attributed to Eleanor Roosevelt. In banking, institutions have technology stacks, operational processes and product offerings that reflect the decisions they made yesterday.

Some decisions are easier to overturn or fix than others; for example, a multiple-year agreement with a solution provider that is not living up to its responsibility or adequately updating the solutions can delay progress on several fronts because of the cost to switch, convert and train.

It is possible the financial industry might be nimbler than its reputation. It's generally accepted that financial institutions (FIs) advanced their digital journeys faster because of the pandemic and government programs. There is also a sense that the old ways of doing business just aren't good enough and that competition is a strong motivator to improve. If nothing else, it's setting our customer's expectations for how they should be able to engage with us.

As an industry, our decisions of "yesterday" have made for a complex environment, whether it is siloed lines of business, regulation or technologies that were never built to talk to each other. We have also seen the rise of a new breed of organizations whose missions are based on connecting banking environments with fintechs and next generation solutions that enable new capabilities and openness. Do you know anyone who prefers one-off custom connections with third parties?

As always, Bankers as Buyers relies on interviewing a wide variety of people whom we trust, published reports and contributed articles. This report is greatly enhanced by the contributions of:

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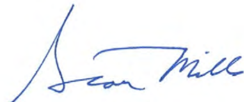
We hope you enjoy the report,



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Everything Everywhere All at Once: How Payroll Became the Center of the Universe
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By Joe Ehrhardt, CEO & founder of Teslar Software

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I. Introduction

"Technology has made banking faster than ever before, and there's no going back to the slower pace of the past."

-Suresh Renganathan, chief technology officer for $9.3 billion Teachers Federal Credit Union.

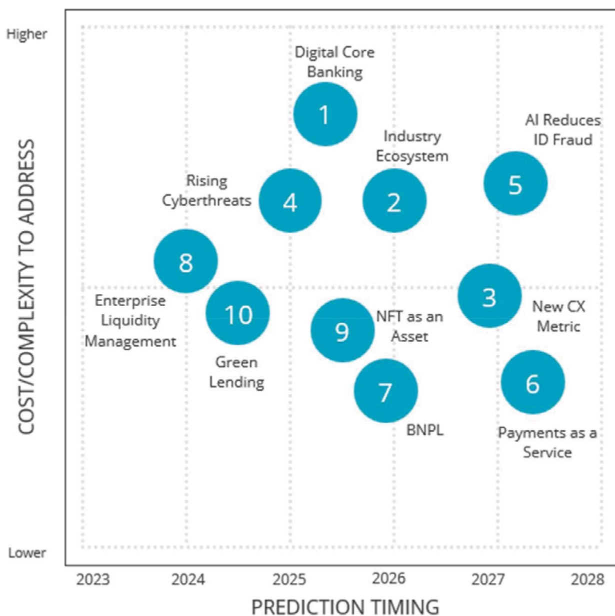
Financial institutions' ongoing digital transformation will drive much of banks' technology spending this year. In addition to digital technologies, financial institutions will be investing in technologies to help with small business, data management, segmentation and cybersecurity.

BAI said the top three business challenges for banks in 2023 will be new customer acquisition, improving the customer's digital experience and acquiring and retaining top talent.

Marc DeCastro, research director for IDC Financial Insights, expects U.S. banks to focus more on digital technology to enhance efficiency, focusing on buying via a SaaS model. "It's a continuing shift away from cap x spending. This changes the funding and how projects are going to get looked at." DeCastro stated.

Globally, IDC Financial Insights said in its FutureScape report that banks will focus on efficiencies to manage market risks while also rethinking how they use analytic technologies to make better business decisions.

IDC FutureScape: Worldwide Banking 2023 Top 10 Predictions



Note: Marker number refers only to the order the prediction appears in the document and does not indicate rank or importance, unless otherwise noted in Executive Summary.

Source: IDC Financial Insights

Though U.S. financial institutions started their digital transformations a few years ago, most report that process is still ongoing, according to Sam Kilmer, Cornerstone Advisors managing director. "They're still making a lot of changes. Only one in four will tell you that they are even half done. It's still very much a work in progress."

"IDC Financial Insights no longer uses the term 'digital transformation,' instead are focusing on 'digital business' since for the most part the transformation has been completed," said DeCastro. "Effort should continue on closing the gap and blending between the digital and the physical. You lead with digital, but branches aren't going away; the call centers aren't going away."

Many regional and community banks and credit unions are still using commercial and retail platforms built 20 years ago, when mobile solutions were unheard of, internet banking was in its embryonic stages, and other modern technologies weren't even a consideration, according to Mackenzie Kizer, Jack Henry, senior director, enterprise integration and services.

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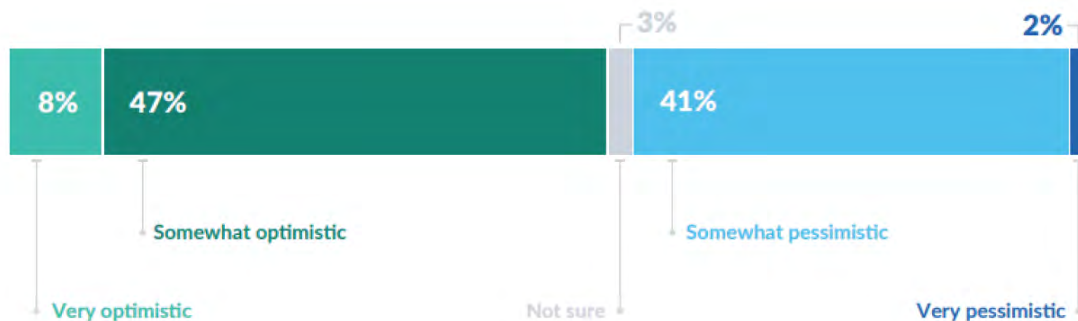
"What is preventing change more than anything else is, ironically, the technology," said Kizer. "The industry created a hedge around the technology. When the core providers decided they would not put their cores on the internet, it created a technological barrier and innovation was stymied."

"It's frustrating when the critical providers in the banking ecosystem have limited and poorly documented APIs, difficult to access test environments, and material API license fees charged to both the FI and fintech partner," said Brian Bodell, VP of Platform Technology in CUNA Mutual Group's Fintech Solutions division.

The issues with legacy technologies gave rise to middleware technologies, with cores staying behind firewalls, almost like they were buried in a time capsule. But now, in 2023, it's time for those cores to move to the internet, according to Kizer. "Then the wheels of innovation can start spinning again. As long as we keep the core behind the firewalls, the wheels aren't going to turn, because the internet is what makes the industry go."

How optimistic or pessimistic are you about the prospects for the banking Industry in 2023?



Source: Cornerstone Advisors

For banks, some of those past choices were good and others might be entangling alliances that they wish were unentangled, according to Jimmy Sawyers, chairman and co-founder of Sawyers & Jacobs LLC. "I believe that 2023 will be the year of fintech reckoning. Many spent their easy money to buy customers and marketing in hopes that they could grow their way to profitability, but they ignored some fundamental business rules. When the cost of funds was zero, any fool could look legitimate."

"This year will expose which fintechs have legitimate business models and which have just been playing with 'other people's money,'" Sawyers added. "The cost of capital is going to slap a lot of these fintechs squarely in the face."

Some banks have done very well with fintechs, expanding products, services and their businesses. Rather than spending financial and human resources on developing digital banking, banks are sponsoring fintechs to provide modern banking services, Kizer said. "That's where you see a lot of the modern banking providers coming in because it's a slice of the industry where you don't need so much overhead."

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For example, Jack Henry has partnered with Autobooks to offer integrated banking services for small businesses through the Banno Digital Platform.

However, other financial institutions, including some very large ones, have found that some of these firms were like "the emperor with no clothes."

For example, JPMorgan Chase in January shut down the website for a college financial aid platform it bought for $175 million after alleging the company's founder created nearly 4 million fake customer accounts. The bank said 70 percent of the 400,000 emails it sent to the platform's users bounced back. Allegedly, founder Charlie Javice used a data scientist to invent millions of fake accounts, but Chase didn't learn that until after investing in the platform.

"You need to know the fintech that you're dealing with, but you also have to know their source of funding," Sawyers said. "Due diligence remains critical. We're going to see more of a call for due diligence in choosing technology partners."

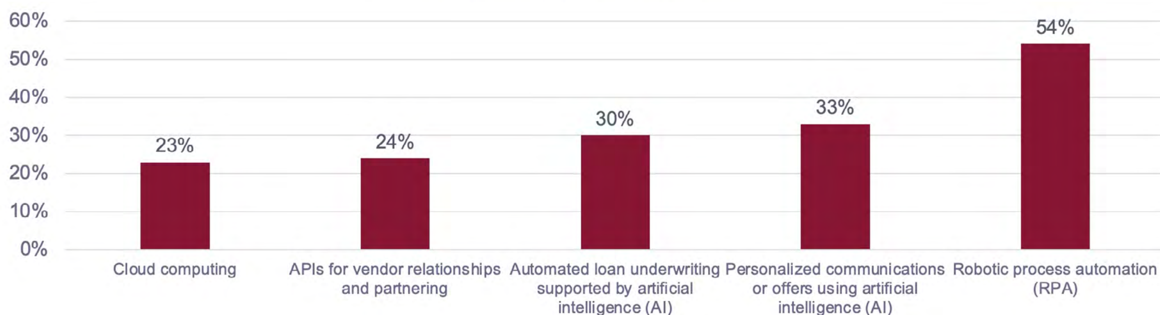
"The forward-thinking banks, the ones who are thinking about getting outside of their geographic region through being a sponsor bank or through a base offering, are looking to put together a best-of-breed tech stack," said Lee Farabaugh, Core10 president and co-founder.

Sawyers agreed. Though some legacy systems have tried to supply all a bank's technology needs, the reality is that most are weak in one or more areas, so banks are seeking best-of-breed solutions.

As many as one-fifth of banks will be looking to replace many of their legacy technologies, with business and consumer loan origination systems, CRM and marketing technology topping the list, according to Kilmer. In its What's Going on in Banking, 2023 report, Cornerstone Advisors found that nearly one in five (19 percent) plan to replace their commercial loan origination systems.

Many CUs Have Yet to Adopt Certain Digital Capabilities Related to Digital Lending

% of CUs with Total Assets > $250M That Have No Plans to Adopt Given Capability by Year-end 2023



Source: CUNA Mutual Group

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What the newer versions of all of these technologies have in common and are built to benefit from is that today most business and consumer prospects' and customers' first interaction with the financial institution is via a digital channel, Kilmer said.

Banks will overcome the technology challenge by working with fintechs to provide the products and services that consumers and businesses demand today, but aren't available directly from the legacy technology, Kizer added.

"I believe it's very important for community bankers to be clear about the problems and the challenges they're trying to address and not chasing shiny object technology because someone says it's hot," said Charles E. Potts, Independent Community Bankers of America (ICBA) executive vice president and chief innovation officer. He expects most community bankers to continue to refine and improve their digital presence in 2023, with the goal of making customer interactions more frictionless, convenient and effective.

"A lot of what they will be doing is a continuation of what they were doing as a result of the pandemic," Potts explained. "There's been greater mobile adoption or a mobile-first adoption. There is a desire to continue improving the digital channels and digital service capabilities, including everything from performance marketing to account opening to loan origination capabilities that are needed to make the customer experience as seamless and as efficient as possible."

Community banks will also need to focus on ways to attract and retain deposits in order to address their liquidity needs, Potts says. "The deposit liquidity challenge will be a significant driver of what kind of innovation they may be evaluating and pursuing in 2023."

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II. APIs

"Banks are not just banks today. Credit unions are not just credit unions. They're no longer solely focused on commercial and retail. Now they are moving into niche banking practices."

-Mackenzie Kizer, Jack Henry

A Business Expansion Opportunities

"It is not easy being a credit union or bank CIO," said Bodell. "Consumer demands for a seamless digital experience continue to increase but architecting for simple, personalized, and secure interactions while relying on more than 25 legacy and fintech vendors with varying degrees of openness is very complex. The only way to quickly and cost-effectively deliver on the right experience either within the financial institution's properties or embedded in other digital properties is to leverage an integration platform to manage critical APIs and services."

To provide additional products and services without undertaking the development, banks work with fintechs, but that partnership requires connections to the bank's core, which some bank executives are skittish about due to compliance risk, according to both Sawyers and Farabaugh.

"I think that you're going to see banks invest in technology that allows them to open up the APIs to their core, middleware products that will allow fintechs to easily connect to their systems," said Wade Peery, chief innovation officer of FirstBank.

"Open APIs support the rest of the financial institution's business, from offering bill payment, cash management service and other cutting-edge services to marketing efforts," said Robin Smith, Mambu vice president North America. "If you're going to pursue a certain line of business, or a certain demographic, the ease of which you can do it is empowered by that open framework."

In the past, system integration has been considered a necessary evil, Bodell added.

But the hyper-competitive market is forcing financial institutions to move faster, collaborate with more fintechs and support more UX consistency across multiple platforms, all of which require an adept use of API-driven architectures.

Only a few years ago, there was hesitancy to allow third parties to connect to the core due to regulatory and security concerns, according to Smith. But now most of those concerns have been addressed, though some banks still lag in their implementation.

According to Kilmer, while most credit unions use internal APIs, only 40 percent of banks do.

"For financial institutions to receive optimum benefits from APIs, they need to have a purposely architected platform designed to expose well-documented APIs and services with full security, monitoring and reporting, with a layer to abstract the front end from back-end solutions," said Bodell.

If the API can't connect securely to the core, then the bank will have to revert to previous interface methods, some batch and archaic, which they want to avoid, Sawyers said.

Core10 has developed a secure middleware to keep bank cores and fintechs safely separated while working together. "That gives them peace of mind," Farabaugh said. "It also shortens the time to get integrated because the third party is writing to a published, open API. They're not trying to write something new that is highly proprietary or needs customization. That makes things a lot easier."

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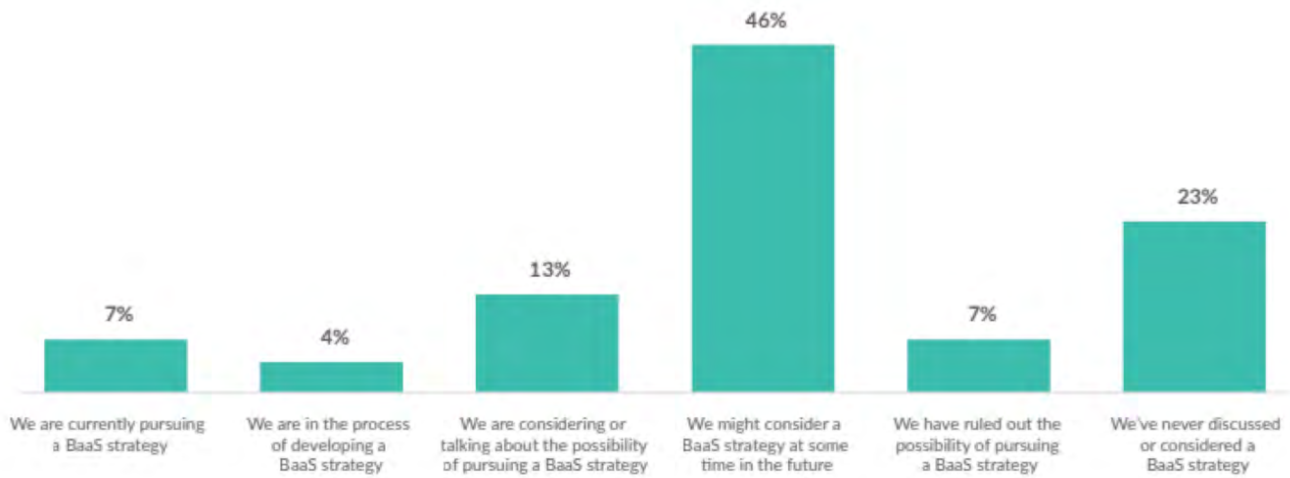
The APIs are enabling Banking as a Service (BaaS), through which a regulated bank provides its charter to a nonregulated brand, enabling the latter to offer financial services to their customers, Farabaugh added. “I’m seeing a lot of expansion there.”

Juniper Research predicted that the global BaaS market will grow to more than $38 billion by 2027; rising from $11 billion in 2022.

However, Kizer cautioned that it’s important to ensure that the API doesn’t expose a customer’s Personally Identifiable Information (PII) details in an unsecure way.

Which statement best describes your organization’s approach to BaaS?



Source: Cornerstone Advisors

B Fintech Partnerships

“We’re seeing a huge change in the philosophy as far as financial institutions and fintechs working together,” said Lisa Gold Schier, ASA chief strategy officer. Though some fintechs started as financial services disruptors, they soon discovered that they didn’t have the resources to do so. So now many of them look to banks and credit unions as a partnership relationship, a feeling that is largely reciprocated.

“The shift from competitors to partners started a few years ago and is continuing into 2023,” said Gold Schier. “You even see some financial institutions making investments in some of these fintechs. That shows the real shift in the marketplace.”

For a successful partnership, financial institutions need to have a strategy, and both sides need to understand their goals, outcomes and timeframes, according to Gold Schier. Both may want to move “fast,” but fast for a bank or credit unions may be two years, while for a fintech it could mean two months. That and any other misunderstandings can cause a misalignment in working together.

"The right people need to be involved in the partnership discussions to resolve those misunderstandings," said Gold Schier. "Fintechs need to understand some of the technical challenges of working with older, legacy bank technology, and both sides need to understand the legal ramifications of any potential solution. It does no good to have the technical team spend time and resources developing a solution only to have it stopped by the legal department. All of those stakeholders need to be involved from the outset."

In 2023, Gold Schier expects to see advances in collaborative banking, providing digital solutions to retail and corporate customers with access to their data in a safe, controlled environment. "In the marketplace, they are talking about embedded finance – taking financial products and embedding them into non-financial applications and removing the account holder from the bank and credit union ecosystem. We prefer to see embedded fintech – taking fintech solutions and embedding them into financial institutions offerings. In the embedded fintech model, financial institutions are the gateway to fintech apps, driving digital adoption, deposits and loans as well as greater control and choice for account holders.

To provide the safe environment that all stakeholders want, ASA anonymizes, securitizes and tokenizes customer data. This enables the fintech to provide a solution, such as budgeting without the need to access PII, while the financial institution doesn't need to provide all of the integrations for the solution to work, Gold Schier explains. "That's what we look at in collaborative banking, providing a platform so that banks and credit unions can allow their end users choice in a safe, secure environment."

Anonymizing or otherwise protecting PII will become more important in 2023 as the Consumer Financial Protection Bureau (CFPB) implements 1033 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which provides that subject to rules prescribed by the CFPB, a covered entity (e.g., a bank) must make available to consumers, upon request, transaction data and other information concerning a consumer financial product or service that the consumer obtains from the covered entity.

The CFPB is now in the process of writing regulations to implement section 1033.

"Covid-19 and the resulting shutdowns of in-person financial services pulled banking digital transformation ahead two to three years," said Jeff Ostheimer, Strategic Resource Management director, advisory services. "A lot of banks were bringing on these shiny new digital banking tools on top of legacy platforms."

Those who successfully merged the old and new technologies are ahead of their competitors today, Ostheimer added. "I see embedded fintech as a bigger opportunity for banks that still want to control the customer journey. They will embed the fintech offering on their mobile app or online banking experience to drive better engagement and a better share of wallet."

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III. Small Business

"What is different in 2023 from last year is often a move toward a single system provider for business digital (deposit) account opening and business loan origination or a single system provider for business digital (deposit) account opening and business servicing like cash management," said Kilmer. "In many cases, business digital account opening is a brand-new deployment instead of a replacement system. Many banks had nothing deployed before for business digital deposit account opening."

"Only five percent of small business applications are currently using digital resources due to the complexity," said Isio Nelson, BAI head of client engagement.

"For most traditional regulated financial institutions, small business banking is among their top five priorities," Smith said. "Small business banking is one of the stickiest relationships that you will ever have with a customer."

However, many small businesses are considering changing their banking relationships, according to a Harris Poll.

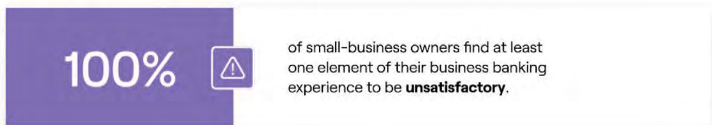
Citing the Bredin SMB Pulse, Smith said that the biggest cross-sell opportunities for banks are business cards, lines of credit and other types of credit.

Banks and credit unions haven't historically "leaned into" their small business accounts, but will do so much more in 2023, according to Loughlin Cleary, President and National Sales Director at Lenders Cooperative.

Though small business banking will often start as a credit relationship, it can quickly grow to include deposit services for the businesses, treasury management, employee payroll and other products and services, Smith said. "That's where having cloud-based and API-based solutions have become more important. They enable banks to compete with the fintech market."

SMBs - Dissatisfaction with business banking experience

By the numbers:



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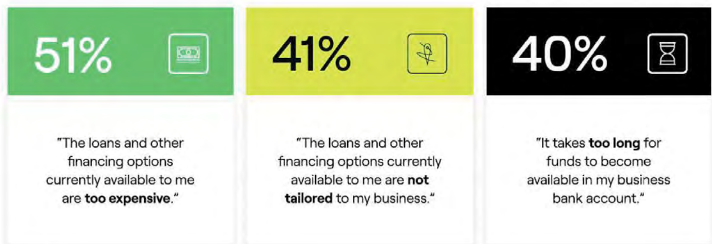

Source: The Harris Poll and Unit

Most small businesses will pay higher rates for credit if they can receive quick approval. One of the reasons that fintechs provide faster approval is that they don't require as much underwriting detail as traditional banks, Smith added. But banks typically have access to more data and can use some of that to accelerate credit decisioning as well as provide a better customer experience.

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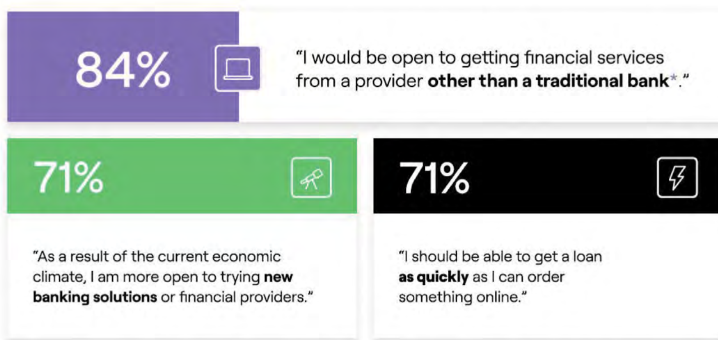
“What financial institutions are currently doing is a little bit elementary in terms of data automation,” said Keith Riddle, CEO of Americas at BankiFi, explaining that banks are failing to use data automation to provide the data and services that their small and medium-sized (SMBs) businesses need.

“SMBs are most concerned about getting paid, making payments and their receivables,” Riddle explained. “A lot of the SMBs have multiple financial institution accounts.”

According to an *American Banker* report, almost 80 percent of small businesses use more than one FI for banking services and 41 percent use three or more. Larger small businesses (100 employees or more) prefer to use a global or national bank as their primary bank while the smallest of small businesses (less than 20 employees) have a wider array of providers, including credit unions and online banks.

SMBs - Open to financial services alternatives



* *"non-traditional banks" are defined as: online banks, large technology companies, point-of-sale or checkout solutions, business lenders, ecommerce platforms, and/or business software tools*

Source: The Harris Poll and Unit

SMBs want tools that automatically input cash flow and receivables data into their accounting platforms (e.g., QuickBooks) while also displaying that information in an organized, usable format, according to Riddle.

“Eighty-two percent of SMBs fail due to little or no visibility into their cash management.”

“SMBs are looking to their financial institutions as a trusted source to provide these digital financial management workflow services so that invoicing, collection, supplier payments are all connected,” said Riddle. “If the FIs don’t deliver on these services, non-banks will continue to pursue them in earnest.”

“There are a large number of competitors in small business lending,” said Smith. “Small businesses will provide rapid credit approval, rapid funding and fast processing. That ranges from true small businesses to mom-and-pop organizations.”

Those needs for quick accessibility to credit and funds has led to the rise of the Lending Club and other fintechs. “To hold on to their share of the market, banks need to improve the efficiency of their credit decisioning and digital experiences,” said Smith.

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BankiFi provides a suite of these digital financial services that embed with the bank's digital channel and are bank branded, according to Riddle. "That allows the SMB to not only do the fundamental things that they do on a business banking platform today, it also gives them all of those financial management workflows so that the bank can become more of a trusted financial resource in helping them run their businesses."

Another *American Banker* survey showed that 53 percent of SMBs are willing to extend their relationships with third-party payment providers such as PayPal to other financial services providers.

"Most banks lack a great digital platform to provide these services to sole proprietors or other small businesses that don't need or want a complex application, but need more services that a consumer does," said Riddle. "That's the vertical in which there is significant opportunity for financial institutions regardless of size. There are 33 million SMBs in the U.S., 31 million of which have fewer than 20 employees."

By helping SMBs with insight into their cash flow and receivables, the banks deepen their relationships with these customers, while also receiving the same insight, which provides leads for lending opportunities and other potential products and services, Riddle added.

In summing up opportunities for small business and commercial banking, Kiser noted that the entire banking experience, including retail, small business and commercial, should be digital and that we need modernization to improve and protect these valuable customer accounts.

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IV. Payments

A Real-Time Payments and B2B Opportunity

In its executive report, BAI calls 2023 "the year of payments innovation."

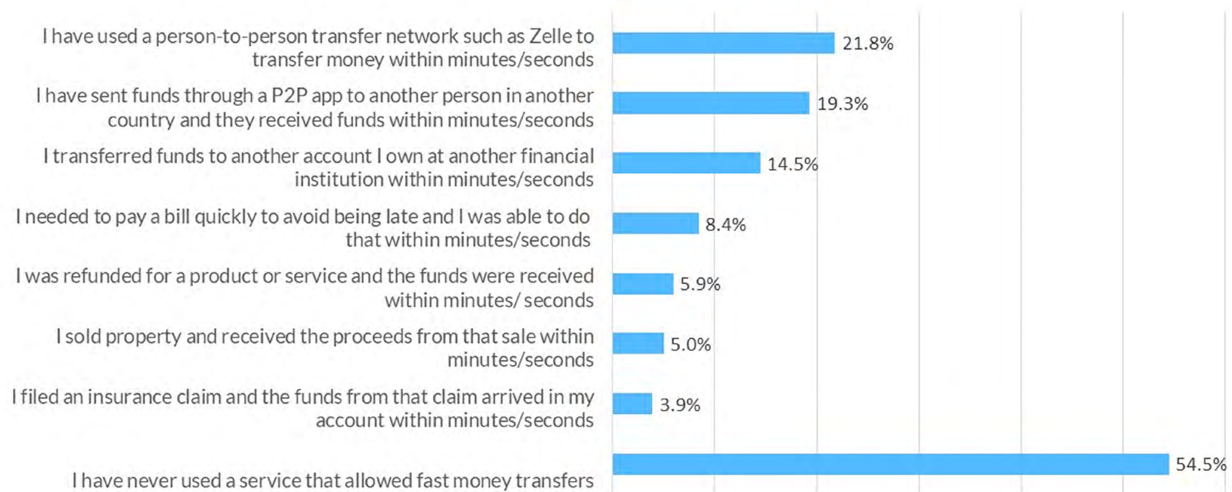
As S&P Global Market Intelligence reported, The Clearing House, a company owned by Bank of America Corp.; JPMorgan Chase & Co.; Citigroup Inc.; Wells Fargo & Co.; and other large banks launched the nation's first real-time payment platform, or RTP, in 2017, while the Fed has scheduled a production rollout of its own planned platform, the FedNow Service, sometime this summer.

RTP has shown steady growth since its launch, but its $19.7 billion of processed payments during the third quarter were a tiny portion of the trillion-dollar U.S. payment market, S&P Global Market Intelligence added.

Instant payments have a number of characteristics that make them attractive in the digital economy, the Federal Reserve said. "They can leverage technology within mobile apps or online financial/bill payment service websites that allow end users to make payments without physical interaction. These payments typically take only seconds to complete, making funds available to the recipient almost immediately, a good option for managing cash flow and making time-sensitive payments. Instant payments are also well suited to support delivery of rich details about the underlying transaction with the payment itself, opening the door to a host of new product and service opportunities."

The most common form of real-time payments is peer-to-peer (P2P) payments via services such as PayPal, Venmo and Zelle. In the United States and elsewhere, P2P payment growth in recent years has been staggering, both in volume and in value—the global P2P market is estimated at $2 trillion-plus now and is expected to exceed $5 trillion by 2028, writes BAI managing editor Terry Badger.

Over 45% of Consumers Have Sent or Received Funds Instantly



Source: Mercator Advisory Group

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"Covid accelerated the adoption of P2P payments as well as new form factors such as ApplePay and the advancement of contactless cards," said Prakash Natarajan, Strategic Resource Management's director of payments strategy. "Consumers have also become more accepting of these payment methods."

However, some experts estimate that 40 percent of all B2B payments in the U.S. are still made via check, meaning they play a critical role for a large share of businesses, as reported in "The Treasurer's Guide to AR Payment Optimization," a PYMNTS and CheckAlt collaboration.

But that percentage is falling as more businesses warm up to the idea of digital payments, Natarajan said. "I'm hoping to see more traction because of the better efficiency in payment processing. I think that digital payments are only going to accelerate in the B2B segment, which is going to be a win-win for the treasury management sections of some banks and for the end businesses."

Natarajan expects fintechs not only to help provide some payment services, but also to encourage businesses to move to digital payments.

"Businesses have multiple options today – from in-house check systems to third party supported check payment services. They have built their current systems and processes around that, which is working well," Natarajan said. "Therefore the inertia for change is from the view of 'why fix something that isn't broken.'"

There are accounting and related services that are already fine-tuned to work with paper checks, according to Natarajan. Once digital offerings reach that level, businesses will be more likely to switch. SMBs will realize a lot more efficiencies by early adoption of real-time payments once FedNow is a reality. However, larger enterprises are likely to be more cautious.

"Higher interest rates will likely accelerate RTP adoption by certain businesses and industries because the cost of captial is becoming more tangible and can impact margins. Banks will need to enable such options to retain deposits from those segments."

"The rise of fintechs has made banks realize that they have to up their game to be able to compete and retain customers," said Natarajan. "I think that the way the technology has evolved, banks are feeling much more comfortable that they can do something about it. The technology is no longer this big, unattainable competency. It is cheaper and more accessible. Banks are trying very hard to become fintechs now from a payment technology standpoint."

A number of FIs are connecting to our platform so that they can expand their array of products and services to their customers, said Tim Astanov, TabaPay SVP of Product Commercialization. "Ultimately, they think of real-time payments as another extension of their business. Previously, it was about capturing deposits and providing lending facilities."

The payments business has continued to expand to the point that smaller financial institutions are getting involved to grab their slice of the pie, Astanov said.

"Those that are proactive understand the value of real-time payments to their customer base, especially those in the commercial banking space," said Astanov. "They are bundling our service on top of their current value proposition – the ledgers, DDAs, etc., as a way to monetize payment transactions."

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TabaPay offers access to all real-time payment rails available in the U.S. for financial institutions to both originate or receive transactions. FIs can choose to wrap our APIs or white-label the entire platform and offer it as their own.

"In today's 24/7, always on world, consumers and business are expecting time-to-money to be zero. Enablement of real-time payments is the biggest opportunity for FIs," according to Astanov, who also pointed out that many neo-banks use the TabaPay solution.

Another important aspect of real-time payments will be the depth of information provided along with the transaction, Riddle said. That detail will provide both the SMB and the financial institution with important intelligence for cash flow management and underwriting purposes.

B Blockchain

"Cooperatives and consortiums are helping provide centralized services, including payments and blockchain technologies, to make the banking environment faster and more efficient," said Robert Morgan, CEO of the USDF Consortium, a membership-based consortium of FDIC-insured banks that is working with them to connect to the non-bank crypto system.

The consortium is working through the regulatory process and hopes to be offering live (non-crypto) payments soon, according to Morgan.

"It's a great sandbox, but it hasn't made its real-world impact yet because all of the uncertainty," Morgan said of cryptocurrencies. Despite the uncertainty surrounding cryptocurrencies, Morgan sees the underlying blockchain technology providing banks with some opportunities.

"Banks are now using cloud-based blockchain as the next ledger technology," Morgan said. "So we think that blockchain can be used to facilitate everything that banks do."

Payments is the first area where the technology is being used because it facilitates transfers between banks and their customers, Morgan added. "It's a faster, cheaper system of record and can break down barriers between financial institutions. We've already seen examples of that in the non-bank crypto ecosystem that prove blockchain's ability to facilitate real-time transactions and to do so very cheaply."

"With blockchain, banks will be able to provide programmable payments," Morgan said. An example of a programmable payment would be a multi-party transaction that occurs in real time, which could be beneficial for a mortgage REIT, smart contracts with waterfall payments, etc. Escrow payments could be scheduled and made more efficiently while also cutting down on incidents of fraud, according to Morgan.

Wire transfers can also be made more efficiently, with a trusted system of record that all parties can refer to, Morgan added.

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V. Data Management, Analytics

"One of the most important opportunities and challenges for banks with existing customer relations is what they can learn from deposits flowing out of the bank," said Potts. "That is an exercise in analyzing data: first having good data to understand what customers are moving deposits out of the bank and where it's going. From there, the bank can really start digging into what are the types of services or products those customers want – does the bank already have that product, but the customer doesn't know about it? Or is there a new service worth offering?"

Most banks don't have a centralized data depository, Natarajan said. Such a data pool can drive more proactive insights, so he expects banks to invest more in data-related technologies in 2023. "Banks are investing more to get to know their customers better."

"We're finding banks are spending a lot of money on best-of-breed technologies," said Mark Riddle, BAI director, research and content delivery. "They have a lot of great data, but the problem is that a lot of these technologies don't talk to each other so banks are trying to break down these silos to get a real 360-degree view of the customer."

Mark pointed out that eight in 10 small business owners use the same financial institution for their business and personal accounts, but most of today's bank technology fails to recognize that relationship.

"Banks understand the systems need to be integrated," said BAI's Riddle. "Sometimes that means replacing the whole core operating system, which is a huge expense."

Nelson added that banks are investing in more versatile, cloud-based systems. "Core replacement doesn't sound like fun, but it needs to be done for banks to get the flexibility they need."

"Community banks will be looking to add products and services to attract and retain deposits though fintech partnerships, but before they do that, they will be first analyzing the ROI prospects of any technology investment," said Potts. "We think it's incumbent that banks focus on the problems and the solutions and less on the tools that are used to address those things."

Smith adds that investing in data-related technologies will be critical for banks to better serve their small business customers in 2023. The more granular the data, the more insight the bank has not only to determine whether to lend to a small business, but also the more insight the bank can provide the business owner. For example, the bank can dig into the data and enlighten the business owner on the comparative performance of different business locations.

Peery added that research and data have been critical to the bank's success in the manufactured housing market. The quality of the data is another central issue.

"In addition to the APIs, the other technology critical to making a segmentation strategy successful is data management, the ability capture data, use the information to feed 'data lakes' and combine structured and unstructured data to provide critical business insights," said Farabaugh. "We build data warehouses and data lakes on top of Amazon Web Services (AWS) using Amazon Quantum DB. Others use tools like Snowflake, Power BI or Tableau to take all of that information and gain insights to find opportunities for additional revenue growth.

"This type of customer information will also help the bank determine what resources to use to acquire or expand a customer's business," said Ostheimer. Some customers can offer profitable opportunities even if the cost of servicing them is relatively high. Others are only profitable if serviced through digital channels.

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VI. Segmentation

A Targeting Specific Customers

To help with segmentation and specialization, the banks will be investing in CRM, marketing, marketing platform and data analytics platforms, Kilmer said.

"Banks will be investing more in marketing segmentation technology to better personalize offers for targeted customers," said Bob Meara, Celent principal analyst for banking. "There is ample evidence of marketing segmentation, particularly among digital banks, because it's comparatively easy to segment when your marketing is exclusively digital."

Smith added that banks are using segmentation to determine how to acquire customers and service them through more efficient channels.

Nashville, Tenn.-based FirstBank has focused on the manufactured housing segment for several years, lending to community owners who develop structured communities and to prospective homeowners, according to Peery.

"It's a space that is evolving from a technology standpoint," Peery said. "New technologies are coming to market that take a lot of friction out of the credit application process. There are better point-of-sale, better origination systems and better servicing platforms so that a person doesn't need to take six weeks to buy a manufactured home."

The more the technology expands and evolves, the more attractive the purchase experience, according to Peery, because the process is much easier and quicker, with some sales completed in as little as 10 days. "That makes it much more attractive to the buyer to purchase the home."

The secondary market for these homes has also improved, according to Peery. "Technologists are paying attention to that. This is an industry that has been long ignored, but it won't be going forward."

Some banks are using APIs to target very specific customer groups, Farabaugh said. "Encore Bank (Little Rock, AR) is using BaaS to attract property owner associations, offering management of property owner fees, upgrade assessments, fines and similar transactions that all flow through a third party than connects to the bank on the back end. The relationship provides the property owner associations with the financial management they need while providing the bank with the associations' deposits.

An Eastern Tennessee bank is following a similar strategy in targeting medical professionals, according to Farabaugh.

"One of the interesting things that Autobooks has done is work with financial institutions to help them understand accounts moving money in non-traditional ways (e.g., PayPal)," Kizer said. The bank can then offer Autobooks to further build its relationship with the business. "The idea here is that you can provide the business a better experience as a banker than the competitor that is a non-traditional financial institution."

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The banks are fighting this fragmentation by leveraging open APIs, according to Kaizer.

Open APIs help community banks regain customer trust and prevent the financial fragmentation that many financial institutions suffer when customers take parts of their business elsewhere. Similarly, they enable the community bank and its fintech partners to offer the same range of products and services as much larger financial institutions, providing customers with a single digital source for all of their financial needs.

“There are a lot of opportunities to combat financial fragmentation,” said Kizer. “We’ve come a long way in our industry to empower community institutions to fight against their deposits leaving.”

Seattle Bank and others have already successfully deployed APIs to expand their businesses, Ostheimer said, adding that banks have an opportunity to take advantage of the thousands of layoffs Silicon Valley companies have made to bring in technical talent to further develop the technology.

Others are becoming sponsor banks, partnering with fintechs to reach out beyond their geographic area, especially if the bank is in a small town, to offer specific products to address very specific niches. In addition to the examples above, Farabaugh said some banks have focused on high-quality commercial accounts, while others have focused on other niches or environmental issues, such as helping to manage carbon offsets; or focused other niches.

“There are still banks that try to be all things to all people, in a local area, but I feel that is the model that is dying out,” Farabaugh said.

“The low-hanging fruit is the customers that you already have,” said Meara. “Digital acquisition is fine, but most of those customers have primary relationships with other banks.” The bank might get some of that customer’s business but is better served by expanding financial relationships with current customers. To do that, Meara recommended that community institutions use off-the-shelf technology to closely examine transactions to see what funds are leaving the bank on a regular basis (e.g., an auto loan payment) to see if the bank can acquire that portion of the existing customer’s business.

“Over the years, marketing segmentation has gotten more and more precise, ultimately down to a segment of one,” Meara said. However, he says that the more refined the marketing segmentation, the more costly it is to implement.

So the most advanced technologies only provide positive returns for the largest banks. He recommends that community banks stay with off-the-shelf solutions.

“You can test those inexpensively and expand those things that work and stop those things that don’t,” said Meara.

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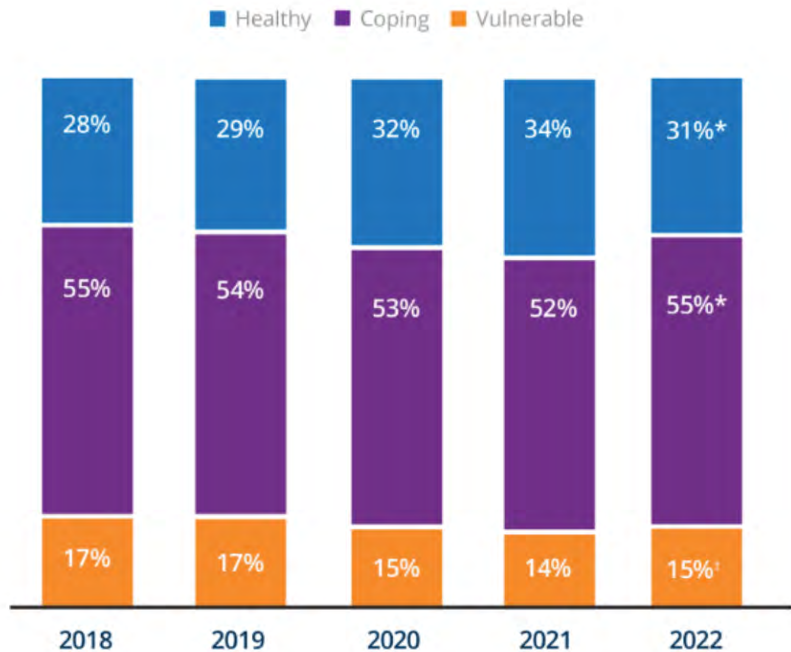
B Fairness

While banks seek to conduct business with the most profitable customers, it's also important for them to seek opportunities with populations that have traditionally been underserved from both a fairness standpoint and to uncover some unexpected business opportunities, according to Maria Lajewski, Financial Health Network, director, innovation.

Top line data from the Financial Health Network Spend Report 2022 showed consumers spent an estimated $305 billion in 2021 on interest and fees alone, with massive disparities in spending by race and ethnicity, income and financial health tier. "This year's report found that households considered not financially healthy accounted for 83 percent of all fees and interest paid," Lajewski said.

Financial Health Declined for the First Time Since 2018



Source: Financial Health NetworkGroup

The Financial Health Pulse study provides additional data and insights on the state of consumer financial health in the U.S. For the first time since its launch in 2018, the report recorded a drop in the number of people considered Financially Healthy in 2022.

The Pulse report scores survey respondents against eight indicators of financial health — spending, bill payment, short-term and long-term savings, debt load, credit score, insurance coverage, and planning — to assess whether they are "Financially Healthy," "Financially Coping," or "Financially Vulnerable."

"It is critical that employers, financial institutions, and policymakers prioritize financial health and collaborate for better outcomes in these uncertain times, especially as economic conditions could trigger future financial health declines," said Lajewski.

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VII. Cybersecurity, Fraud

Based on recent cyber incidents, everyone is going to be focused on strengthening their cybersecurity, Renganathan said.

According to a Security Intelligence article, the three largest cyberattacks in 2022 all included ransomware demands. The fourth largest attack, against Uber, demonstrated that even two-factor authentication can be circumvented.

“Threat actors broke through the company’s defense by sending a fake two-factor authentication notification urging the victim to click a link to verify a request,” Security Intelligence reported. “After compromising the employee account, the attackers used the company’s virtual private network to access internal network resources. They gained access to the company’s privileged access management service, used it to escalate account privileges and claimed to have access to several Uber systems, including AWS, Duo, GSuite, OneLogin, Slack, VMware and Windows.”

However, banks face the challenge of authenticating the customer to secure the account without the process being too cumbersome to be useful, Nelson said.

Another issue is that even if one bank department has authenticated a customer, a subsequent department may request the same authentication credentials again.

Step-up authorization, typically used when a customer logs in from an unknown device, is one of the biggest areas of friction in the authorization process, according to Nelson.

Today, most financial institutions rely on multi-factor authentication as the main way to combat unauthorized account access, according to BAI.

Mark added that low-tech efforts such as employee training and customer education are also essential in fighting fraud. “An educated customer is your best defense against fraud.”

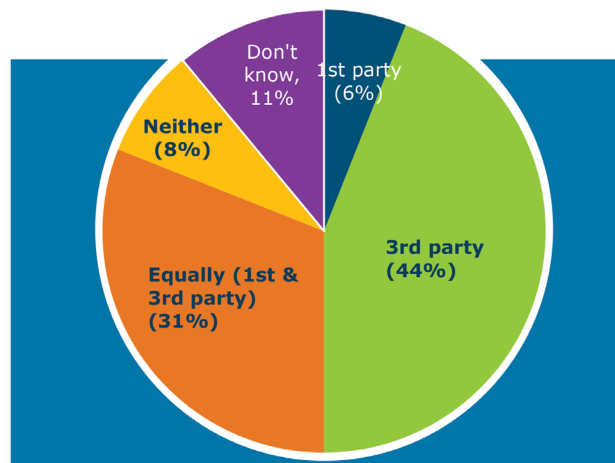
Type of fraud seen most this year

Source: BAI Banking Outlook - Banker

Fraud challenges this year

Type of fraud organization has seen most this year:

- 1st party fraud (fraudster opens account)
- 3rd party fraud (fraudster uses another’s identity to takeover)
- Both equally (1st and 3rd)
- Neither
- Don’t know



Source: BAI

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VIII. Customer Experience (CX)

After cybersecurity and compliance, the next largest technology investment banks will make in 2023 will be in solutions to enhance the customer experience, according to Renganathan. “If you want to enrich the experience, the natural thing to follow is analytics and insights, which means investing in data systems.”

“Believe it or not, customer digital experience is in its infancy in the banking industry,” BAI’s Riddle said. “Banks and credit unions are still struggling with how to make that an easier process.”

Riddle explained that while younger generations think that online account opening is a more difficult process than it should be, Baby Boomers aren’t as critical.

“There’s a lot of work to be done, there are high abandonment rates,” Mark Riddle said, adding that as many as half of online account opening attempts aren’t completed.

Banks will also be investing in technologies for connected experiences, pulling together partnering with various parties to provide customers with one-stop solutions, Renganathan said. For a mortgage applicant, for example, a bank would pull together mortgage insurers, real estate agents, etc., all on a single platform.

Similarly, Sawyers expects financial services firms to invest in systems that will help in developing relationships not only with small businesses, but also with the business owner and family to attempt to bank the entire relationship.

Other banks have worked with CX technology providers to offer more personalized messaging and marketing to customers, with good results in only a few weeks, according to Meara. The CX technology can be added quickly and without hiring any additional staff.

Customer experience by generation

Improving CX varies across the generational segments

	Gen Z	Millennial	Gen X	Boomer+
1	Improve omnichannel experience	Improve omnichannel experience	Give me tools to customize my experience	Give me tools to customize my experience
2	Give me tools to customize my experience	Real-time messaging to manage day to day banking needs	Improve omnichannel experience	Improve omnichannel experience
3	Real-time messaging to manage day to day banking needs	Give me tools to customize my experience	Improve branches for better in-person experience	Real-time messaging to manage day to day banking needs

Source: BAI

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A Genesys report, Customers Are at the Centre of Banking, sees prime CX opportunities in the branches.

Source: Genesys®

Data quality is also essential for any AI solutions to provide any value, says Sawyers, who expects to see increased spending in bank analytics.

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XI. Automation to Reduce Repetitive Processes

Automation to reduce or entirely remove repetitive processes has been an essential part of banking technology for decades, yet banks still have a long way to go to fully eliminating the re-entry of information, according to Farabaugh. "There are still a lot of spreadsheets out there. There's still a lot of human entry. There's a ton of opportunity to streamline workflows and get rid of rekeying data. One of our favorite things to say is never enter data twice. Never ask the customer to key in their name or address again."

Robotic process automation (RPA), introduced about a decade ago, mimics repeatable human actions, making customer onboarding, loan processing, account closures, report generation and a host of other activities much more efficient.

Combining automation with AI and machine learning will help banks remove bias from decisioning, while also making the completion of compliance forms much more efficient, according to Ostheimer.

According to Gartner, 80% of finance leaders have implemented or are planning to implement RPA. The technology has become increasingly important for community banks as well, according to Potts. "Coming out of PPP and the Cares Act, we saw and continue to see banks focusing very heavily on what back-office automation is needed to improve the efficiency of underwriting KYC, AML and BSA. These are obvious areas where you can apply repeatable automated needed solutions to help with those very redundant, repeatable, manual tasks."

However, there are banks that have added the technology but aren't using it to its fullest extent, according to Kizer, who cited two primary reasons: the user isn't aware of all of the capabilities or is using it in such a way that it no longer works if the provider updates the underlying user interface.

Potts expects to see more banks install RPA, AI and machine learning to eliminate the redundant tasks. "It's easier to take out those kinds of costs and create more efficiencies than it is to go find new sources of revenue."

Loan processing is where automation has the biggest impact, Farabaugh said. "Our Accrue lending platform takes the entire process, from customer documentation to underwriting to documentation to KYC."

Without automation, humans would have to re-enter some information as many as 30 times, Farabaugh explained. "I think you would be surprised at how much of that is still left, even though we have better tools than we had in the '90s."

By relieving employees from these mundane tasks, banks can put them in more challenging, rewarding positions, according to Farabaugh.

The manual tasks remain at many banks primarily due to integration challenges. Even so, AI, including ChatGPT, will increasingly be used to eliminate manual and repetitive tasks in 2023, according to several Bankers as Buyers interviewees.

It makes sense for banks that do that to use Microsoft Azure as part of their database, according to Ostheimer.
"As interest wanes in cryptocurrency, and Web 3.0, and, in some cases, even in fintechs, I think you're going to see some increased interest in AI and [technology] investment will shift there," Sawyers says.

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Now leading financial services firms are taking automation to the next level, advancing from RPA to intelligent automation, Renganathan said.

RPA is static automation that uses structured data with very simple rules, Renganathan explained. For example, it will send emails out to people who are late on a credit payment. Intelligent automation, on the other hand, takes this concept much further. It goes beyond static rules, using contextual knowledge, enterprise search and automation to generate insights.

The next step, Renganathan said, is hyper-automation, which uses cognitive computing and pattern recognition.

Pattern recognition is already used by credit card companies and other financial services providers to help identify and combat potential fraud. If a transaction is outside of a customer's typical pattern, or if several transactions of a similar nature, for a single customer or across several, various anti-fraud solutions will flag the transactions and will stop subsequent ones matching the suspicious pattern.

Cognitive computing uses optical character recognition and machine learning to eliminate the need for a human to input information hand-written into applications and other forms. Though such capability is becoming commonplace in certain areas of financial services, it has yet to become ubiquitous, Renganathan said. "Leading edge banks are use these modern tools and are bring AI into the picture. So advanced banks are in the hyper-automation stage."

Renganathan predicts that the financial services industry will move from the leading edge to the mass adoption stage for hyper-automation in 2023.

The advance will have the largest effect in customer onboarding, enabling banks to add new customers more quickly, according to Renganathan. Fraud detection and loan processing, which have already embraced the technology, will further refine the hyper-automation capabilities and usage.

Farabaugh expects banks to be adding more automation in the area of commercial lending.

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X. Cooperatives

"There's no silver bullet solution," Cleary says. "But the partnership model has continued to expand. Banks want to control their future technology stack. A cooperative gives you that opportunity because it almost lets you own the technology.

In the spring, about 15 banks will take 40 percent ownership in Lenders Cooperative, which Cleary says isn't due to a need for capital, but instead to enable bank leadership to control the direction of the cooperative and its technology.

To ensure that its credit underwriting product meets the needs of its financial institution customers, Lenders Cooperative developed the technology with the help of a veteran underwriter, growing its staff to 22 senior underwriters as the demand grew. The company has additional bankers with other specialties as well, to provide human as well as technological support not only for underwriting, but also for document preparation, contact center support and a host of other services.

Lenders Cooperative can set up its services quickly, and charges on a per-unit basis to relieve bank customers of being saddled with a lengthy contract, Cleary says. "This is very bank and credit union friendly. They're making loans and we're getting paid. And they're not saddled with large implementation costs."

There can be downsides to cooperatives as well. If there are too many owners, it can be harder to get a consensus on the direction of the organization, Cleary acknowledges. "But whether you call it a partnership or a cooperative, people want choice. They want a little more control on what they provide to their customers."

As referenced in section B. Blockchain, USDF Consortium is using a bank membership structure to connect banks and work together with regulators. This collaborative group is using new technologies to improve the U.S. banking system.

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XI. Branch Technology

"While banks have concentrated on digital technology for the last several years, investment in branch technology has waned," said Meara. But some banks, particularly community financial institutions, are re-investing in their branches because they are still a critical part of the community service.

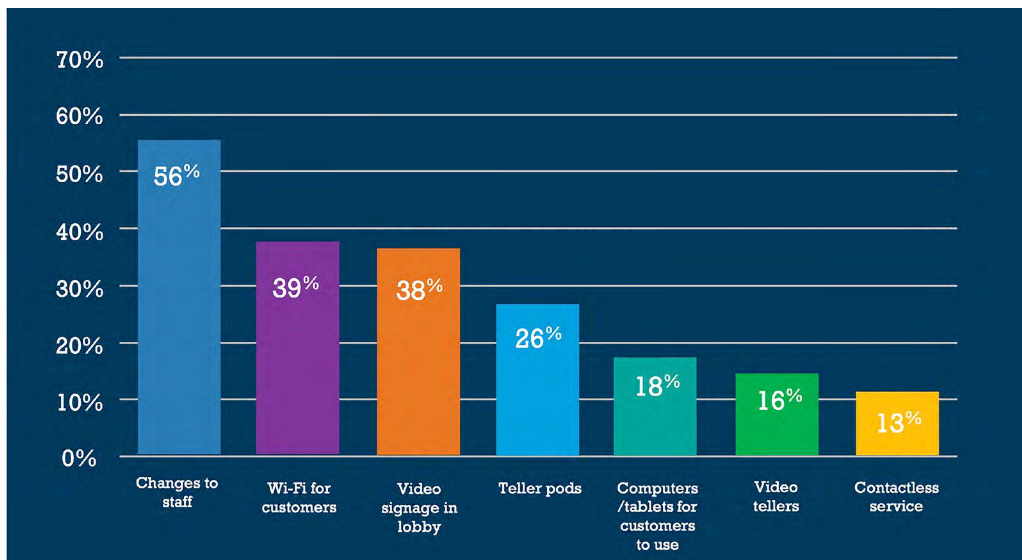
"You're going to continue to see a need for branches, especially for small businesses," said DeCastro. "The branch networks are also important for servicing gig workers and small business owners, many of whom have cash-based transactions and are looking to seek financial or product advice from someone at the branch that they can not necessarily do on digital channels."

Accenture agreed in its Top Ten Trends for 2023 report, "The year ahead will see a renewed focus on branches. Many banks will follow the lead of JPMorgan Chase, which 18 months ago reported it was more than halfway through its 2018 plan to open 400 branches in new markets across the U.S. by the end of 2022."

"The industry is aligned on the enduring value of the branch network for sales and service," Meara says. "The branch should be designed, built and equipped accordingly. From our research the number one investment among community financial institutions will be in digitizing the workflow – paperless account opening, digital identity verification, etc."

In its 2023 Banking Outlook, BAI said banks have been adding Wi-Fi, video, teller "pods" and other technology, though customers still use the channel for account opening and closing, transactions and to resolve problems, rather than to discuss new products, which the newer technologies are designed for.

Which of the following changes have been made in your branches?



Source: BAI

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According to CFM's 2022 Retail Banking Report, banks ranked self-service solutions (ATMs and interactive teller machines, or ITMs) as the most critical branch technologies. Teller cash recyclers (TCRs) continued to show high adoption rates, with respondents reporting an average of two devices per branch.

Some banks are still adding technology that provides branch workers with the same information customers have on their mobile devices.

DeCastro and Meara said that branches are looking very different than they did a couple of decades ago, with newer ones and some retrofitted older ones going to more open concepts and leveraging interactive teller machines.

Community institutions are doing this in some newer locations, not remodeling older branches, according to Meara. "Only a very small percentage are fully modernized. The industry will take another three to five years to finish that up."

DeCastro expects banks to have a mix of branches – ones that are fully self-service, others that have the open concept, and some with the more traditional look.

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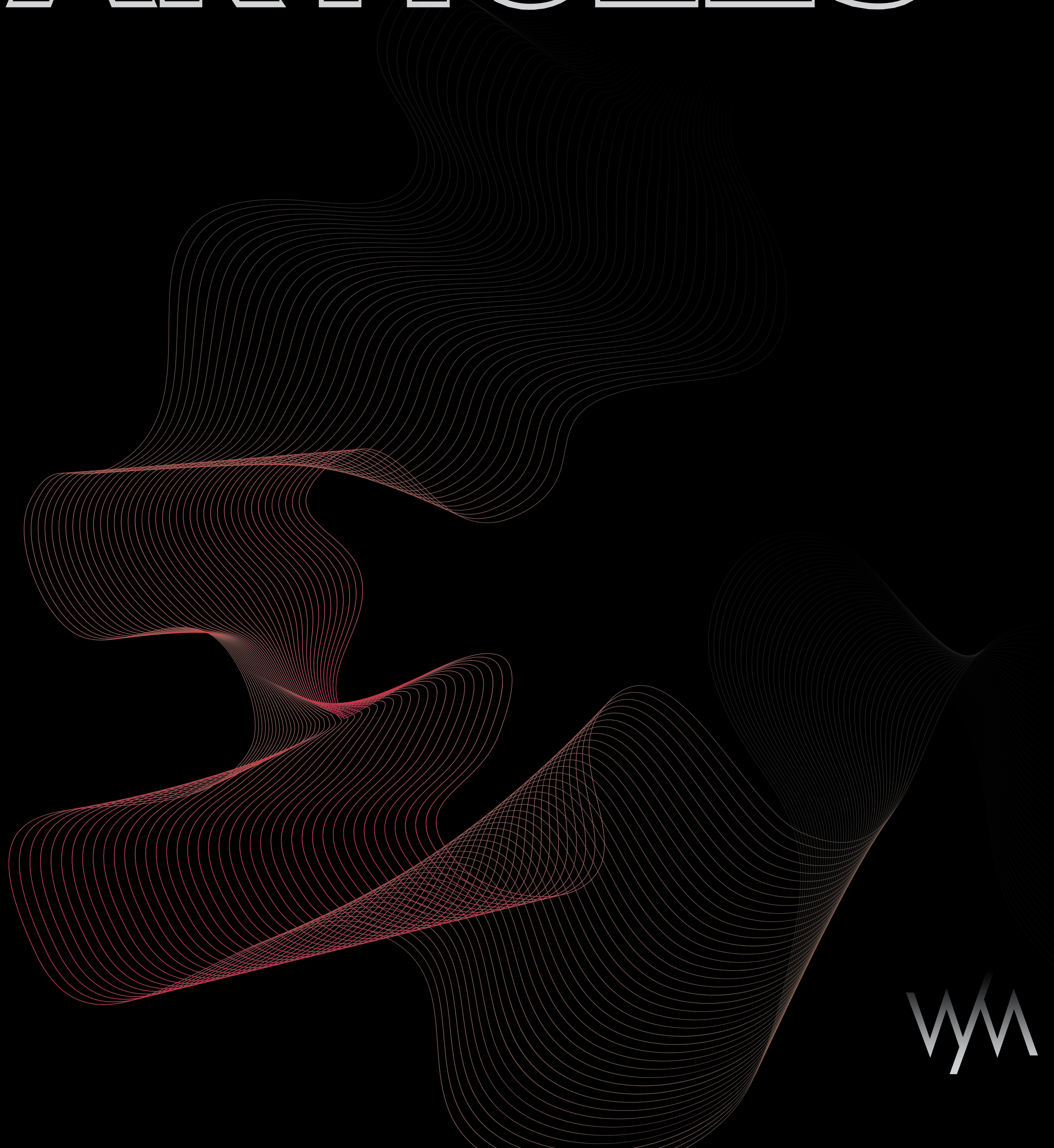

WYM

How Marginal Improvements in Data Strategy Can Yield Tremendous Results

- **The truth is brutal: data is hard, and most people don't understand it.**
- **Here's how marginal improvements to a company's data strategy can have a profound impact.**

By *Christopher "Chris" Aliotta, President and CEO of Quantalytix*

Let's face it, you're probably sick and tired of reading about how your bank data will make you more competitive or less risk prone. It's not that you don't believe it, it's simply that the discussion is both laborious and tiresome. After all, if the benefits are so great, why is it such a difficult topic at the management and board level?

The truth is brutal: data is hard, and most people don't understand it.

It comes as no surprise that when asked about data strategy, it is far too common to hear, "We'll get by with what we know and what we have." Unfortunately, according to a survey conducted by Sigma Computing, 63% of employees say they can't get insights from their solutions in the right timeframe, and a report from Forrester indicates that between 60 and 73% of all data is never used for analytical purposes.

This suggests a dismal picture where the data "rich" cannot extract value from their information, and the data "poor" cannot get the information needed. But is technology, or lack thereof, to blame? Does one need to invest heavily in new technologies to reap the benefits of "rich" data?

I'm here to tell you that it does not take much to yield positive results from data – just marginal improvements to your data strategy can create the foundation for the achievement desired. The key is knowing where to start, and you may be surprised that it has nothing to do initially with data.

It starts with four foundational questions:

- **Where do we want to be in the next six months?**
- **How do we plan on getting there?**
- **What metrics need to be measured to support these goals?**
- **What information is needed to make adequate decisions?**

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These are anchor questions that will provide the groundwork for developing the optics and data strategy needed for execution. Let's unpack these questions.

First, why six months you might ask? Generally your most pressing fires are happening within that timeframe. It's hard to build an empire when the forests are burning around you. By focusing on six months, the data strategy can be seen as a series of incremental success stories, each building on the prior. Pick a data goal, prioritize it and then set it as the focus — you will be amazed.

Often, companies will try and implement large-scale monolithic data initiatives spanning many years. This is akin to trying to boil the ocean. Not only does this greatly increase the time and upfront investment needed until something useful can be produced, but you can also bet that by the time is ready to "go live" the solution will already be outdated, replaced by other needs or changes in business strategy.

Second, as for the "how do we plan on getting there," this is where your business strategy comes into play. What is important to note is that banks without a clear business vision, whether it's due to poor communication, planning, or family inheritance went wrong, will equally never have a good data strategy that is effective under any circumstance.

In my professional career, lack of a business strategy is the number one reason banks fail to implement a sound data strategy. An organization must have a solid business strategy, that is well-known and effectively communicated otherwise it will be impossible to know what to measure.

Lastly, the need for a solid business strategy dovetails perfectly into the final two bullet points: with the business strategy in mind, the metrics needed to make adequate business decisions are the core data requirements required to run your business.

As a business owner or leader, what are the things you need to see to know the overall health of your business? Each of these metrics should be decomposable such that root analysis can be performed when investigating business performance. Sometimes, these measures will be hard to attain because they'll be dependent on other data initiatives to occur; this is fine, but be patient.

We often think of using data like we would use a map when traveling. As one who has ever navigated with an old paper map can attest, like your data, things change, and if you are not updating your map new faster roads may go unnoticed.

Having a data strategy not only gives your position on the map, but with incremental improvements, can keep the map up-to-date, and even act as a GPS in case you get lost as well.

In a world where people are still using a paper map, and in some cases no map at all, marginal improvements can have a profound impact.

Christopher "Chris" Aliotta is the founder, president and CEO of Quantalytix, a Birmingham, Ala.-based fintech startup specializing in advanced analytics and loan management systems. With more than 16 years of banking and fintech experience, Aliotta has mastered interest rate risk management, credit risk management, leveraging and monetizing data, bank strategy, loan/deposit valuation, balance sheet profitability, relationship profitability modeling, asset liability management, relationship profitability modeling, cloud software trends, blockchain trends and data tools.

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Transforming Customer Engagement in a Digital World Starts With Meeting Customers Where They Are

By *Soren Bested, Chief Operating Officer of Agent IQ*

We know that nearly two-thirds of U.S. consumers are choosing to engage with their financial institutions via mobile apps, websites and social media platforms, and while it may now seem that FIs have successfully evolved from the "branch-centric" model of the past, the reality is that many FIs still fall short in meeting their customers wherever and however they actually prefer.

Too often, FIs focus only on transactional data as an indicator of digital banking success and in doing so, create a disconnect between what the FI is providing and what their customers actually need and want. Taking into account the digital preferences of today's consumers, financial institutions should be asking themselves if their digital banking services are successful in meeting their customers where they are.

In my experience, I've found that three foundational services are fundamental to achieving success:

Facilitating financial transactions

In terms of facilitating basic financial transactions for retail customers, such as transferring funds, paying bills and depositing checks, FIs have done a respectable job. Yet, when it comes to other processes including account opening, digital loan applications and the like, there is certainly room for improvement.

Providing support when needed

FIs faced another roadblock when coronavirus disrupted the traditional branch as everyone chose to remain socially distant and call center volumes tripled. Customers experienced extensive wait times, revealing both the desire for meaningful engagements and readily available customer support. In an increasingly complex world, FIs must understand that some customers have banking needs that may require immediate assistance or that arise outside of regular business hours and cannot simply be resolved through the mobile app.

Offering guidance on how to better financial lives

Customers are increasingly seeking meaningful guidance and informed advice from their FIs in order to improve their financial situations. Yet, the counsel provided via digital channels is often lacking as most FIs use these platforms to share general marketing campaigns, rather than customer-specific financial guidance or relevant promotions. The missing element, and a crucial component to delivering this valuable support, is in FIs' ability to leverage the personal experience factor, delivered through the digital channel via a dedicated and trusted personal banker.

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To take it a step further, instead of classifying customers as “digital,” “mobile,” or “branch” clients, FIs should instead utilize customers’ actual banking activity to develop a deeper understanding of each client as an individual with unique channel preferences. Rather than generalizing customers through a channel-centric service delivery model to see what works, enlisting a true, customer-centric strategy adds another layer of convenience and personalization that consumers crave.

Providing support in this context means that customers are in control of determining how they resolve an issue, whether it’s on their own or with assistance from their banker. This also equips FIs to continuously analyze customer behavior to greatly enhance both the user experience and the effectiveness of their services.

Even if the majority of interactions between banker and customer center around service concerns or tactical support via virtual consultations, FIs should recognize that customers still prefer conversing with -- and confiding in -- their trusted, personal banker. Providing specialized banking services is also an opportunity to increase revenue, as many people will turn to their FI for advice when experiencing major life events.

Innovative institutions like Rockland Trust, BMO Harris Bank and PCFCU have recognized the advantages of letting customers select their own personal banker and allowing digital engagement to flourish naturally through communication initiated by either side. These solutions enable consumers to contact their personal bankers conveniently at the time of their choosing and be notified when the banker responds, unlike traditional chat services which require both the banker and the customer to be available at the same time.

Bankers that augment these preferred personal relationships by enabling simple queries to be resolved via virtual assistance on the website or within the digital experience are unleashing resources for higher-value engagements. By leveraging a human-AI hybrid model, FIs can better ensure that their customers have complete control in choosing based on their own preferences and never find themselves stuck in a frustrating, siloed experience.

The initial advancements that enabled basic financial transactions and tactical support through the digital and mobile channels were a good start, but now customers want and expect an overhaul of the entire banking experience – one that successfully meets them where they are, when they need it. FIs that fail to recognize this risk losing customer loyalty and ultimately, their own ability to remain relevant and thrive.

Soren Bested is the chief operating officer of San Francisco-based Agent IQ, a provider of digital customer engagement solutions specializing in making financial services more personal again.

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Everything Everywhere All at Once: How Payroll Became the Center of the Universe

By *Geoff Brown, Co-founder and CEO, Highline Technologies*

The financial needs and expectations of consumers are shifting. In today's financial landscape, the way we spend and engage with money has changed dramatically, and many of the traditional tools and methods are unable to keep up with these new demands. Three converging technologies are driving this change: the fragmentation of consumer payments through small-dollar lending and subscriptions, greater and more complex payment methods and the evolving platforms that manage how workers get paid. When and how we buy, pay bills and get paid is moving faster and becoming fractured.

Too many bills, not enough time

Subscriptions and Buy Now, Pay Later (BNPL) services have exploded in popularity, with both adding to the distasteful chore of paying bills.

BNPL payments grew 85% and revenue increased 88% during Cyber Week in November alone, according to Adobe Analytics. Not only is BNPL taking a growing share of lending, but these platforms are also expanding into credit and debit card products as well.

However, the increased usage and adoption of BNPL has highlighted some of the problems this payment option can pose. While it can present an easy way to buy items on credit, every purchase becomes multiple payments to manage and, unsurprisingly, 42% of BNPL users have missed one of those payments, with 33% of users overdrafting their checking accounts in just one month. As more of today's borrowers take on an increasing number of BNPL payments, the chance for delinquencies has risen. Keeping track of BNPL payments in addition to other expenses gets complicated quickly, and for many consumers, one missed loan, credit card or bill payment could mean a long-term hit to their credit scores—and potentially a default for the lender.

Another trend impacting payments is the increasing granularity of subscriptions. Historically, consumers had a single cable bill to manage with only a handful of "package" options. However, streaming services have proliferated, surpassing fixed-schedule programming in July 2022 for the first time ever, and continuing to grow. The same expansion has complicated other digital services such as news, social media, music and cloud-based PC subscriptions. Outside of media, there are also separate subscriptions for household goods – everything from pet food to razors to steaks.

Furthermore, all these new payments lay on top of the more traditional payment obligations—utilities, mortgage and car payments, insurance, credit card payments, etc., which are not going away.

Too many ways to pay

Adding to the borrow-and-bill complexity is the proliferation of payment methods. Credit and debit cards are still the dominant forms of consumer payment, accounting for nearly six out of ten transactions in 2021. However mobile wallets are already the preferred form of payment for e-commerce.

Only one in 10 consumer payments today are ACH, with bill pay growing 9% year-over-year (YoY). However, same-day ACH is exploding (74% YoY), and as a low-cost method, it is likely to pull volume from cards. Finally, while real-time payments are still somewhat nascent in the U.S., the addition of FedNow is likely to increase adoption and further complicate the payment landscape for the typical consumer.

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Checking accounts in a world without checks

The underlying challenge for the consumer is that the primary vehicle for managing their money—the checking account—is fundamentally designed to be used manually.

Automating bill payments from checking seems the obvious solution. However, while bills have increased, only 35% of U.S. consumer bill payments are automated, with the rest made as one-time payments. The main reason for this is that for millions of Americans, autopay is a fast-track to fees.

For roughly 166 million Americans, living paycheck-to-paycheck is their reality. These are hard-working teachers, plumbers, truck drivers and store managers and for them, this cycle means there is no financial cushion for unexpected expenses. Since many have bank balances that often drop close to zero, automatic deductions of varying amounts on scattered days of the month will inevitably result in overdrafts. In response, most tend to pay their bills manually, one at a time, because it is safest.

But manually paying bills is not really safe either. Mistakes inevitably occur as people deal with the complexities of their day-to-day lives, and often there are more important tasks that take precedence over ensuring a bill is paid on time. Unexpected expenses are also unavoidable. The result is that almost half of the country fails to keep their bills from falling behind, which often leads to them being branded as poor credit risks.

This is how the current system works – people manually managing their money and getting penalized when they make mistakes. Small mistakes mean fees, and bigger mistakes mean a damaged credit report that makes everything much more expensive, or worst of all, leads to a complete loss of access to credit. As it exists, the current system is failing too many consumers.

The paycheck—or how the paycheck is evolving—holds the key to consumers escaping this conundrum and gaining control of their financial lives.

Income access and control

The way people earn and receive their income has evolved quickly beyond the legacy banking world. Gig workers operate to a new tune and are paid in a radically new cadence. W2 employers rapidly copied this with Earned Wage Access (EWA) products.

Quickly thereafter, we saw not only the advent of these EWA solutions, but their rise in popularity. Often if an employee needed wages today and their employer did not offer EWA, they would cancel their shift in favor of gig work. The ability to be paid rapidly became table stakes for hourly employment. These services use payroll information to calculate a worker's daily earned amount, allow the worker to draw the funds immediately and repay the draw on payday. Some services have even moved beyond advancing earned wages to also include extending small-dollar credit for future earnings.

In some cases, EWA systems are directly integrated with a payroll platform. In others, screen scrapers enable access and control without direct integration. As a result, a cottage industry of EWA providers has popped up to deal with unexpected expenses or cashflow shortfalls.

Screen scraping, however, has its limits in terms of consumer coverage and information quality. Just as in banking, connectivity is moving beyond simple screen scraping to more sophisticated APIs over time. As this occurs, the lines between the traditional concept of "payday" and when someone actually receives their money will continue to blur.

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While EWA smooths access to money, it does not address the fragmented nature of bill payments, with most EWA payments going into those same outdated checking accounts. What consumers still need is a way to automate and manage payments while eliminating the risk of missed payments and overdrafts.

Orchestration

The last piece of the puzzle is payroll-linked payments. This is a system that links employers, workers and billers into a network that synchronizes the flow of funds to satisfy the consumer's payment obligations.

In this network, direct deposit is no longer a "dumb pipe" between the payroll platform and the checking account, but rather a service that a biller can offer the consumer to optionally pay directly from their payroll. The consumer provides the network with permission to pay through this method and the network, possessing intelligence on both the consumer's income and their obligations, plans and manages the payments.

The consumer has complete visibility, with everything always fully permissioned directly by them, but with the network orchestrating payments on their behalf. Unlike the checking account, there are no holes in this system – all opted-in bills are paid and the remaining funds flow to the consumer's checking account as is typical.

With this change, the worker's payroll quickly becomes their primary "financial institution," being both the source of funds for daily spending and the source of repayment for recurring bills. The center of the consumer's financial universe has shifted upstream from balances to income.

Payroll-linked payments provide significant benefits to everyone in the network. When it comes to their bills, employees really only need to understand their cash flow at the highest level. Regardless of the number of bills or complexity, users can simply "set it and forget it." Those consumers living paycheck-to-paycheck will know that the funds flowing into their checking account are actually available to spend, reducing stress and providing better peace of mind.

This network also sets the path to better overall financial wellness. For consumers, fewer missed payments means higher credit scores and thus improved access to vital credit. With better visibility into the consumer's cash flow and an automated repayment method, lenders can also offer better terms, as well.

For employers, helping their staff achieve a better financial wellness situation can significantly improve employee retention. Less financial stress also enables employees to focus more on the job at hand, increasing productivity, workplace safety and overall satisfaction. As the network grows, it will eventually become a differentiator in hiring and retaining the best workers.

For lenders and billers, having direct visibility into the consumer's cash flow along with an automated repayment method dramatically changes how they can view someone's ability to pay. Payroll-linked payments can reduce missed payments and defaults by up to two-thirds, which in turn enables lenders to expand their approvals and improve portfolio performance.

By opting into a system that manages all payment obligations regardless of complexity while also providing the appropriate levels of visibility and control, consumers can free themselves from their outdated and underperforming checking accounts, removing the complications and stress of managing payments in our evolving financial landscape. By allowing the network to intelligently manage their payments, they gain recognition, and more importantly access to credit products and services they have earned based on their income and consistent work history.

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Highline is well on the way to building this new network, but it will take a range of innovative and traditional players to realize its full potential. Lenders and billers must offer the payroll-linked payment option. Servicing and origination platforms will need to natively enable these payments, while biller software providers will add a new payment method for all bill types. In this shift, new "career scores" that rate income stability rather than our ability to write checks on time will replace or augment dated, traditional credit scores. Lead aggregators will send salaried customers to payroll-enabled lenders, while payroll platforms and APIs enable access that is easier and more secure. Capital markets will learn to value these assets and pay a premium. Bottom line - more consumers will get access to the funds and credit they need while lenders increase their revenue and lower their risk.

With payroll at the center of the universe, everybody wins.

Geoff Brown is Co-founder and CEO of Highline Technologies, an award-winning payments fintech unlocking payroll-linked lending and billpay, boosting financial inclusion, better rates and costs for consumers and lower risk for the lenders.

How Community Banks Can Make the Promise of Indirect Lending Lucrative and Valuable

By *Joe Ehrhardt, CEO & founder of Teslar Software*

The year 2022 will go down in history as one of the most consequential for the Federal Reserve history. The central bank raised interest rates by a cumulative 4.25% last year, the most since 1980. Battling inflation that remains at four-decade highs, the banking industry is now at a crossroads for where they should be focusing and investing.

To effectively grow lending in today's economy, community banks must think outside the box, exploring new ways to expand and diversify their loan portfolios. While the lending landscape is inordinately crowded for both small dollar loans (full of competitors like Klarna and Affirm) and large commercial ones, there is a definite need for more regional, accessible and responsible financing solutions for medium-sized purchases. Community banks should consider indirect lending for local businesses to fill this gap and create new revenue streams.

Although the majority of community banks would like to finance the customers of their borrowers, the cost and resources required to offer indirect lending is often what holds most back, making the idea of entering that field prohibitive – and leaving the local business to partner with large banks or fintechs. But with innovative technology and the right strategy, community banks can make this offering a reality, providing value to both the community and the institution.

Looking at local lending opportunities

When bankers hear the term "indirect lending," they typically think of the heavily saturated market of the automotive industry, but indirect lending is much broader than that. There is a huge market opportunity for financing options that fall in this medium-sized purchase category – purchases such as HVAC replacements, engagement rings or fine jewelry, death care services, or farm equipment, to name a few.

There are also markets that boomed during the pandemic and have been growing steadily since, like lawn and garden projects, home renovation and power sports. The investment in these areas isn't expected to slow; the global lawn and gardening consumables market size is predicted to grow 3.6% annually until 2027. And Stratview Research recently reported that the power sports market is estimated to grow 5.7% annually during 2022-2027 to reach a value of US $47.9 billion by 2027.

By partnering with businesses such as jewelers, HVAC, orthodontics, funeral homes, furniture, lawn and garden and more, to offer financing options to customers, banks can extend their presence further into the community and drive more loans back to the institution. And, the bank is able to support the local business in closing more sales while also supporting the end customer with responsible financing options at competitive rates. To top it all off, funds stay local within the community.

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Adding automation to the process

It's paramount that to make indirect lending worthwhile, community institutions strategically leverage technology to simplify, digitize and automate the process. Banks need to ensure their customers can apply for loans from their mobile devices with minimal documentation. If a customer is on their farm discussing financing for new equipment, they should be able to pull out their phone and can use their phone to easily lock in a loan with the local bank right then and there.

Automation is key when it comes to an indirect lending solution. Bankers should be able to deliver automated decisions based on their unique underwriting criteria, enabling a single bank employee to handle multiple loans at once.

Through leveraging automation, bankers can offer loans more quickly and efficiently, reducing the cost and resources needed to serve.

Banks can also minimize the risk of fraud by leveraging a digitally optimized indirect lending solution that ensures there are adequate controls in place, streamlining documentation and performing a more comprehensive analysis on the loan performance.

There's a significant need for community banks to offer local financing options for medium-sized purchases. Offering a digitally optimized indirect lending solution will positively impact community banks, borrowers and small businesses and most importantly, keep lending local.

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Converging Traditional Phone and Digital Experiences for Customers

By *John Fernandez, Senior Vice President of Marketing for Glia*

Delivering a seamless customer experience has become increasingly important as banks seek more efficient ways to streamline service. While nearly two-thirds of the U.S. population use digital banking services, many still reach for the phone when a complex issue arises. This challenges banks with how to manage this channel shift in a way that facilitates a smooth experience for customers. Exacerbating the issue is the ongoing expectation for banks to accomplish more with fewer resources; call centers continue to receive a surge in support calls while facing widespread staffing shortages. Banks may also expect to record increasingly thinner margins in the current economic climate.

So, how can banks ensure they are providing an effortless customer experience — on par with tech giants and major retailers — while increasing efficiencies? The answer can be found in uniting traditional phone service with digital engagements and strategically embracing conversational artificially intelligence, or AI.

Uniting Phone, Digital Engagements

Most institutions currently manage at least two disparate systems for customer service, which creates a notable disconnect between digital and phone interactions. This separation perpetuates inefficiencies and can create a fragmented customer experience. Customers expect every interaction with their bank to be personalized and seamless; it isn't well received when they encounter the stark contrast between the bank's phone and digital spheres.

To solve this pain point, banks can unite phone and digital engagements within a single customer engagement platform. Incorporating the traditional call center phone service into digital-first customer support can significantly decrease the complexity of managing various point solutions, while also reducing costs and staffing requirements. Plus, this type of consolidation can drive considerable efficiencies across routing, management and reporting for the bank.

Equally as important, this unification facilitates a more consistent, low-effort customer experience. After all, customers care about resolving their issue resolution, not what channel they're using — they are simply seeking a favorable experience. This can also create a better employee experience: staff sees the same information no matter how a customer is engaging, enabling easier, more accurate personalization.

Incorporating Conversational AI

Incorporating automation into your bank's customer service channels can increase efficiencies while improving the customer experience across both digital and phone communications. For example, companies and consumers continue to adopt conversational AI technology and virtual assistants that provide intelligent self-service options in both text and voice channels. These assistants offload work from contact center employees, so they can focus on solving more complex problems and participate in higher-value conversations. Virtual assistants can additionally shorten the resolution time for customers, simultaneously improving efficiency and customer satisfaction (CSAT) scores.

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However, not all virtual assistants are created equal. Third-party tool kits and do-it-yourself solutions can deliver less-than-ideal results, which negates their value and even creates additional pain points in the customer experience. Compared to their more-generic counterparts, platforms that have been developed specifically for financial services can provide a quicker, more relevant way to deliver a convenient digital experience for customers across both virtual and human assistants.

Virtual assistants become especially beneficial when a bank uses them across a single customer engagement platform. Leveraging a combination of human and virtual assistants in one platform — including chatbots for digital engagements and intelligent virtual assistants optimized for phone and digital voice engagements — eliminates the need for banks to manage multiple solutions across different technologies.

While there tends to be an imagined dilemma between efficiencies and a better customer experience, banks can — and should — have both. Converging traditional phone support and digital interactions onto a single platform, while strategically incorporating conversational AI, allows banks to reduce costs and optimize resources while increasing consistency across customer interactions.

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Relationship-Based Credit Cards: A Novel Idea for Community Banks

By *Anil Goyal, CEO at Corserv*

Community banks play an important niche in banking, providing relationship loans to both consumers and businesses in their area with personalized service and a local presence. Certainly, relationship lending is not a novel idea. However, relationship-based credit card lending is! Most community banks tend to take a non-relationship approach to credit cards, opting to work with an Agent Bank Credit Card Program. This is not surprising because a relationship-based approach to credit cards could be expensive and difficult to implement and manage, if not executed with the right partner. However, with innovative solutions now available in the market, this is no longer the case. It's critical for a financial institution to consider a relationship-based credit card approach because an Agent Bank credit card solution is antithetical to the community banking approach. An Agent Bank solution ignores relationships in underwriting or servicing.

Is your credit card program relationship-based?

Here are five key questions to ask to determine if you are taking a relationship-based approach on your credit card program.

1. Do you participate in underwriting decisions?
2. Are you using relationship data in underwriting and acquisition?
3. Can your staff provide local servicing to your credit card customers?
4. Do you have detailed data available to you on your customer's credit card accounts?
5. Are you able to provide all the credit card products including commercial cards to serve the needs of your community?

If you answered "yes" to all five questions, you are all set on deepening your relationship with customers on credit cards. If not, let's discuss some specifics on what you should consider to get there.

How do you define level of relationship?

Under relationship lending, banks acquire information over time from their customers on a variety of dimensions and use this information in their decisions about offering a product. Mainly, there are three dimensions to help determine the level of relationship.

1. ***Length:*** The length of time a customer has been with the bank can be an indicator of the strength of the relationship.
2. ***Breadth:*** The number of bank products used is also a factor, as customers who use multiple products and services from a bank are likely to have a stronger relationship.
3. ***Depth:*** The amount of money a customer has on deposit and the total balance in their accounts is one of the most important indicators of relationship strength.

The higher the value of these customer factors, the greater the level of relationship and loyalty with the bank. Local banks have some inherent advantages relative to trust. It allows them to develop long-term, deep relationships as their customers turn to them when they need financial support during key life events. It takes a customer mindset versus a product mindset. Some banking leaders take a siloed approach and are concerned primarily about the individual products for which they are responsible. Revamping organizational structures, expanding incentive plans, and changing measurement metrics are tools to help build a relationship approach.

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What are the benefits of a relationship-based credit card program?

Economists call it "asymmetric information" which refers to one party being in possession of more information than the other in the decision making process. With the relationship data available only to community banks on their customers, they have a competitive advantage. The greater the level of relationship, the better the performance on credit cards across all metrics. Relationship accounts have better retention rate, higher usage on balance and spend, and lower risk rate, ceteris paribus.

Furthermore, it's cheaper to cross-sell a new product to an existing customer than acquire a new customer. Due to improved performance, it allows the bank to expand the credit box on credit score and offer credit to their loyal customers who may not get the best deal on credit cards from national issuers. For all these reasons, a relationship-based credit card program could result in the highest ROA for a bank among all the bank asset types.

What credit card products and capabilities are needed to be successful?

Generally, credit cards fall into three categories:

Consumer: These are intended for personal use by consumers. Cards with low rates are more suitable for customers who tend to revolve balances versus cards with reward offers to attract those with higher spend levels. Secured cards may also be offered to allow the bank to approve more customers.

Small Business: These cards are most suitable for small business owners who want to keep their business spending separate and want administrative features such as managing spending limits and access to robust reporting.

Commercial: These cards are typically for more established businesses. They can be either corporate cards used by company employees, purchasing cards to pay for supplies and services, or fleet cards for companies with a fleet of vehicles. Commercial card programs have extensive features such as virtual cards for one-time use, detailed transaction data access, and accounting system integration capabilities.
Among other capabilities across all of these credit card products, banks have to offer digital technology to serve the needs of modern customers. Customer experience is key with online application and instant decisioning, self-service for online and mobile applications, and digital servicing for branch employees and customer service.

What type of customers are ideal to target for relationship-based credit cards?

The short answer is that all bank customers should be targeted as best-in-class credit card programs. They offer comprehensive products to meet the various needs of customers. From a profitability perspective, commercial credit card programs perform the best followed by small business cards and then consumer cards. Commercial card programs can produce as much as 7-10% ROA for a bank. This is not surprising as commercial cards have the highest interchange income, lowest credit risk with pay-in-full feature, and high annual spending.

What is the implementation cost and how long does it take to implement?

Launching a relationship-based credit card program has been cost prohibitive in the past for a community bank. However, new technology and innovative solutions are now available. Such solutions allow a bank to launch a credit card program within 90-120 days with low implementation costs and variable monthly costs allowing it to build to scale a program that can be profitable within a few months.

Conclusion

Relationship banking has held the key for community banks, and they have an advantage on offering a relationship-based credit card program that allows them to own profitable assets on their books versus outsourcing to an Agent Bank.

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Considerations When Vetting Fintech Partnerships

By *Mike Kraus, Principal at CMFG Ventures*

Fintech collaborations are an increasingly critical component of a bank's strategy. So much so, that BankDirector created an entire division, FinXtech, committed to bridging the gap between the two entities. Identifying and establishing the right partner is crucial to accessing modern and scalable solutions that enable banks to remain competitive among peers and non-bank competitors. With over 10,000 fintechs operating in the U.S. alone, finding and vetting the right solution can seem like an arduous task for banks.

The most successful partnerships are prioritized at the board and executive level. Ideally, each partnership has an owner; one that is senior enough to make decisions that dictate the direction of the partnership. With prioritization and owners in place, banks can consider fintech companies of all stages as potential partners. While early-stage companies inherently carry more risk, the tradeoff often comes in the form of enhanced customization or pricing discounts. These earlier-stage partnerships may require the bank to be more involved during the implementation, compliance, or regulatory processes, as compared to working with a more mature company. There is no one-size-fits-all approach, and it's important for banks to evaluate potential partners based on their own strategic plan and risk tolerance.

When conducting diligence on fintechs of any stage or category, banks should place emphasis on the following aspects of a potential partner:

1. Analyze business health.

This starts with understanding the fintech's ability to scale while remaining in viable financial conditions. Financial statements, internal KPI reports, and information on sources of funding, including identification of major investors, should be evaluated.

Banks should also research the company's competitive environment, strength of its client base, and potential expansion plans. This information can help determine the fintech's capability to sustain operations and satisfy any financial commitments, allowing for a long-term, prosperous partnership. This analysis becomes even more important in the current economic environment, where fresh capital may be harder to come by.

2. Determine legal & compliance.

Banks need to assess a fintech's compliance policies to determine if they will be able to comply with their own legal and regulatory standards. Quarterly and annual reports, litigation or enforcement action records, and other relevant public materials, such as patents or licenses, should be part of this evaluation.

Banks may consider reviewing the fintech's relationship with other financial institutions, as well as the company's risk management controls and regulatory compliance processes in areas relevant to the operations. This can give greater insight into the fintech's familiarity with the institution's regulatory environment and ability to comply with important laws and regulations.

3. Evaluate data security.

Banks must understand a fintech's information and security framework and procedures, including how the company plans to leverage customer or other potentially sensitive, proprietary information.

Policies and procedures, information security control assessments, incident management and response policies, and information security and privacy awareness training materials should be reviewed. In addition, external reports such as SOC 2 audits can be key documents to help your assessment. This due diligence can help banks understand the fintech's stance on data security while upholding the regulator's expectations.

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4. Ask for references.

When considering a potential fintech partnership, consult with multiple references. References can provide insight into the company's history, conflict resolution, strengths and weakness, renewal plans, and more, allowing for a deeper understanding of the fintech's past and current relationships. If possible, choose the reference you speak with rather than allowing the fintech to choose.

5. Ensure cultural alignment.

The fintech's culture can play an important role in a partnership, which is why on-site visits to see the operations and team in action can help with the assessment. Have conversations with the founders about their goals and speak with other members of the team to get a better idea of who you will be working with. Partners must be confident in both the people and technology as both will create a mutually successful and meaningful relationship.

Despite the best intentions, not all partnerships are successful. Common mistakes include lack of ownership and strategy, project fatigue, risk aversion, and unreasonable expectations. Too often, banks are looking for a silver bullet, but meaningful outcomes take time. Set expectations and continue to re-evaluate the success and performance of these partnerships frequently, ensuring both parties are achieving optimal results.

Once partnerships are established, the relationship must be nurtured. Again, this is best accomplished by having a dedicated partner owner who is responsible for meeting objectives. As someone who analyzes hundreds of fintechs to determine quality, viability, and partner value, I am encouraged by the vast number of technology solutions available to financial institutions today. Keep a focused, analytical approach to partnering with fintechs and your bank will be well on its way to implementing innovative new technology for all stakeholders.

Mike Kraus is a principal at CMFG Ventures, the venture capital arm of CUNA Mutual Group. He is responsible for sourcing, evaluating, and executing investments in early stage fintech companies. To learn more about CMFG Ventures, visit https://www.cmfgventures.com/

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What to Look for in New Cash and Check Automation Technology

By *Shawn Kruger, Senior Vice President, Product & Strategy, Avivatech*

Today's financial institutions are tasked with providing quality customer experiences across a myriad of banking channels. With the increased focus on digital and mobile banking, bankers are looking for ways to automate branch processes for greater cost and time savings.

This need should lead financial institution leaders exploring and implementing cash and check automation solutions. These solutions can improve accuracy, reduce handling time and labor, lower cost, deliver better forecasting and offer better visibility, establish enhanced control with custom reporting and provide greater security and compliance across all locations, making transactions seamless and streamlining the branch experience. However, as bank leaders begin to implement a cash and check automation solution, they must remember how a well-done integration should operate and support the bank in its reporting and measurement functions.

Ask Yourself: Is This the Right Solution?

When a bank installs a new cash or check automation solution, the question that should immediately come to mind for a savvy operations manager is: "How well is this integrated with my current teller software?" Regardless of what the solution is designed to do, the one thing that will make or break its effectiveness is whether it was programmed to leverage all the available functionality and to work seamlessly with the banks' existing systems.

For some financial institutions, the question might be as simple as: "Is this device and its functionality supported by my software provider?" If not, the bank might be left to choose from a predetermined selection of similar products, which may or may not have the same capabilities and feature sets that they had in mind.

The Difference Between True Automation and Not

A well-supported and properly integrated cash automation solution communicates directly with the teller system. For example, consider a typical $100 request from a teller transaction to a cash recycler, a device responsible for accepting and dispensing cash. Perhaps the default is for the recycler to fulfill that request by dispensing five $20 notes. However, this particular transaction needs $50 bills instead. If your cash automation solution does not directly integrate with the teller system, the teller might have to re-enter the whole transaction manually, including all the different denominations. With a direct integration, the teller system and the recycler can communicate with each other and adjust the rest of the transaction dynamically. If the automation software is performing correctly, there is no separate keying process alongside the teller system into a module; the process is part of the normal routine workflow within the teller environment. This is a subtle improvement emblematic of the countless other things that can be done better when communication is a two-way street.

Automation Fueling Better Reporting and Monitoring

A proper and robust solution must be comprehensive: not just controlling equipment but having the ability to deliver on-demand auditing, from any level of the organization. Whether it is a branch manager checking on a particular teller workstation, or an operations manager looking for macro insights at the regional or enterprise level, that functionality needs to be easily accessible in real time.

The auditing and general visibility requirements denote why a true automation solution adds value. Without seamless native support for different types of recyclers, it's not uncommon to have to close and relaunch the program any time you need to access a different set of machines. A less polished interface tends to lead to more manual interactions to bridge the gaps, which in turn causes delays or even mistakes.

Cash and check automation are key to streamlining operations in the branch environment. As more resources are expanding to digital and mobile channels, keeping the branch operating more efficiently so that resources can focus on the customer experience, upselling premium services, or so that resources can be moved elsewhere is vital. Thankfully, with the proper cash and check automation solutions, bank leaders can execute on this ideal and continue to improve both the customer experience and employee satisfaction.

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2023: The Year to Focus on ROI Drivers and Tech Partnerships

By *Larry Nichols, President and CEO, MDT*

As interest rates remain the highest they've been in 15 years and the inflation rate for goods and services continues to soar, many members have entered into the new year with anxiety around their finances. Such times of unease are often when members need their credit unions the most, and credit unions have proven time and again that they'll do whatever it takes to support their communities and reinforce the credit union philosophy of "not for profit, not for charity, but for service." However, credit unions themselves are also challenged by the economic environment and thinning margins.

In order to provide the needed level of personal, comprehensive support and service members need, more credit unions this year will rely on technology as well as fintech partners to help boost efficiencies and enhance member service. There are several areas that will emerge as priorities this year.

There will be an increased emphasis on ROI drivers.

The uncertain economic landscape is prompting a reevaluation of where technology dollars and effort should be spent. Projects that might have been at the top of the list in the past are suddenly being moved to the back burner. This year, the focus will be on investing in technology that directly helps optimize costs and enhance efficiencies, such as automation.

While innovation will continue to be critical to credit unions, innovation budgets and resources will be allocated toward areas that are certain to impact member service. For example, instead of investing in the exploration of emerging technologies such as the metaverse and BNPL, priority will be given to areas such as digital account opening, online and mobile banking, and online loan applications.

Institutions will reflect on lessons learned.

Last year, many of the industry's new initiatives were adopted with varying levels of success, leaving much to reflect on. For example, while many institutions were quick to offer real time payments, they were also unfortunately met with an influx of fraud. According to PYMNTS' State of Fraud and Financial Crime Report, 62% of financial institutions have experienced a sharp increase in fraudulent transactions. And many institutions' customers and members especially faced a spike in fraud when making instant payments via Zelle.

Next year, even more of an emphasis will be placed on risk versus reward evaluations when it comes to vetting new products and solutions. While credit unions have always been vigilant in their new diligence, they will apply lessons learned from the past year to fortify their efforts that much more. While the evaluation process is often complex and resource intensive, the juice is well worth the squeeze. After all, safeguarding members and their data is vital.

Credit unions will look to technology to help with succession planning.

The persistence of the Great Resignation and Great Retirement continue to plague businesses of all kinds, and credit unions are no exception. The talent shortage can be especially difficult for credit unions that rely on the skill set or knowledge of a small group of people to keep certain departments running. If someone quits or retires, operations are negatively impacted.

Looking to technology and strategic partners can help institutions bridge these talent gaps. Incorporating more automation and workflows equip credit unions to keep processes running when positions are difficult to fill. Such technology empowers employees while adding efficiencies. And, outsourcing critical IT functions to a trusted partner can strengthen business continuity no matter the circumstances. Use of technology such as the cloud and AI/RPA will continue to increase this year.

Even though 2023 has started with widespread financial concern, credit unions are strongly positioned to do what they always do and provide a high level of support and service for their members. As the backbones of their communities, this year credit unions will prioritize those projects and innovations that drive ROI, help boost efficiencies and ease talent struggles, and most importantly, improve member service and support.

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Customer Engagement: The Key to Differentiation in Banking

By *Caroline Platkiewicz, Senior Marketing Manager, Engageware*

Customer experience and customer engagement are often used synonymously in banking, but they are very different concepts. Both play a role in how a banking customer interacts with a financial institution. However, customer engagement provides more of a big-picture perspective critical to the modern banking industry.

Worldwide challenges such as rising interest rates, inflation and the war in Ukraine have impacted global markets and created both fear and uncertainty. The University of Michigan's U.S. consumer sentiment index fell drastically to a record low 50.2 in June of 2022 and consumers' assessment of their personal financial situation declined by almost 20%.

As we navigate financial uncertainty and move further along the digital adoption curve, banking customers' definition of what support from their financial institution looks like is changing. J.D. Power's 2022 U.S. Retail Banking Satisfaction Survey found that "it's no longer predominately about being fast, efficient, or convenient — it's about supporting customers during challenging times."

That means finding the right balance of convenience for common transactions and personalized service for problem resolution and financial guidance.

Customer Experience Vs. Customer Engagement

For many financial institutions, the common approach is to invest in point solutions such as live chat or video banking to achieve customer experience goals — e.g., customer demands for 24/7 digital support. But this misses the bigger picture of customer engagement. Customer experience (CX) and customer engagement (CE), two terms used interchangeably, differ quite drastically in meaning, in application, and in the results they deliver.

CX is transactional in nature and focused on a specific point-in-time interaction — such as ATM withdrawals, call center contacts, online banking transactions, and face-to-face meetings. CE, on the other hand, is the sum of many different customer experiences. Customer engagement is how financial institutions interact with their customers across all channels. It is CE, when done properly, that builds trust, loyalty and allows financial institutions to provide the service banking customers need and demand — not customer experience itself.

The Key Difference:

CX looks at how a consumer interacts with their banking provider in a single channel at a single point in time. Customer engagement looks at multiple customer experiences to find overlooked issues.

To build stronger relationships that support customers in these uncertain times, banking leaders must recognize the importance of a holistic customer experience strategy. A CE strategy keeps the customer at the center and ensures every interaction is not only easy, fast, consistent and convenient, but seamless in the channel(s) of their choice. This means empowering customers digitally when they want, easily connecting them to the right person and channel when needed and empowering the employee to best serve those customer needs efficiently and effectively.

The Power of Choice: The Key to Customer Satisfaction

Rivel recently released their Quarter 2, 2022 CXLign Banking Benchmarks report. Among other customer preferences and trends, they found that:

- 62% of banking customers prefer digital banking to do common transactions (depositing a check, paying a bill, etc.)
- 57% of banking customers prefer human assistance for more important transactions (sending a wire transfer, setting up a new account, etc.)

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While the data may not be surprising, it does underscore a key consumer insight — people want choices. Some may prefer digital, some may prefer human assistance and those preferences may change based on the specific need on that day. The challenge is ensuring whichever channel they start in allows them to conveniently self-serve, research and connect with a specialist or get support and assistance when needed.

Optimize Self-Service: Give Consumers the Tools and Data They Need

Financial institutions have made tremendous investments in digital banking to empower customers to self-serve. As Rivel's research highlights, 62% of consumers want to use self-service for common transactions. But the addition of each new digital banking feature brings with it an influx of questions — e.g., "How do I do this?" and "Where do I find that?"

Data from our customer self-service solution analyzing millions of banking interactions finds that customers at banks or credit unions with assets between $1 billion and $2 billion leverage support content on average 11,332 times each month across digital applications. The takeaway: Providing self-service tools is not enough — banking customers need contextual support and navigational beacons to find and use these tools to make self-service a reality.

To empower consumers to self-serve, financial institutions need to surround customers with contextual support via optimized search, on-page callouts, chatbots, and access in mobile banking. The contextual support not only acts as a navigational beacon, it provides answers to the common "how to" questions that occur most often digitally.

Optimize the Handoff Between Digital and Human Assistance

Today's consumers rely on digital for a host of reasons beyond self-service. It could be to find contact information (phone number, location, hours), to research products and services, or to learn what to do in the event they need help (lost or stolen debit card, late payments). Optimizing these journeys is critical to connecting your customers to the right person the first time. Over the last few years digital customer support tools such as live chat, video banking, chatbots and online applications have become popular ways to provide digital support.

However, when done wrong, they create more confusion, more frustration, and lost opportunities. To avoid these pitfalls, financial institutions need to:

- ***Provide customers with the right call to action based on the topic.*** For example, high-value topics like loans should have calls to action such as "Apply Online" or "Schedule an Appointment" — in person, over the phone, or with a virtual banker. Time sensitive issues should provide access to the right department instead of the generic 800 number or listing of your locations.

- ***Leverage self-service to offload high-volume calls and live chats.*** Optimize your contact page with self-service knowledge that answers the common questions. Use a chatbot in front of live chat to answer the common questions and deflect live chats, freeing up your staff to interact with consumers who need human-assistance.

Support Your Customers in Uncertain Times

As we continue to navigate uncertain times, your customers' needs will continue to evolve and their interactions with your bank or credit union — no matter how small or big — will shape their long-term perception. Customer engagement, and viewing the entire customer journey, will be the key to building trust, loyalty and long-term relationships. To truly deliver superior customer service and improve the metrics that matter (growth, efficiency, CX), financial institutions must adopt the holistic view that customer engagement provides:

- ***Give customers choices*** — let customers choose how they want to interact; digitally, in-person, or any combination

- ***Provide easy access to experts*** — easily connect them to the right person, in the right channel when help is needed

- ***Empower frontline employees*** — empower your employees to be able to service customers quickly, efficiently, and effectively

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Using Alternative Data to be a Socially Responsible Lender

By *Celeste Rearick, Content Marketing Specialist, Equifax Workforce Solutions*

Today's lending environment continues to evolve. To lend in a socially responsible manner, lenders should rely on more than traditional credit data. When it comes to loan and credit decisioning, credit data is very relevant, but it may provide a limited view of an applicant, particularly one with limited or no credit information.

Alternative data is financial data that can provide a lender with broader information about an applicant, such as their potential repayment behavior. Alternative data helps lenders widen their scope for assessing creditworthiness, thereby potentially giving more consumers more opportunities for loans and credit. There are multiple types of data that can be deemed alternative data, including income and employment data, telecommunication and utility payment data, consumer-permissioned data and education data.

These types of alternative data can allow consumers who are credit invisible or who have thin credit files to have a chance at securing a loan. Alternative data can also help financial institutions by expanding their lending opportunities that can potentially lead to portfolio growth even while managing risk.

To lend in a socially responsible manner, lenders cannot think of alternative data as alternative anymore - it has to become a necessary and critical piece of getting a more complete view of each applicant so that lenders can provide borrowers with the best offers and terms possible. Categorically dismissing consumers with a subprime credit score can mean missing out on potential customer-base gains. Utilizing alternative data to see a more complete picture of each borrower can allow lenders to innovate and secure loans for borrowers in ways that minimize risk and also potentially create a competitive advantage in the lending landscape.

Socially responsible lending supports a paradigm shift that, by expanding the types of data that are used in loan decisioning, can promote equity in underwriting and work to create a level playing field among consumers. It is not enough to just say "yes" to a credit application. Social responsibility within lending includes helping set a consumer up for success by creating personalized loan offers that the applicant can afford, such as by offering lower interest rates.

Some lenders are moving the needle on how to help consumers beyond a single loan approval. They are looking to help customers, including those with a thin file or no-file, with future lending opportunities as well. If a consumer pays back their loan every time, on time, these progressive lenders work to help raise that consumer's credit score for future benefit by reporting the consistent and on-time payments to the credit bureaus. This practice uses alternative data points to help underwrite a loan and carries through to helping that person be better included in the overall financial services system.

How does alternative data help widen the lens of a lender?

A lot of traditional banking still uses credit scores alone, even though this practice may not provide a complete picture of an applicant and could exclude otherwise viable borrowers. Women and minorities, for example, historically have had less access to credit. More than 77 million consumers have thin credit files or are credit invisible - yet many of these consumers may have the income and employment status that make them qualified loan applicants.

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When a person from this population applies for a loan, a more informed way for a lender to make a lending decision about their request is to use alternative data, including data such as income and employment verifications from The Work Number® by Equifax. This alternative data can give a more comprehensive view of the applicant and deepen the understanding of that applicant's spending patterns and cash flow, allowing for a more informed lending decision.

While many traditional lenders use alternative data as a compensating factor for a consumer with a low credit score within isolated use cases, this usage, while helpful and important, is inconsistent and may not be scalable. Lenders should consider automating and expanding the usage of alternative data to create consistency and uniformity within their loan decisioning processes.

Alternative data is boosting financial inclusion and socially responsible lending by delivering greater insights useful for loan decisioning. Combining traditional data with alternative data as part of the underwriting process can bring a more socially responsible approach to the lending process by helping to increase financial inclusion and financial wellness, all while better managing risk for lenders.

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Importance of Voice of the Customer Feedback for Meaningful Results

By *Todd Robertson, Senior Vice President of Business Development, ARGO*

Successful bankers are continuously seeking feedback from their customers in relation to experiences. With the incorporation of omnichannel capabilities, financial institutions can monitor consumer satisfaction, regardless of whether the encounter was digital or at a local branch.

This feedback, also called VoC (voice of the customer) data, is used to identify drivers of satisfaction and loyalty and to determine the necessary actions related to the brand, products, services, and transactions throughout the customer journey. Since more than 90% of customers unhappy with a brand will just leave without complaining, continuous customer feedback is vital to success.

Organizations that are proactive in soliciting consumer responses closer to the moment of interaction are better prepared to address and correct issues contributing to user frustration during the consumer journey. Consumers are key to improving day-to-day operations and increasing profits. Financial institutions have the power to increase customer experience (CX) with a well-thought-out and executed VoC model.

While 80 percent of companies believe they provide an exceptional experience and customer service, only 8 percent of their customers agree. This exceptional gap resulted from improperly defined and studied root causes by our industry and illustrates the opportunity we have. Consumers view CX from an emotional perspective wanting three things from their providers: be on my side, be at my service, and ensure differentiated engagement.

Legacy Voice of Customer programs impede timely and effective action because of disconnected feedback from the point of engagement. Voice of Customer programs succeed in positively affecting customer experience only if executed near the time of the customer event or touchpoint, measure event-specific interactions, and quantify an overall Net Promoter Score® (NPS®). VoC data has little value when an institution cannot leverage the collected insight to understand customer pain points, isolate root causes and act on the information learned.

At the same time, the perception of feedback leading to inaction causes many consumers not to participate. Actively engaging via a continuous feedback program enables an understanding of alignment or misalignment with customer engagement.

Routing customer feedback to appropriate parties for action empowers banks to acknowledge that they hear what their customers say and are doing something about it. Informing customers via email, personal call or text what action was taken based on feedback gathered is a powerful way to close the feedback loop. It demonstrates a commitment to improving the experience and impacts future customer response rates.

A key challenge is appropriately structuring feedback collection mechanisms, such as surveys, that prompt the right customers for honest, unbiased feedback in a timely and relevant manner.

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Lengthy cumbersome surveys frustrate participants and cause dissatisfaction, which ultimately leads to decreased response rates. VoC embedded in the CX model triggers intelligent surveys that target questions based on both the respondent's recent experience and answers to previous questions, leading to increased survey satisfaction and customer emotion of "feeling listened to and responding appropriately."

Timing is also a key success factor. Identifying critical moments, such as after a loan is originated or a new account is opened, provides insight and direction for process, product and experience improvement. Effective reporting, interpretation tools and a defined closed feedback loop empower the bank to act appropriately on customer sentiment and insight.

Accumulated VoC knowledge in the form of scores, lists and text requires proper analysis and visualization to convert information into transformation. Simply using scores can lead to information gaps resulting from banks only catching a portion of relevant feedback. Multiple choice feedback and free-form text comments allow consumers to provide specificity regarding "why" they offered positive or negative feedback.

If a bank knows why customers are satisfied or dissatisfied, products and processes can be added, enhanced, or retired to improve future results. For example, following a negative score to a question about interaction with a branch staffer, the institution would want to know if the staff member lacked appropriate knowledge (need for training), was rude or curt (need for coaching) or was bogged down by a long teller line (need to adjust schedules to meet foot traffic demands).

Purposeful VoC implementation requires banks to ask relevant questions to the right audience through the right communication channels at the right time – all based on segmentation, demographics, risk factors, events, or types.

Both "active" and "reactive" listening through human or digital channels and pursuing strategic campaign programs that focus on outreach and education have proven successful. Likewise, purposeful advisory assistance with goal-based solutions and use of automated channels to accelerate customer acquisition and nurture relationships can lead to more robust customer engagement over time. Tracking point-of-view trends and administering testing can ensure that the implemented modifications achieve the desired results.

Organizations with the discipline and governance to adapt their business strategy and implement successful VoC practices will be positioned to "see" customer issues before they become brand challenges, which can help close customer loyalty gaps and promote ongoing success.

Todd Robertson is senior vice president of business development at ARGO.

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Prioritizing Member's Financial Health During a Recession

By *Tony Salamone, President of CuneXus Perpetual Offers*

A recession in 2023 is becoming increasingly likely, with economists now placing, a 70% probability that the United States will fall into a recessionary period in the next few months according to Bloomberg.

While there is never a good time for an economic downturn, many consumers are already dealing with multiple cash flow difficulties: COVID-19 incentives have run out, the cost of goods has increased, and interest rates are skyrocketing. Now more than ever, it is important for credit unions to prioritize guiding their members toward healthy financial tools and habits. Here are three approaches that credit unions should consider in 2023 to help boost their members' financial well-being:

1. Strengthen relationships with members through financial education

According to a study done by Capital One, 77% of Americans feel anxious about their financial situation, creating an opportunity for their financial institutions to provide support when it is most needed, offer educational resources to reduce this stress, and truly become trusted advisors in the long-term. For example, credit unions can create free financial education resources, such as webinars, guides, and workshops, to help their members better understand financial concepts and make informed decisions about savings and investments during economic hard times. Those credit unions that will focus on providing members with the tools and resources to improve their financial health will have a member retention advantage over those who do not in the coming year.

2. Leveraging data to generate pre-approved loan offers

It will become more common for credit unions to use new technologies to automate the process of lending money, allowing for a more customized offer based on the borrower's data. Modern automated lending platforms use data and algorithms to analyze a borrower's creditworthiness and display the list of loans they are pre-approved for. These platforms can operate entirely online, allowing borrowers to accept pre-approved loan offers and receive funds in a matter of minutes. Having a variety of offers that consumers are eligible for can greatly benefit them by helping to remove the uncertainty many feel when applying for loans, only to be rejected later down the line. Furthermore, by eliminating the credit application process in favor of an ongoing automated credit approval, the credit union can provide the nearly instant shop-borrow-buy experience that consumers crave.

3. Creating customized loan offers and services

Building off the pre-approved loan offers mentioned above, the increase in automated financial tools allows the lender to provide more customizable services for each of their members' needs specifically, competing with the "out-of-box" solutions that previously only fintechs could supply. Borrowers are likely to feel a greater level of customer satisfaction as they feel that their institution has taken their needs into account by offering a service well-suited to their financial situation. This can be accomplished by offering a variety of products and services, providing excellent customer service, and responding to customer feedback. Additionally, customized loan offers can also help lenders reduce the risk of default, as borrowers are more likely to be able to afford their loans when the terms are tailored to their financial situation. For instance, not everyone's auto loan needs can fit into an out-of-the-box loan. Lenders can consider things like the member's credit score, debt-to-income ratio, down payment funds and other factors necessary for creating a unique loan that is appropriate for that member.

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Looking ahead to the next year, credit unions should place a special focus on empowering members to take control of their financial lives and make informed decisions that lead to long-term financial stability and security. It is important for credit unions to be flexible and work with members to find solutions that meet their needs and help them weather the choppy waters ahead. Paring modern technology adoption with the existing data already available to credit unions, will allow these institutions to deliver the digital experiences that leapfrog their competition and solidify relationships that last.

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Top Ten Trends Impacting Bank Technology for 2023

By ***Jimmy Sawyers, Co-Founder and Chairman, Sawyers & Jacobs LLC***

"The folly of mistaking a paradox for a discovery, a metaphor for a proof, a torrent of verbiage for a spring of capital truths, and oneself for an oracle, is inborn in us."

- Paul Valéry

Oh, how we want to believe! We are, by nature, an optimistic and trusting species. The speaker on stage at the banking conference must be vetted and legitimate or the association wouldn't have put that person on the agenda. The author of the article in the banking magazine must be independent and provide information for the greater good of the industry. That guy who runs that cryptocurrency exchange has to be a genius. That cybercriminal now turned consultant must now have a heart of gold and a spirit of service. We want to believe the best...so much so that our good judgment is often clouded and we fail to notice the red flags, the half-truths, the lack of proof and performance. We rise to the bait and only with the benefit of hindsight do we realize we have been defrauded and that we should have performed more due diligence.

As Valéry noted, this folly exists in all of us. We often overestimate our powers of prophecy. Yet, we all reach a point where the tolerance for talk is replaced by a requirement for action...for performance...for delivering on the promises of yesterday by providing value today.

Such will be the case in 2023 as bankers, weary from years of promises made by tech startups, will require proof before signing contracts and making tech purchases based on faith and folly. To that end, I offer my ten predictions that I hope will steer you on the right path to success and sustainability in your bank's future.

Prediction #1 – Fintechs Face a Year of Reckoning

2023 will be the year of reckoning for fintechs as the cost of capital increases and bankers demand results. Many fintechs have enjoyed the easy money of the last decade to buy customers and marketing in hopes they can grow their way to profitability. Most failed. Fundamental business rules were ignored. When the cost of funds was zero, any fool could appear legitimate. Now we will see which fintech players have real business models and which ones were just playing with other people's money (or defrauding investors).

One example: JPMorgan Chase bought the student loan/financial aid fintech, Frank, for $175 million. According to a lawsuit filed earlier this year by JPMC, the owners of Frank overstated their number of accounts. When JPMC emailed the borrowers, 70% of those emails bounced back. It is now believed that Frank may have had nearly four million fake accounts.

Based on a January 11, 2023, article in Forbes, the founder of Frank, 30-year-old Charlie Javice, created a roster of 4.265 million fake customers. These "students" did not exist. The lawsuit estimates that Frank only had approximately 300,000 customer accounts, but even that number should be questioned.

Due diligence remains critical. When JPMorgan Chase gets duped, even with their vast resources, anyone can.

Challenge Question – Does your bank have a fintech relationship that has changed your bank for the better, or has performance and ROI been non-existent?

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Prediction #2 – Crypto Bros Punch One-Way Tickets to Hell

In my opinion, Bitcoin is the biggest lie told in the history of payments and tech. It remains an asset class to be traded and a mechanism to avoid the rule of law and taxation. Despite the hype, it is not used in normal, everyday transactions. Actually, I'm not sure we can call it an asset class any longer. Crypto in general is an unregulated and rigged system.

Google "FTX" and "SBF" on your own time.
Enough said.

How does crypto fraud affect banks? Take the fintech Dave, for example. Turns out Dave received a $100 million loan/investment from FTX. According to a CNBC article (December 28, 2022), Dave has a $101.6 million liability to FTX. Further, the article notes that the loan/investment to Dave was made with FTX customer deposits. Dave gets its core processing from a traditional bank. The degrees of separation are few. Stay tuned to see how this pans out.

Silvergate Bank, a pioneer in supporting fintechs and cryptocurrency innovators, recently discontinued its crypto payments network, the Silvergate Exchange Network, and warned investors that losses could result in the bank being "less than well capitalized."

Put your money in unregulated exchanges at your own risk. The "smartest guys in the room" are being exposed for the charlatans they are.

The silver lining here will be a new influx of deposits to banks as trusted providers in a rising interest rate environment. Wise bankers will be ready to facilitate that exchange with a strong suite of digital services.

Challenge Question – How much time and money has your bank spent courting crypto, a movement that wants you to no longer exist?

Prediction #3 – Artificial Intelligence Attracts Investment

As interest wanes in Web3 and cryptocurrency, we will see increased interest in Artificial Intelligence (AI) with investments shifting to AI projects. The question remains...how will these companies become profitable? What problems will AI solve? Do we have the quality data to effectively deploy AI, as AI must have good data before it can be effective? Will ChatGPT replace our loan officers?

This will be the year when bankers seek answers to these questions in hopes that AI technology will deliver on the promise of more efficient operations and increased automation of, at a minimum, the most mundane tasks of banking.

Challenge Question – What is your AI strategy, and how can it be applied in your bank?

Prediction #4 – Bankers Get Digital (and Physical)

As of December 2022, FDIC data shows we had 30,684 more banking locations than we had in 1987, despite a shrinkage of 9,651 commercial bank charters in the period. Surprised? The branch is still an important channel.

While these physical locations are transforming, they remain important strategic assets for bankers who implement world-class digital services, some of which might be accessible in the branch lobby.

Expect to see more Interactive Teller Machines (ITMs), sans the video teller component, move from the drive-thru lane into the branch lobby to reduce staffing and to facilitate self-service. This "human plus machine" strategy will be a winner for most banks.

Challenge Question – What is your bank's branch tech strategy?

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Prediction #5 – Hybrid Work Environments Drive Demand for Tech

“Quiet quitting” became “loud layoffs” in some sectors as big tech trimmed payrolls. Expect more of the same in 2023 as we see a return to the meritocracy where high-performing employees are rewarded and low performers are jettisoned. Visibility matters in any organization but especially in banking, a people-focused relationship business.

In some cases, white collar jobs have become no collar jobs as some want to sit at home in their sweats and pet their cats instead of heading to the office and performing collaborative work in a more suitable environment. These no-shows are often the first people laid off during downturns.

Of course, there are exceptions, and some jobs are well suited for remote work. However, 2023 will bring some back to reality as managers realize that productivity, teamwork, and culture can suffer if all work is remote.

As someone who has spent most of his career working from bank boardrooms and hotel rooms, I know mobile workers can be highly productive if given the right tech tools without unnecessary restrictions and ill-advised controls (e.g., requiring VPN access to simply access work email).

Expect hybrid work environments where people are given more flexibility to work from home with prudent parameters to drive demand for tech to support this mobile workforce.

Challenge Question – Does your bank have the right technology and security in place, properly configured, to support remote work?

Prediction #6 – The Core Market Shrinks as New Cores Continue to Be Bores and Old Cores Are Sunset in Record Numbers

As our firm helps banks across the nation evaluate core providers, two trends have become evident. One, the promise of new cores fully replacing legacy cores has been greatly oversold, and two, legacy cores, many of which have been starved of new investments for years, will finally be taken out behind the barn, Old Yeller-style, and put out their misery...sunset, discontinued, gone.

In a shrinking market of bank charters, core providers must become more efficient by reducing the number of solutions they support. This will create some market movement as many bankers say, “If I have to convert anyway, I might as well see what else is out there.” Expect a wave of core provider evaluations and more conversion activity than we’ve seen since the late ‘90s when Y2K and new client-server based systems drove many core migrations.

New cores have failed to reach any critical mass necessary to be considered viable solutions. Most remain niche players with limited features, the equivalent of going to The Home Depot to buy lumber and nails to build your own house, more parts than turnkey solutions...a Frankenstein’s monster that must be bolted together. Most bankers don’t have the appetite or the budget to build an expensive core from scratch that does the same thing as the old core. Expect to see some of these solutions acquired by traditional providers and absorbed into current core solutions as add-on features and ancillary systems.

Smart bankers will pull out their core contracts to see if “sunset clauses” exist and determine whether their core migration path decision has been made for them contractually by the provider, or if they have time to evaluate other solutions. Those who ignore this inevitable event will find themselves boxed into a core solution they might not want at a price they don’t want to pay, hence the need for proper due diligence and intelligent evaluation.

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We tell our kids, "Show me your friends and I'll show you your future." I tell bankers, "Show me your core and I'll show you your bank's future." Assess and evaluate your core strategy now lest your future be controlled by your current core provider who may be struggling to figure out what to do with partial core solutions they've acquired.

Challenge Question – What is your bank's core strategy, and is your contract up for renewal within the next two years?

Prediction #7 – Risk Awareness Drives Demand for More Practical Risk Assessment Models

Why do banks have so many risk assessments? One word. Awareness.

Yes, many are regulatory-driven, but the numerous risk assessments in banks, from GLBA information security risk assessments to those addressing enterprise risk or cybersecurity risk, all accomplish one common goal: to create awareness of risk and document how the bank is mitigating such risk to an acceptable level.

Banking is not getting less risky with the growing number of cybersecurity threats, vendor management woes, and an economic and political environment that presents great uncertainty.

The amount of time bankers spend on risk assessments is significant and doesn't appear to be subsiding. Like weeds in a garden, some banks' risk assessments have expanded in unnecessary complexity and now require an inordinate amount of time to complete. Plus, some models yield shaky results and cannot be easily understood by bank management or the board of directors. Now is the time to take a long, hard look at all the risk assessments your bank is completing on an annual basis and determine which ones need updating or should be discontinued.

Challenge Question – When was the last time you inventoried and assessed your bank's risk assessment models for applicability, relevance, and effectiveness?

Prediction #8 – BIMOs Get Regulated and Educated

BIMOs (Banks in Marketing Only) continue to operate with impunity, free of any real regulation and allowed by federal authorities to market themselves as legitimate banks when they are not. Often the written disclaimer of BIMO TV ads that they are "not a bank" is obfuscated in tiny font, white text on a white background, while the actors in the commercial use the words "bank" or "banking" to imply this commercial is for a true FDIC-insured bank when it's really for a technology company. Where are the regulators and politicians when we need them?

From predatory lenders to these BIMOs, any entity that operates like a bank should be subject to the same laws and regulations of traditional banks. To do otherwise threatens consumers and degrades the banking industry and damages trust. Further, bank lobbyists are failing their clients as they are selectively outraged at credit unions but indifferent to fake banks.

In 2023, bankers will wake up to the fact that these BIMOs should be regulated, and their customers should be educated about their so-called "banking relationship." Again, the rising cost of capital combined with increased regulatory requirements will end most BIMOs and accrue to the benefit of traditional banks ready to receive this runoff.

Challenge Question – What is your competitive response to BIMOs?

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Prediction #9 – Efficiency Remains an Elusive Concept for Digital-Only Banks

I have long advocated that "digital-too" banks have a distinct competitive advantage over "digital-only" banks. Traditional banks that leverage digital services to round out their service offerings can beat digital banks at their own game if they can get out of their own way and adopt new, streamlined business processes.

To sample a few digital banks, I reached out to our friends at Seifried & Brew and Velligan-Blaxall Consultants where Mr. Jamie Sumner, Partner, noted that Varo Bank has an efficiency ratio of 324.69 percent, which means this bank is spending $3.24 to generate $1.00 in revenue—not exactly a sustainable business model. Quontic Bank sports a 214.71 percent efficiency ratio. SoFi Bank, often held up as a model for digital banks, clocks in with an 81.13 percent efficiency ratio. The community bank median efficiency ratio is 65.00 percent. High-performing community banks do much better than 65.00 percent, and most offer the same services as digital-only banks.

Sumner notes that digital banks tend to have a higher cost of interest-bearing deposits, something that does not bode well for them in a rising interest rate environment.

In banking, as in any service business, the business process is more important than technology. Do you really care how your pizza is made, or do you just want it hot, tasty, and fast? Many consumers want their banking like their pizza. They don't care what oven you used or about the POS system that took your payment. They want their banking to be as easy as ordering a pizza, whether over the phone, via an app, or in person.

Challenge Question – How are you changing your business processes to compete with digital banks?

Prediction #10 – Ransomware Will Remain the Top Cybersecurity Threat

Bank CEOs often ask me what should be keeping them awake at night. Cybersecurity threats, specifically ransomware attacks, is my answer.

According to a 2022 study by CyberProof, the top two countries of origin for cyberattacks were China (18.83%) and the United States (17.05%), respectively. Many bankers have been conditioned to believe all cyberattacks come from Russia, which in this study came in at number eight behind Thailand. Even Russian cyberattacks on Ukraine have proven more damaging psychologically than financially.

In our work with banks, we continue to see business email compromise (BEC) incidents aimed at executing fraudulent wire transfers (the most recent originating in Nigeria), but every banker should be keenly aware of the ransomware threat and consider this scenario in a cybersecurity incident tabletop test. Do you have cybersecurity insurance coverage that covers ransomware attacks and potential ransom payments? Will you pay the ransom or not? How long would it take you to rebuild your network if you don't pay? There are many other questions to answer in this area.

Try to avoid the sanctimonious and high-and-mighty refrain that you would never pay a ransom. We have this tough conversation with our clients and their directors often. Like many things in life, it's easy to say what we would do until it happens to us. Be realistic and pragmatic so that you can plan ahead and be prepared.

Challenge Question – What is your bank doing to mitigate the risk of a ransomware attack, and what would you do if your bank suffered an attack?

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Summary

Fintechs will continue to push bankers to innovate and re-think traditional business processes. However, blind faith in fintech promises will be replaced by extensive due diligence and the requirement of proof. The survivors will be prepared to provide the documented proof necessary to show bankers the value of their solutions and the utility these solutions present to improve efficiency and the customer experience.

New technology must have value. It must help bankers save time and money, generate new lines of revenue, or improve the customer experience. The technology must be more than just cool. It must deliver. It must have a business case and fulfill a need. As Thomas Edison said, "Anything that won't sell, I don't want to invent. Its sale is proof of utility, and utility is success."

Here's to a 2023 filled with bank tech purchases that bring utility, success, and promote profitability based on proof instead of false prophets.

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Five Tips to Develop and Execute a Recession Strategy

By ***Mac Thompson, President and founder of White Clay***

The U.S. is very likely to enter a recession in 2023 – real Gross Domestic Product (GDP) is currently going sideways, inflation has grown significantly in the last 12 months, interest rates are continuously being raised by the Federal Reserve, the pandemic stimulus impact to consumers is diminishing, consumer debt is increasing, and consumer credit card delinquencies are rising.

Although better positioned than during the 2008 recession, credit unions should start preparing now for tougher months ahead. Here are five ways credit unions can develop and execute their strategies to keep their institutions strong and help their members during a recession:

1. Get data in order – The ability to pivot during times of change is dependent on having an in-depth view of what's going on within the institution. When it comes to member relationships, being able to accurately view and report data of current performance is required to optimize for a recession. Modern technologies and processes can combine disparate data, standardize it, and curate it, providing credit unions with a more holistic view of each member relationship.

2. Create member visibility – In order to align a credit union's member-facing employees with the institution's growth strategy, they need to be able to see the details of the relationships they are responsible for. Having visibility into member relationships will enable bankers to find opportunities to put management initiatives into action, while also taking better care of members. For example, knowing their top revenue-producers will tell bankers which relationships they need to protect the most in turbulent times; or knowing which members are active or not will indicate who they should reach out to more to increase engagement.

3. Price commercial relationships accurately – For credit unions that have moved into larger commercial lending, next year may present the first time they're doing so during a recession. Having insight into commercial relationships will enable credit unions to accurately price those products and deals. Being able to adjust pricing quickly as rates change and apply proper credit for deposit balances and service fees will allow informed decisions to be made. When relationships are priced correctly, credit unions can offer lower rates and continue to invest in better products, improving the banking experience and further supporting members during a recession.

4. Build and execute a deposit pricing strategy – For the past 14 years, interest rates on deposits have been low or non-existent, providing an inexpensive funding source. The pandemic stimulus boosted deposits by $4.8 trillion dollars from March of 2020 to June 2022, but most of these deposits have remained low interest. As we head into a recession, much of the low-interest deposits remaining will likely transition to higher interest products. This will require credit unions to create and execute an effective deposit strategy. This strategy should include the following elements: identify where members have excess deposits, implement a deposit pricing process, use tools optimized by member segment and relationship characteristics to price deposits accurately, and educate and train employees to understand and inform members about these changes.

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5. Continue lending – Pricing loans accurately will still be important for credit unions, as many members will need loans and lines of credit to succeed in a recession environment. However, executing disciplined portfolio covenant monitoring is pivotal, making sure the returns are worth the risk.

Moreover, lending is often an acquisition driver for credit unions and a gateway to further supporting their communities. For example, new members may be attracted to the low interest rate on loans that a credit union is offering. However, if the lending process goes smoothly, they might decide to move their primary transacting accounts to the institution instead of just opening a $5 share account.

If credit unions can execute on these five points during a recession, they will deliver a steady stream of revenue, which will allow them to continue to investment in better products and additional benefits, leading to even happier members. Credit unions that are proactive about their recession strategy will be better position to withstand the impact of an economic slowdown and better serve their communities.

Mac Thompson is Founder and President at White Clay, which provides financial institutions with a single, accurate view of their data to optimize profitability and liquidity, protect shareholder value, and improve relationships. Please visit http://www.whiteclay.com/ for more information.

This article originally appeared in Credit Union Times.

5 Trends Shaping Banking and Payments in 2023

By *Bhavin Turakhia , Co-founder and CEO of Zeta*

As we're rounding out the first quarter of 2023, a few areas and trends have gained momentum and will continue to do so as the year progresses. From fears of recession, mass layoffs and overall market uncertainty wavering from lending and deposits to tech investments, financial institutions are eyeing areas of growth and whether they need to brace for impact.

Let's discuss what we've seen so far in 2023 and what may lie ahead.

1. What will the recession mean for lending and deposits?

Banks and credit unions have had more deposits than they need the last couple of years. As interest rates rise, more affluent customers may turn to savings for a safe place to stash their money, while financially strained customers will turn to BNPL and credit cards more. Managing credit lines, particularly in the near-prime space, has always been a key success factor in managing through downturns, but it remains to be seen how BNPL will play out given its near prime skew. Traditional products will see growth in the margins, but credit card delinquencies have already ticked up from 1.85% in Q1 2021 to 2.08% in Q3 2022.

2. Tech investment will retrench to core capabilities and experiences

With budgets tightening, financial institutions need to prioritize technology budgets without sacrificing competitiveness or long-term growth. Initiatives that don't improve customer experience or long-term capabilities are likely to be cut. Banks have mostly done well in replicating the service experience that customers would expect to get from a call center or even branch. But moving beyond that means predicting their needs, giving them visibility into their money, empowering them with more control and creating more meaningful interactions. Meeting those challenges requires modernizing platforms to enable faster change and lower-cost experimentation.

3. Innovating in a regulated environment

Even if the Durbin 2.0 amendment to regulate credit card interchange and routing doesn't go anywhere, it highlights the uncertainty that regulatory change brings for banks. Financial institutions are often fighting the innovation battle with one arm tied behind their back compared to non-banks, though some leveling of the playing field is underway at the CFPB. But financial institutions are not helpless to operate more successfully within their environment, particularly as it relates to moving more quickly in response to compliance mandates. This again will require nimble technology, but should allow financial institutions to focus less of their technology resources on compliance and more on innovation.

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4. Evolving competition with non-banks

Non-bank competitors have been steadily eating away at bank growth and profits. In some ways, this loss of opportunity is invisible, because core business remains strong, but these new companies peel away new product opportunities, customers and even interactions that could power banking profits. Recessions have a way of revealing who has a viable business model (such as whether 0% BNPL is viable with high interest rates), and you have already seen funding dry up. Expect deal shopping by healthier banks and industry players to scoop up promising companies that are low on funds. Weaker fintechs may go out of business, while more resilient ones could emerge stronger.

5. Managing Risk while capturing Gen Z growth

Gen Z is finally moving beyond student cards and arriving as a sizable addressable market, and banks will need to figure out how to capture this growth while limiting risk exposure. Simply waiting until the economy recovers is risky, as many of these customers are young and could establish behaviors and preferences (such as alternate financing and BNPL) that limit banking growth in the future.

Some responses from financial institutions, such as Installment Loan on Cards, are a good start, but ultimately, banks and credit unions must be able to experiment to find new products and manage losses in this segment.

If credit unions can execute on these five points during a recession, they will deliver a steady stream of revenue, which will allow them to continue to investment in better products and additional benefits, leading to even happier members. Credit unions that are proactive about their recession strategy will be better position to withstand the impact of an economic slowdown and better serve their communities.

Bhavin Turakhia is co-founder and CEO of Zeta, a banking tech unicorn and provider of next-gen credit card processing.

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