WILLIAM MILLS AGENCY

BUILDING A RESILIENT TOMORROW

2022 BANKERS AS BUYERS

Editor's Letter

February 2022

Dear Readers,

Meandering in a book store, I came across the book, "*Building a Resilient Tomorrow, How to Prepare for the Coming Climate Disruption*" by Alice C. Hill & Leonardo Martinez-Diaz.

While obviously about an unrelated subject, I thought the title was spot-on in its applicability for us in the financial industry. So much of our attention today is focused on the ability to "future-proof" bank operations by adding capabilities, improving customer and user experiences, and evaluating partnerships quickly.

So, what are the decisions we can make in 2022 about technology, resources, corporate culture, etc. that enable us to build a more resilient tomorrow for financial institutions?

Bankers As Buyers has always looked at the types of technologies and capabilities that are trending upward, but I'm keenly aware that innovation is not technology; and that innovation can be seen in many forms. New ways to meet customer and prospect needs is more about understanding where you are today, where you want to be in the future, and developing strategies to get there.

We also recognize that the competitive landscape is changing, which can be helpful to evaluate as well. What are others doing? What is working? Where are others "stubbing their toes?" And what can we learn from it? I was somewhat taken aback by a former regional bank chairman, who said his board invested a fair amount of time looking at how other banks "screwed up" and how his bank could best avoid making those same mistakes.

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

Anchorage Digital

Aptys Solutions
Eric Dotson

BAI

BHMI
Casey Scheer

Celent
Zilvinas Bareisis, Bob Meara

Compliance Systems
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Corserv Solutions
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Finalytics
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Green Circle Life
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ICBA
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IDC Financial Insights
Marc DeCastro

IMM
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Jack Henry & Associates
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LenderClose
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Mambu
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Office of the Comptroller of the Currency (OCC)

Payrailz
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Sawyers & Jacobs LLC
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SRM (Strategic Resource Management)
Keith Ash, Patti Wubbels

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Teslar Software
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TTV Capital
Sean M. Banks

Vergent LMS
Lance Solomon

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Respectfully submitted,

Scott Mills: Editor

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I. Opening Remarks

Banks will continue their digital transformation in 2022, focusing their technology investments on those products that better enable them to interact with customers – *where* and *when* they desire – whether in the wee hours of the morning on a mobile device, in a physical branch (health restrictions permitting) during typical business hours, or something in-between.

"Retail banks have an unprecedented opportunity; by supporting the recovery from the pandemic and helping to tackle some of the big issues facing economies, the sector can gain a strong sense of purpose, grow the bottom line, and ensure its ongoing relevance," said Zilvinas Bareisis, Celent head of retail banking.

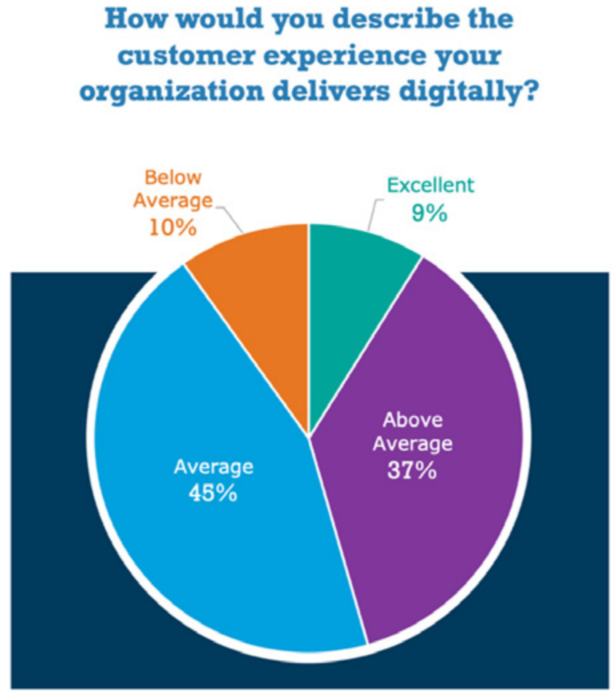
Bank technology investments will be focused on "building a better tomorrow," according to Charles Potts, executive vice president and chief innovation officer for Independent Community Bankers of America (ICBA).

"Innovation isn't always just about technology," Potts said. "We believe it is important for the banks to look at three areas that create an overarching theme around the technology. Those are efficiency, effectiveness and talent."

"2022 is going to be the year that it all makes sense," said Marcie Bomberg-Montoya, principal and strategic advisory services leader for Wipfli LLP. "The pandemic forced a lot of bankers into digital transformation much sooner than they had planned. That meant many started their digital transformation before developing a strategy behind it."

"A lot of banks and credit unions fell victim to the 'shiny object syndrome,'" Bomberg-Montoya said. "This evolution will continue to occur. Gone are the days of 'we're done with our projects.' Now we are going to be looking at continuous improvement of all digital aspects, whether it be internal- or external-facing."

Largest gaps in customer experience



Source: BAI

This could be a watershed year for many fintechs, according to Marc DeCastro, research director of IDC Finacial Insights who predicts that 30 percent of prominent fintechs will be acquired and another 30 percent will fail by the end of the year.

The BAI Banking Outlook report said that the top investment priorities for financial institutions in 2022 would be consumer digital experience, technology integration and platforms and brand awareness and advertising.

The biggest business challenges for bankers in 2022 is improving the digital experience and new customer acquisition, the report added. "Only 9 percent of bankers describe their digital CX as excellent. Direct banks are winning the digital experience race with 7 in 10 accounts opened online going to direct banks."

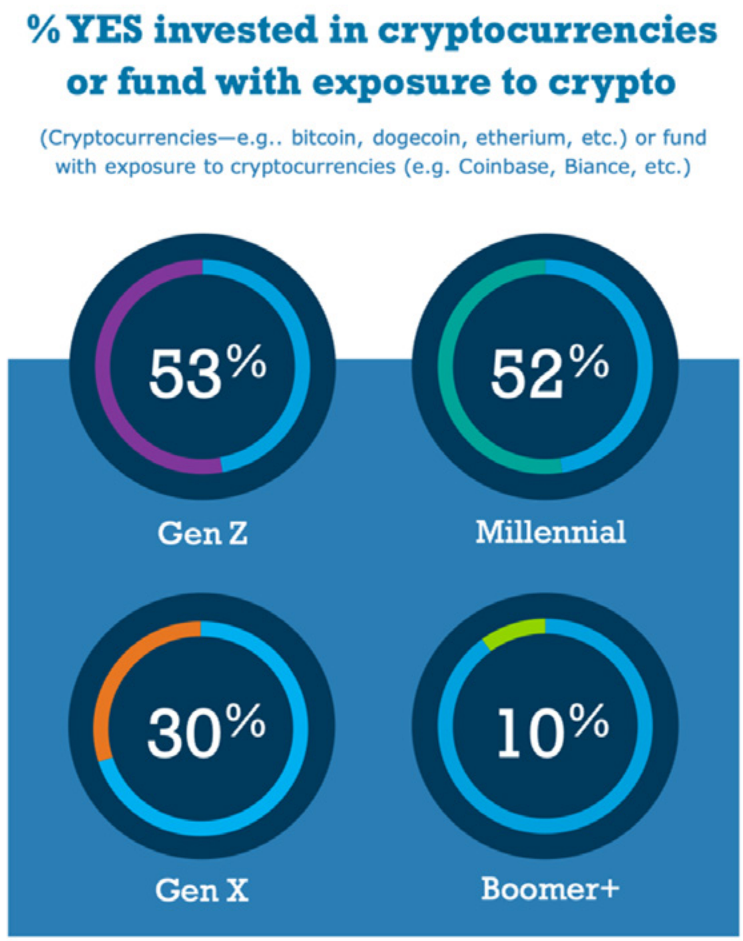
Financial services organizations need to improve the CX and develop relationships rather than transactional business, according to BAI.

Customer experience, as well as the infrastructure components to support customer experience, will be two of the three areas financial institutions will concentrate their financial spending in 2022, according to Robin Smith, commercial director for North America for Mambu. Banks will also invest in technology to support back-end activities, such as connections to payment, clearing and similar systems.

Loan growth is a top priority, but over half of FI leaders are facing increased competition in this area, according to BAI. Smith expects banks to concentrate any investments in this area on technologies to grow their small business lending portfolios.

While technology is seen as aiding in competing for loans and other business, technology can't be seen in a vacuum, Potts cautioned, calling talent the third piece of the puzzle for bank success in 2022.

Crypocurrency



Source: BAI

"There is a desire on the behalf of banks to bring in the talent that can know, understand and live with not only the technology and innovation going forward but the demands of a different set of clients that heretofore banks haven't always had to deal with," Potts said. "You're dealing with a mobile-centric world, what I like to call the 'digital natives.' Therefore the banks know they need to find, acquire, retain and train the talent to adjust and deal with these growing needs."

Another major consideration for banks this year is how to react to consumers' growing interest in cryptocurrency. According to BAI, the majority of Gen Z and millennials are investing in cryptocurrency, but the huge value swings present significant risk for customers.

II. Integration

Banks will seek to expand their technology in three basic ways, all with an eye to ensuring any new capabilities integrate with one another and with legacy systems. While some of the largest banks will develop these technologies themselves, others will obtain them from core providers or from fintechs that have point solutions which integrate with the core solution the bank is already using.

Jimmy Sawyers, chairman and co-founder of Sawyers & Jacobs LLC, added that banks are conducting more due diligence before partnering with fintechs than they did a few years ago to ensure the solutions work as expected, and that they are a strategic fit.

The approach on whether to involve third-parties, develop a solution in-house, use the core provider's offering or some combination of solutions for additional capabilities depends on the bank's strategy, DeCastro said. "Banks are deploying technologies that are purpose-built on the cloud. When that happens, you don't have to worry about what your particular infrastructure is. You don't have to worry about the security because most large cloud providers can already do security better than most banks can do security."

A bank's asset size will also determine how it pursues integration and other technologies, said Chris Topazi, president and CEO of FinTech Advantage. The largest banks have in-house technicians to develop some solutions, whereas community banks will tend to work through their core providers and third-parties.

"2022 will be a year of getting the most out of your investment and making what you might have thrown together with duct tape and paper clips be more seamless," Bomberg-Montoya said, adding that there is no singular way to pursue that goal.

Too many banks have technologies that theoretically should be excellent solutions, but don't have the necessary supporting technology – a gap they will be seeking to fill in 2022 through work with third-parties using APIs, or their core providers, she added.

The difference in approach isn't based on bank size, per se, but on what the strategic goals are, she added. "The key driver that we are seeing is the customer experience, that in turn should also gain efficiencies and drive revenue in the process," Bomberg-Montoya said. "That integration piece is going to be one of the most important priorities for banks this year."

"The customer experience is where all the emphasis seems to be," said Rod Taylor, Founder and CEO of Taylor & Company. "Much of the talk is about how to make the customer experience safe, secure, and easy to use," Taylor said. "The challenge is how to automate procedures while circling around cost containment and achieving technology efficiencies." Taylor added that, "Banks need to eliminate much of their obsolete infrastructure and technology to further improve the customer experience, but many have sunk costs in those assets, so they're not quick to disrupt and replace them."

Banks are looking to technology vendors to provide a "one-stop shop" of digital integration, said Keith Ash, senior vice president, new business for SRM. "Digital engagement isn't just about: 'Do I have a mobile banking app and can I do remote deposit capture?' It's providing all of my banking services, be it at my desktop or in my hand."

Competition from neobanks and digital-only banks is, "Forcing traditional financial institutions to work with technology partners that will enable them to compete in the digital arena," Ash added. "I'm seeing more financial institutions change their core banking providers in the last 2-3 years than I have in the last 10 years. The integrated experience is so important, they feel if their current provider can't do it, they're willing to make a huge technology investment to be where they want to be and future-proof their institutions."

A Core Technology

"2021 was pretty dramatic for banks and credit unions figuring out how to do business in the ongoing pandemic," said David Foss, board chair, CEO of Jack Henry & Associates, Inc. "After being totally disrupted in 2020, bankers started to focus on the technologies to deliver an improved customer experience."

As a result, technology spending picked up significantly in 2021 compared to the previous year, with technology investments focused on introducing efficiencies into the organization, process re-engineering and related technologies. In a Bank Director survey, respondents expected to increase their technology spending by 10% this year.

Technology spending totals a median 1 percent of assets for surveyed banks, but smaller banks with less than $500 million in assets are spending more, at a median 3 percent of assets. Further, larger banks with more than $1 billion in assets spend more on expertise, in the form of internal staffing and managed services. A median 40 percent of technology budgets go to core systems.

Despite increased competition from outside the traditional banking space, respondents consider local banks and credit unions (54 percent), and/or large and superregional banks (45 percent), to be the greatest competitive threats to their bank.

Other survey findings:

- Fifty-four percent of respondents believe their customers prefer to interact through digital channels, compared to 41 percent who believe their clients prefer face-to-face interactions. Banks continued to ramp up their digital capabilities in the third and fourth quarters of last year and into the first half of 2021, according to the survey.

- One-third upgraded or implemented data analytics capabilities at their bank over the past four quarters, and another third said these capabilities were already in place. However, more than half say they're concerned the bank isn't effectively using and/or aggregating its data.

"That tells you they're focused on continuing to invest in technology to enhance the services they offer to their customers," Foss said. Banks will be looking to improve efficiencies and the digital experience for commercial and retail customers.

The digital experience is paramount because most customers will continue to stay with their remote transactions, even when in-branch services are available.

"So integration becomes a much more common conversation than it was before," Foss said. "Previously, financial institutions decided where to integrate and decided whether to buy the technology from Jack Henry or from a third-party and would manage the integration process. But with all the disruption with fintechs, the bank is now trying to figure out whether to integrate into a fintech and embed the banking service."

Rather than embedding the financial institution in the fintech, other banks look at ways to include the fintech in the banking experience, which involves significant integration, Foss said. "It's a pivotal point. You could embed your services into a fintech, but focus on adding fintechs into your digital platform and offer the digital experience through tight integration. It's a really strategic discussion that bankers are trying to figure out."

Integration is at the core of any of these discussions, according to Foss. "This is a key point of differentiation for Jack Henry. Historically, we and all of our competitors have provided a legacy technology to connect one solution to another. But several years ago Jack Henry moved into offering a very broad suite of APIs, creating an open environment for our customers. It's designed to make it easy to connect to third party solutions at a low cost."

“Banks are investing in various technologies that provide a digitization layer whichs sits on top of their existing core, therby enabling them to bring additional products to market faster and more efficently,” said Sean Banks, partner at TTV Capital.

Banks are becoming less core-centric and looking at best-of-breed solutions, Bomberg-Montoya agreed. Integration is going to require partnerships with companies providing various technologies that use an API architecture to provide additional capabilities.

“The cores are starting to understand that this has to happen, but it’s not happening fast enough for our community financial institution clients,” Bomberg-Montoya said.

There have been several false starts with core modernization efforts, Topazi said. Whereas legacy cores have existed for decades, next-generation cores are scalable and cloud-based with the relationship evolving from vendor core provider-bank customer to more of a partnership.

“People have to understand how valuable partnerships are,” Topazi said.

Bomberg-Montoya added that employing this best-of-breed strategy requires additional technical expertise to properly integrate the technologies. “We’re seeing more outsourcing and managed services-type relationships to take care of the blocking and tackling.”

Recently, Jack Henry developed relationships with data aggregators Finicity, Plaid, Akoya and Yodlee, enabling consumers to gain increased visibility and control over their finances.

“We’re the only company that has these relationships with all four of those financial data exchanges,” Foss said. “We’re enabling all of our clients to utilize what works best within their environment. So banks have these different options to provide a richer view of what is going on in [a customer’s] financial world.”

With such solutions, the bank can securely gather and present to the customer all of his or her financial information, be it accounts at the bank or at third parties like investment firms, such as, Fidelity or Prudential.

The bank can be the customer’s financial services focal point, Foss said, adding that the method by which the fintechs aggregate the financial data for the bank and its customers is much more secure than the screen scrape method introduced decades ago.

Foss is working with bankers this year to discuss the technology they will need to reach their strategic visions. He shared that Jack Henry’s technology strategy over the coming years focuses on the development of a new cloud-based open banking platform that gives bankers easy access to Jack Henry solutions and third-party fintechs. “Over time, our clients can choose whether and when they want to use cloud-native services, and they will not be faced with a full core conversion; it provides freedom of choice and faster innovation, a structure that is fundamental to banking’s technology evolution,” Foss said.

B Internal/Back Office Technology

1. Robotic Process Automation (RPA)

Many banks are deploying RPA as one of their first forays into Artificial Intelligence, with fraud detection being the other, DeCastro said. “They are looking for ways to perform continual, repetitive tasks that don’t involve humans to improve their overall efficiency.”

Joseariel Gomez, founder and CEO of Shastic adds, “In essence RPA is functionality that allows you to trigger the next best action in a specific process programmatically, without human involvement. A.I. on the other hand allows you to extract meaning from unstructured data. The best way to use RPA and A.I. is to blend them to provide intelligent process automation.”

He continued, “Banks are definitely hungry for it, but so far RPA is fragmented because banks have been targeting only back-office use cases. The key to a wider variety of tasks that RPA could handle is to include the knowledge worker, the customers and all other participants in the process.”

Therefore, RPA systems are very resource intensive for banks to establish and many simply don’t have the necessary internal expertise, Gomez said. There are numerous third-party RPA providers, but they don’t understand the banking industry. Additionally, technicians who understand the underlying banking systems to develop RPA solutions command high compensation, which can offset much of the ROI.

“There are much better economies of scale if you work with the same tech stack for the same kind of institution all of the time; that way you can easily reproduce it without having to re-invent the wheel every time. But that’s what’s happening right now,” Gomez said.

“Another thing that we are hearing is that some banks have deployed it for two or three tasks that they are automating, but they tend to be slow and brittle,” Gomez said, adding that sometimes the bots performing the RPA take longer than a human performing the same task, defeating the purpose.

The problem may not be with the RPA, but with the underlying systems, according to Gomez. While RPA, if designed and working properly, can drive much more volume than humans performing the same tasks, the underlying systems may not be able to scale to handle the additional data flow.

Even if a financial institution can solve those problems, RPA can only go so far without an additional cognitive layer, according to Gomez. For example, a loan approval depends on the applicant having the proper credit, insurance and other documentation. Typically, a human conducts those reviews and adds the information to the system.

“This cannot all be done by a simple rules-based engine, which is what most RPA engines use,” Gomez said. “That’s why they’re mostly constrained to the back office. They can only handle very repetitive, very simple, use cases.”

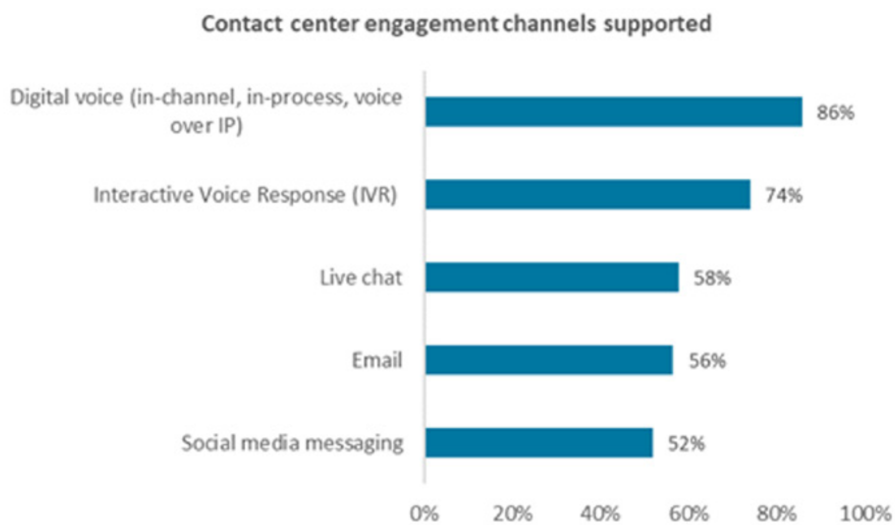
“We’re not seeing a lot of change from the traditional RPA vendors; and if you don’t change, you can’t expect different results,” Gomez said. “We’re developing a challenger approach. We’re not following the convention of the industry; we are using proprietary technology.”

That technology will provide RPA in the cloud, lowering the cost and helping banks streamline their operations, Gomez said. “We’re creating a solution that is like a Salesforce-type service model for RPA and financial services.”

Gomez said that Shastic’s RPA will take only a week to deploy, compared to months for a traditional RPA system.

2. Contact Center Technologies

Due to the pandemic and the resulting drop on in-branch activities, the contact center took on renewed importance for building and retaining customer relationships. As a result, many expanded the number of channels that they supported.



Source: Celent

a IVRs

"Banks are upgrading to more intelligent IVRs that are not only speech-enabled, but also use Natural Language Understanding (NLU) and conversational AI," said Bob Meara, Celent senior analyst. They are also increasingly employing conversational AI, to automate agents' tasks in an effort to rein in much higher volumes and improve the customer experience.

"The recent growth in digital customer utilization catalyzed by the pandemic, call volumes remain high and wait times long," Meara said. "Legacy approaches no longer work. A growing number of retail banks know this and are investing in conversational AI for a variety of contact center use cases."

b Chatbots

Chatbots represent the next step in bank adoption of AI, according to DeCastro. If designed correctly, chatbots improve first contact resolutions for customers, enabling them to efficiently complete interactions without waiting to talk to a human agent.

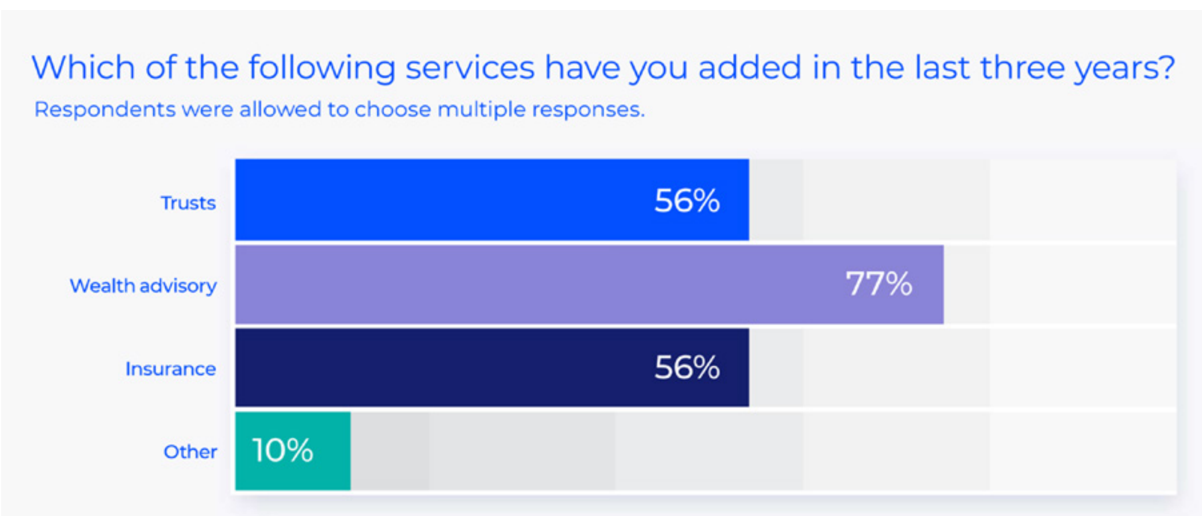
"There will be more investment in chatbots as they become more refined," said DeCastro. "There are a lot of cases where it's low-hanging fruit. Chatbots and virtual agents can monitor sentiment and provide real-time feeds."

In its 2022 IDC FutureScape publication, IDC predicted that one quarter of global financial institutions would use AI-based sentiment analysis to improve customer experience on current and future products and services. (*Note: IDC, IDC FutureScape: Worldwide Financial Services and Payments 2022 Predictions, Doc #US48299721, October 2021*)

C Branch Technology

Though the adoption of digital transactions largely supplanted in-branch transactions as a result of the COVID-19 pandemic, there will still be need for the branches when the virus and its variants eventually fade or go away entirely, DeCastro said. "There won't be the same need from a transactional standpoint for the branches. But from an advisory standpoint the branches will continue to be important."

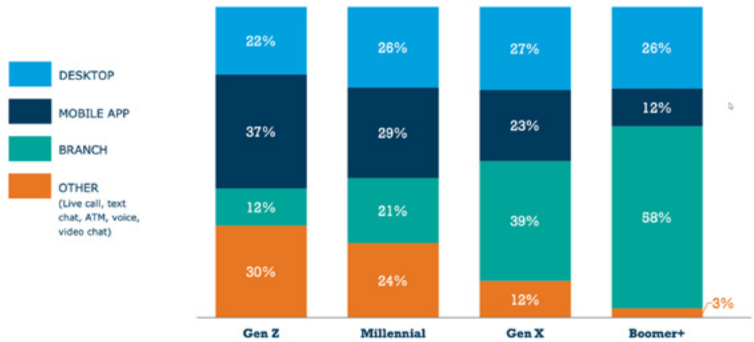
The "Wipfli 2022 State of Community Banking" report also points out the growth of ancillary services that will maintain the importance of the branch with more than three-quarters (77 percent) of survey respondents adding wealth advisory services within the last three years.



Source: Wipfli

According to the BAI Banking Outlook, Gen Z showed the highest preference to open deposit accounts via their mobile device, while branches are still critical for many customers today and is the preferred method for opening deposits by Gen X and Baby Boomers.

Most preferred way for opening deposit accounts

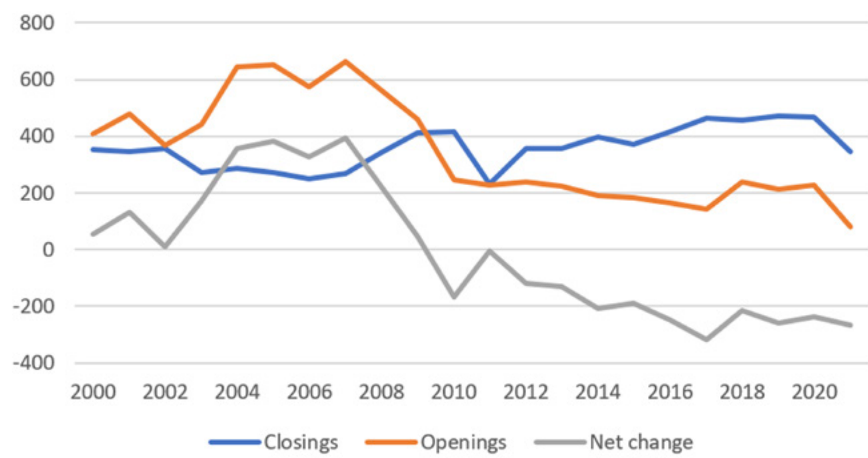


Source: BAI

"Even in my own area (Boston), I'm seeing brand new branches being built, especially for banks that want to enter this market," said DeCastro, adding that some consumers still prefer branches for some cash transactions.

Indeed, a Federal Reserve Bank of Cleveland report found that "despite the increased use of online or digital banking services, research shows that customers continue to value in-person interaction for many of their banking needs. Most consumers prefer to perform certain types of transactions such as opening accounts, resolving account problems, and transferring large sums in person rather than online."

Full-Service Bank Branch Openings vs. Closings



Source: Federal Reserve Bank of Cleveland

The Wipfli report found that only 17 percent of community banks had closed a branch in the past year.

"We've got 33,515 more branches, or banking locations, than we had in 1987," said Sawyers. "While 2,927 branches closed in 2021, 38 percent of those closures were accounted for by five large banks. When I speak to bank CEO groups, I ask how many have plans to open a new branch and just about all of them raise their hands. The branch is not dead, it's just transforming into something better."

So in 2022, banks will continue to consolidate branches and will invest in technologies that will aid the remaining branches in that consultative role, including scheduling technologies and advanced video, DeCastro predicted. "We'll see more investment in telecommunications for the branches and in the ability to mobilize branch employees and specialists and to support those people through digital channels."

Some banks will augment their video capabilities with technology that enables customers to use avatars rather than actual video. An avatar in the metaverse provides much of the high-tech, personal feel of video, but offers some better privacy, as well as comfort for those who are concerned about how they look on screen, Sawyers said. "You're going to see some more innovative companies start looking at banking in the metaverse. I think that holds great promise – people might be more comfortable with that channel because of the anonymity that's associated with it. This will be more about how we interact via the technology than the technology itself."

III. Cryptocurrency

While cryptocurrency investing/trading still only impacts a relatively small percent of the total population, it is increasingly in interest and has garnered institutional investors. As such, it is something that financial institutions need to keep track of, according to Manolo Sánchez, a Fannie Mae director and adjunct professor of business at Rice University – Jones Graduate School of Business.

“The focus on cryptocurrency, Bitcoin specifically, has been macro economically-driven because of the fear of inflation and the fear of monetary irresponsibility in most nations of the world because of the pandemic,” Sanchez said. “Cryptocurrency provides people with an electronic ‘cash’ option as an alternative to other monetary assets or reserve assets.”

According to NYDIG, the price of the most popular cryptocurrency, Bitcoin, returned 57.2 percent during 2021, higher than Real Estate Investment Trusts (40.2 percent) commodities (38.8 percent), U.S. mid-cap value stocks (28.6 percent), U.S. large cap value stocks (28.6 percent) or anything else.

However, there were large swings in the value of Bitcoin during the course of the 2021. The price of Bitcoin as of January 28, 2022 has since retreated to levels just below its price 12 months prior. The asset is likely to continue to have wide valuation swings. So banks will need to advise customers that cryptocurrency should be seen as an investment asset, not a transactional asset, DeCastro said. “You want to disclose to somebody that if they have their debit card tied to cryptocurrency, they can create a taxable event if they use it for a purchase. So it doesn’t make any sense to tie cryptocurrency to daily purchases.”

Banks can’t ignore the cryptocurrency market, because competitors for consumer financial business are already investing in it. In January of 2022, MoneyGram invested an undisclosed amount for a 4 percent stake in Coinme, a cryptocurrency cash exchange firm that operates in 48 states. A Bitcoin rewards card became available through Visa in 2021.

“We continue to be bullish on the vast opportunities that exist in the ever-growing world of cryptocurrency and our ability to operate as a compliant bridge to connect digital assets to local fiat currency,” Alex Holmes, MoneyGram chairman and chief executive officer, said in prepared remarks.

In late December 2021, Quantic Bank launched Bitcoin rewards checking. The account offers 1.5 percent in Bitcoin on all eligible purchases, no overdraft or non-sufficient fund fees, and a minimum opening deposit of just $500.

But, at least for now, cryptocurrency is a future (rather than an immediate) consideration for banks, Manolo said. “U.S. banks aren’t in the business of creating reserve assets or speculative assets for their clients. But I think that it’s important that they pay attention to Bitcoin and the next generation of cryptocurrencies that have come since. What they allow us to create is programmable money.”

Though banks had virtually no involvement with cryptocurrency at the end of 2021, most will have some involvement, even if just researching the service, by the end of 2022, according to Derrick Bretz, vice president of payment strategy for Computer Services, Inc (CSI).

Wipfli reported that just under one-third (29 percent) of banks surveyed said they were very likely or extremely likely to offer cryptocurrency-related services to their customers in the next 12-18 months.

Source: Wipfli

"Banks have been hesitant to enter the space due to regulatory uncertainty, and some high volatility that existed in the space," Bretz said. "But with consumers already buying cryptocurrency via Coinbase, Cash App, etc., it's an area banks can't ignore, despite the volatility."

In addition to providing another financial service that customers want, offering cryptocurrency provides banks the opportunity to earn significant fee income from trades of the asset and a product that further solidifies the customer relationship, Bretz said.

Regulators have opened the door for bank participation in cryptocurrencies, Bretz added. In late November, the Office of Comptroller of the Currency (OCC) published a letter confirming that national banks and federal savings associations must demonstrate that they have adequate controls in place before they can engage in certain cryptocurrency, distributed ledger and stablecoin activities.

"Because many of these technologies and products present novel risks, banks must be able to demonstrate that they have appropriate risk management systems and controls in place to conduct them safely," acting Comptroller Michael J. Hsu said at the time. "This will provide assurance that crypto-asset activities taking place inside of the federal regulatory perimeter are being conducted responsibly."

The OCC retains discretion in determining whether an activity is conducted in a fiduciary capacity for purposes of federal law.

"I would predict that the vast majority of banks have already initiated plans to enable customers to buy, sell and hold cryptocurrencies or they will have plans to do so in short order," Bretz said. "I think it's just another asset that people are going to want to speculate in."

Some U.S. banks were notably advancing their presence in the cryptocurrency market in December of 2021. Along with the Quantic Bank launch of the Bitcoin rewards card, Anchorage Digital closed a $350 million Series D funding round led by global investment firm KKR. This funding round values Anchorage at over $3 billion.

"As more and more institutions look to add crypto services into their offerings, we find ourselves at an inflection point," said Diogo Mónica, president and co-founder of Anchorage Digital, in a prepared statement. "This funding positions Anchorage Digital to meet the unprecedented institutional demand for this rapidly evolving market."

Once a few more banks get involved, others will quickly follow so as not to miss out, said Bretz, who expects as many as 80 percent of community banks with less than $10 billion in assets to have some type of cryptocurrency offering by the end of the year.

However, the types of cryptocurrencies that banks will be involved with will be limited to Bitcoin, Etherium and perhaps a few others, but no Dogecoin, stablecoin or any of the other riskier competitors, Bretz said.

Through a partnership with NYDIG, in March 2022 CSI will be including the ability to buy and sell Bitcoin as part of its digital banking experience for its customers.

“Bitcoin has some regulatory certainty that the other cryptocurrencies don’t have,” Bretz said. “The different regulatory agencies have recognized it as property, like a stock certificate. They have not come out and made those claims about Ethereum.”

CSI customer banks may not initially choose to add the cryptocurrency capability, Bretz said, but once the service debuts, they will have the ability to offer it when they desire.

There are likely to be other cryptocurrencies on the horizon, according to Bretz. One of them could be from the Federal Reserve, which is examining a central bank digital currency (CDBC), commonly called “Fedcoin” by the financial media.

More than 80 other countries are also studying offering their own cryptocurrency, according to published reports.

Bretz said he expects the Fed to move forward with its plans, moving somewhat quickly after the expected confirmation of Jerome Powell for another term as Fed chairman, though with a lot of technical and regulatory factors to consider, a Fedcoin may not debut before the end of the year.

Depending on how the technical and regulatory issues are worked out, banks may be able to hold Fedcoins on their books, enabling them to lend against these assets.

Bretz also expects very strict regulation of stablecoins, pushing them to extinction, because they would compete with a Fedcoin, as well as being risky, unregulated and a mechanism for hiding profits. “Stablecoins are mechanisms by which people can obfuscate their gains and losses, so they’re doing that for tax avoidance. And, the federal government doesn’t like it when people don’t pay their taxes.”

IV. Payments Outlook

Payments are becoming the entry point into the financial relationship with customers, much like checking and depository accounts used to be, according to SRM's Ash. Banks will be looking to step up their payments offerings in order to provide customers with the types of payment options offered by non-bank competitors.

Sean Banks, partner at TTV Capital, pointed out that many credit unions are investing in technologies for what he called "Payments 2.0", powering payment through Siri and Alexa or via NFC.

"A lot of that is spurred by the challenger banks," Banks said. "Banks have to think about partnering with these tech providers and staying inside of their core competencies – cash management and cash warehousing."

"The winners are the ones that are investing in this digital strategy," Ash added. "Customers want a way to buy and to see everything under one digital umbrella. What is important to the customer is a way to pay that is easy and convenient."

Bank customers want the ability to view their accounts, have access to them and to be able to push money to their mobile wallets via push provisioning, Ash said. They also want access to payments in real-time, which banks are providing via Zelle and, to a lesser extent, via Venmo and Block (formerly Square).

Visa, MasterCard and the payment processors are investing in technologies to provide an integrated, seamless service so that customers have the option of using debit, credit or buy now, pay later all from a single payment mechanism, Ash added.

"Digital wallets are gaining more traction, as consumers become more accustomed to contactless payments, and the utility of payments from our phone, whether it's Block or other POS solutions," said Sawyers. "We're going to see an increase in such payment methods which makes it imperitive that bankers work hard to ensure that theirs is the debit or credit card loaded on such platforms."

Banks will also be examining how to improve the digital experience for different types of payments, Bareisis said. For example, some banks are investing in data enrichment services so they can provide card customers with more details on the purchases, not simply the merchant and the location. If the customer can better identify the purchase, he or she is less likely to dispute a transaction via the contact center.

"It also helps the bank recognize fraudulent transactions more quickly," Bareisis said.

V. Lending Outlook

A Mortgage/Home Equity Lending

Late in 2021 the Federal Reserve announced its intentions to start tightening credit, with plans to end its bond purchases and to increase interest rates in 2022 in an attempt to rein in rising inflation.

"They've confirmed that they will be increasing interest rates three to four times in 2022," said Allen Jingst, chief revenue officer of LenderClose. "In December, refinance and purchase loans were already down 40 percent."

Yet there is still a strong market for home equity lending due to the record amount of home equity available. Even with the expected increases, rates will be near historic lows and will provide borrowers with a much less expensive alternative than borrowing on a credit card or other types of financing, Jingst said. "As the Fed increases rates, the credit card rates are going to go up, making a lower-rate home equity loan that much more attractive. Fintechs are already starting to pivot that way. I think you're going to see a big trend in the next several years to home equity lending because people are not going to want to refinance or move because they've locked in rates that are so low."

To compete against the fintechs and non-bank mortgage lenders, financial institutions will be investing in technologies that enable them to provide better digital experiences for their customers, speed up the lending process and help borrowers have better insight into their financial health, according to Jingst.

"Banks are changing their approach and choosing the best-of-breed technology solution for each problem, relying on those technology companies to be able to speak to each other through APIs rather than have everything threaded through one provider. API technology is the big driver. The core system is the source of truth that ties everything together."

For improved efficiency, bank lenders will be investing in workflow technology in the digitization process, Jingst said. "I've seen a lot of conversations about that rather than just how to connect to other systems. They might have purchased, for example, an LOS system that they thought would solve an overarching problem only to realize that they need additional workflow automation to power the LOS to make it a more efficient process. So they are looking for additional layers to the technology that they have already purchased."

For example, one multi-state lender who had purchased an LOS system learned that there was a gap in the workflow automation that stopped loans moving from the system to the loan officers. By adding workflow technology to solve that issue, ROI increased tenfold within six months.

"They increased the value of their frontline staff and the value of their LOS by adding a little extra to it," Jingst said. "We have a record number of clients coming on board saying that they need workflow automation to make their lending program better and more efficient for customers."

Bomberg-Montoya said there are numerous third-party systems marketed to banks as workflow solutions for lending and other processes.

Beyond mortgage lending, banks are also expected to offer more innovative financing options to compete with growing choices from non-bank competitors.

B Non-Mortgage Lending

Buy-now, pay-later (BNPL) is another option banks are considering, though such an option also carries with it significant non-payment risk. Last August, buy-now, pay-later provider Affirm partnered with Amazon to provide a BNPL checkout option, enabling select customers to split purchases of $50 or more into smaller, monthly installments. Earlier in August, Block jumped into the space with a $29 billion deal to buy Australian fintech, Afterpay. Though both transactions initially led to significant increases in the prices of the payment firms, both have dropped since as some of the receivables issues have come more into focus.

Rising interest rates will mean a slowdown in lending, so banks will be focusing more on how to drive customer growth on the deposit side of the business, DeCastro said. "We've kind of lost our focus on the onboarding and account opening process for deposit accounts. We will need to reinvest a little bit into that. It's about shifting priorities based on what the future holds."

In its 2022 IDC *FutureScape* report, IDC predicts that 65 percent of consumers across all channels will try an instant finance option. DeCastro said there is some opportunity for banks to develop plug-ins to offer spot financing when customers are looking at auto or other large-ticket purchases that would work similar to the plug-in that Capital One has that searches for and automatically applies coupons and other available discounts for card purchases. The offers would depend on the customer's credit rating, status with the bank, type of purchase and other factors. *(Note: IDC, IDC FutureScape: Worldwide Financial Services and Payments 2022 Predictions, Doc #US48299721, October 2021)*

"There needs to be a clearer understanding that while retail lending, consumer lending, and small business lending, as well as large corporate lending, might be manageable with technology reducing people costs and needs - the most profitable niche in the financial services industry is the middle market. I don't think that niche is going to be dominated anytime soon by technology," Taylor said, adding "Lending is a category in the financial services industry that requires people with relationship skills and management skills. The larger community banks and the regional banks can be expected to remain profitable if they can attract and retain the talent needed to maintain customer relationships and dominate that space."

"Banks will be seeking technologies than enable them to take as much friction as possible out of small business lending," Smith said. "If you're the small business, you're trying to get the money as fast as you can."

To deliver on this, banks are investing in technologies that facilitate loan origination, the managing the workflow and automated decisioning as well as in ways to integrate those technologies with their core banking systems.

The largest banks are building these technologies in-house or are doing major customizations of vendor systems, while regional banks are relying more on vendor's products and the community banks are primarily relying on select vendors like Jack Henry, Fiserv, FIS, Finastra and CSI, according to Smith.

VI. Customer Acquisition

With competition as keen as ever from neo-banks, non-bank competitors and fintechs that are competing for their own share of the financial services market, customer acquisition and retention are as critical as ever for banks in 2022.

"We're seeing a lot of demand for affinity-driven banking," Banks said. "There are various constituencies with specific interests looking for banking opportunities that reflect their values or their wants, needs and desires or a community investment opportunity."

A few prime examples are USAA, which serves the military; Greenwood Bank, which specifically targets Black and Latino consumers and businesses; and Nerve, a neobank for musicians and the creator economy.

Others are family finance via Greenlight, a debit card for allowances, etc., for children; Onward, an app for co-parents to track and managed shared expenses for children, and similar efforts to market to a household rather than just to individual customers, are some other examples, Banks said. Greenlight and similar programs offer financial literacy and other benefits in addition to the convenience of the account.

Vendors are white-labeling these types of technologies, to help banks build an acquisition funnel for the next generation of customers, Banks said.

While banks are upgrading their onboarding technologies to make digital account opening much easier, branch networks are still important for customer acquisition, Bareisis said. "Customers who open accounts at branches tend to be more profitable, they tend to have larger balances. It might be that they are slightly older customers with more money to invest."

Though banks improved their digital onboarding capabilities in the last year, the process still tends to have more friction than what fintechs offer, Bareisis said. Banks typically will require a potential customer to go to the bank's website to open the account, then download the mobile app. Fintechs typically make account opening available on the app.

However, Bareisis added that the bank method is superior in terms of identity verification, though some of the verification methods, like a photo ID, are more cumbersome than device identification combined with other methods.

Customer *acquisition* is essential, but so is customer *retention*.

"I think that banks are experiencing fragmentation of customer relationships," Bareisis said. "There are so many fintechs out there that sometimes customers are keen to try out their propositions."

Typically, an existing bank customer will initially move only a portion of an account to the fintech for a trial, but for the bank that means a loss of at least a portion of the relationship. Among the ways banks are attempting to combat account runoff is by partnering with account aggregators like Plaid and Yodlee and to offer free, updated FICO scores, to position the bank as the center of the customer's financial relationships.

"Quite a few banks are investing in that space," Bareisis said.

VII. Security

Cybersecurity will be among banks' top three (depending on the financial institution) technology investments in 2022, according to Potts.

Nearly four-in-five banks (78 percent) in the "Wipfli 2022 State of Community Banking" report rated cybersecurity as their top concern.

Separately, the Securities Industry and Financial Markets Association (SIFMA) said it had successfully completed a massive cross-industry cybersecurity drill that aims to ensure Wall Street knows how to respond in the event of a ransomware attack that threatens to disrupt a range of financial services.

"The financial services industry is a top target, facing tens of thousands of cyberattacks each day," Kenneth Bentsen, CEO of the Securities Industry and Financial Markets Association, which organized and led the industry drill, said in a press release.

U.S. banking regulators in December 2021 finalized a rule that directs banks to report any major cybersecurity incidents to the government within 36 hours of discovery.

Banks also must notify customers as soon as possible of a cybersecurity incident if it results in problems lasting more than four hours.

The new requirement applies to any cybersecurity incidents that are expected to materially impact a bank's ability to provide services, conduct its operations or undermine the stability of the financial sector. The rule was approved by the Federal Reserve, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency.

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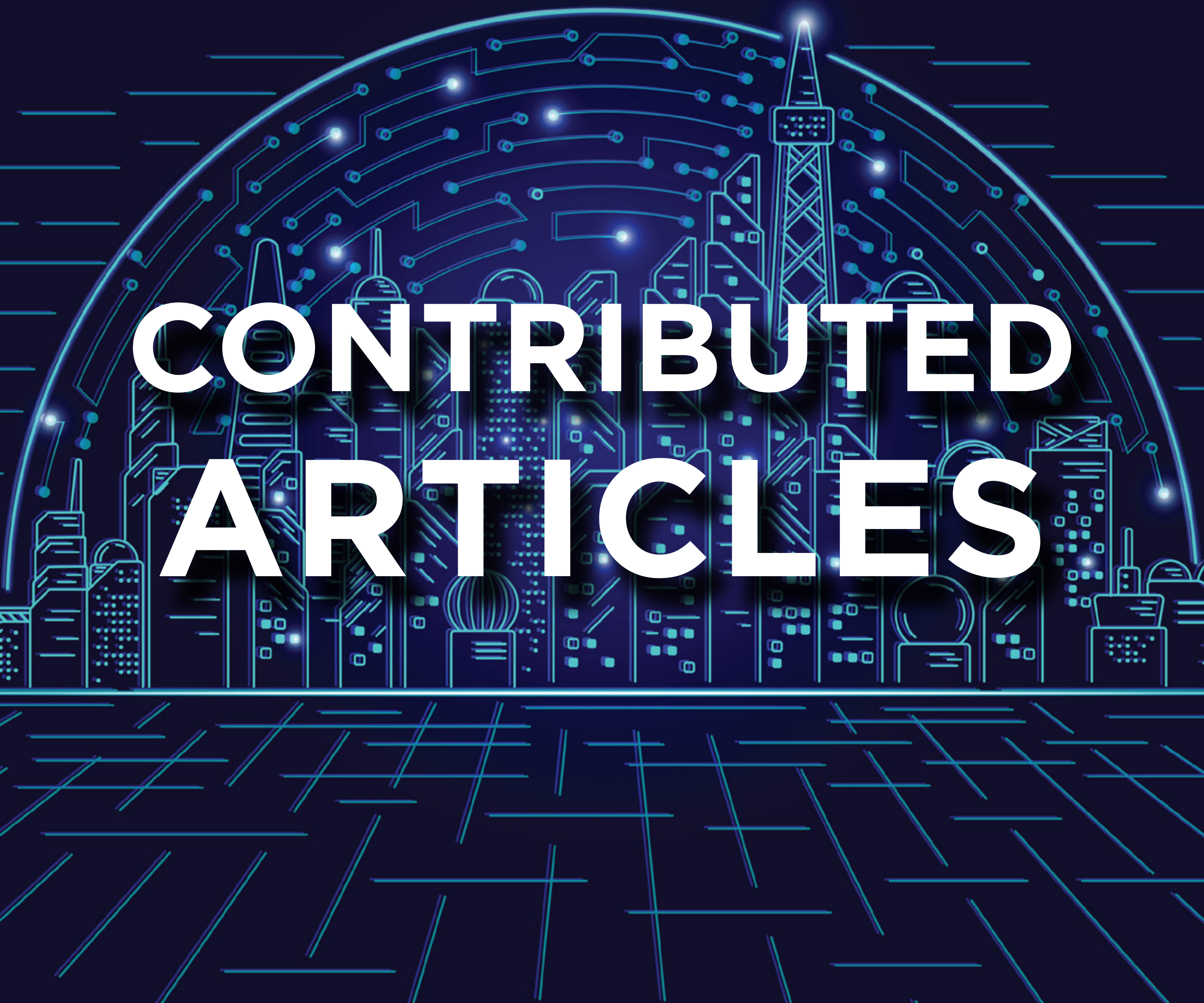

BANKERS AS BUYERS

Compliance is Not an Accessory but a Prerequisite for Success

By Chris Appie, President, Compliance Systems and Vice President, CUNA Mutual Group

As financial institutions continue to evaluate the impacts that the new digital world brings to their organizations and customers, it's crucial that they ensure they meet evolving customer standards while factoring in the perpetual challenge of regulatory changes. Institutions assessing their digital strategic plans should consider compliance not only a priority but as an opportunity to expand in the digital channel. However, most institutions' compliance and regulatory processes are stuck in a survival mindset, achieving only baseline compliance and neglecting to connect compliance with wider business objectives. While this may work temporarily, it is a clear path to remaining stuck in the "pre-digital" time.

According to Thomson Reuters, the number of regulatory changes a financial institution must deal with every day has increased from 10 in 2004 to nearly 200 today. That is one regulatory change that has to be interpreted and implemented every 12 minutes. Financial institutions that rely on manual-intensive compliance processes dependent on heavy human decision-making risk compliance omissions and mistakes. However, those implementing modern compliance technologies will accelerate their digital strategies with improved customer service while gaining operational efficiencies, reducing costs, and increasing wallet share.

So, what can banks and credit unions do to keep up with the ever-changing regulatory environment?

Invest in cloud-based compliance.

Cloud-based compliance is a progressive strategy that leverages API technologies to address current compliance needs and ongoing compliance transformations. Such solutions can adjust quickly to changes, enhance data security, and support an entire digital ecosystem. This approach is cost- and time-efficient and is a natural fit for online banking. It also supports automated compliance updates and helps prepare an institution for the next technology development, positioning it for long-term return on investment.

Cloud-based compliance is a major shift from historic cybersecurity and compliance risk processes that involved high costs that total $270 billion per year according to International Banker Magazine. It is also a significant advancement from complex, time-consuming operations and manual tracking and auditing.

Traditional compliance management methods often result in multiple databases scattered across technology platforms, raising the risk of exposing members' personal identifiable information (PII) to a data breach. Digital data is the backbone of digital banking and must be kept secure. A cloud-based compliance approach provides the means to safeguard an institution's data integrity by offering secured access tiers while supporting a single system of record. This built-in system not only reduces the risk of exposing PII, but also strengthens the institution's overall security profile while simultaneously monitoring for errors, identifying problems, and applying the best resolution on its own.

Join forces with the right compliance partner.

Community financial institutions that may not have the resources to invest in modern technology can team up with a compliance partner who understands the institution's needs and has the agility to align its solution with the bank or credit union's overall objectives.

Technology investments set the stage for how a financial institution operates today and in the future. Before investing in a compliance technology stack or partner, financial institutions should ask themselves if the company offers the same solution it did two, five, or even ten years ago, or if its product offer has kept up with technology developments, consumer preferences, and industry best practices. Organizations should also evaluate if the provider's technology is agile enough to react quickly to external changes or if it's dependent on manual effort to make compliance updates. A compliance partner's reaction time is a bank's reaction time, and the ability to respond to any internal or external changes is crucial, especially when regulators and examiners continuously pave new paths for organizations to follow.

Financial institutions should also evaluate their current business processes and have a clear understanding of the problems they are looking to resolve. To maximize the potential partnership benefits, a compliance partner must understand the institution's business challenges and offer a technology and service model that addresses them. If there is a problem in compliance reaction time because of data bifurcation and duplicate data entry, then the ideal compliance solution needs to reduce data silos and minimize data handling with end-to-end technology integrations and automated data communication. The right compliance partner should also understand that a financial institution's compliance content belongs to the institution and offer the content control and configurability necessary for institutions to document their products and service customers. Banks can't afford a compliance technology approach that restricts their ability to innovate products or permanently chains them to standard language or workarounds. Executives should be confident that their institution can competitively adapt today and in the future.

For financial institutions and their digital strategies to rise to meet customer expectations, they must treat compliance as a prerequisite for success, not as a siloed add-on to a bank's digital operations. Those who do so will be better positioned to offer a unified digital experience, addressing both cybersecurity and compliance risks together to keep data secure and compliant. This approach will propel the institution's ability to compete in the market and deliver the best end-user experience.

To learn more about Compliance Systems, visit www.compliancesystems.com

eSignatures, Remote Online Notarizations, Digitally Signed Receipts are Top Priorities

By Michael Ball, Senior Vice President, IMM

eSignatures and digital transaction enablement are critical technologies for financial institutions. With increasing consumer demand to complete transactions and documents in a remote and safe environment, eSignatures have shifted from a convenience to a necessity. But now it needs to be taken just a few steps further to include online document notarization as well as digital signatures.

The "New Norm" needs additional capabilities

eSignatures are not a new initiative; they are a top priority across the nation. Experts agree, digital technology offerings are going to flourish and continue to mature into the foreseeable future. This is our new normal. Financial institutions realize that they must have a digital transformation strategy in place to navigate new customer expectations. Customers expect a more personalized, engaging experience – and the linchpin is eSignatures. They allow normal banking activities to transpire in a secure environment while protecting the safety of both the customer and the bank employee.

Customers not only expect, but also demand the ability to conduct any banking business, open new accounts, get new loans or modify/extend existing loans while avoiding in-person contact and interaction with branch staff. An increased focus on "touchless" interactions and payments, as well as the "Work-from-Home" scenario transitioned eSignatures to a critical tool every bank must have for their customers to process daily transactions.

eSignatures are most frequently deployed with new account opening and new loan origination and closing processes, but financial institutions are now leveraging eSignatures to enable daily account service and maintenance transactions such as address changes, name changes, stop payment requests, wire transfer requests and credit card disputes. eSignatures have become a way to provide service convenience to individuals who would like to digitally transact business without needing to be present in the branch. Enabling the secure and convenient ability for consumers to complete and electronically sign documents are considered mandatory and part of the "new norm."

E-Signatures at not all created equal

Financial institutions can all agree on the necessity of e-signatures, however, not all eSignature platforms are designed to meet their unique needs. Almost every eSignature product can facilitate an eSigned document, but the "how" it does it becomes critical when dealing with financial services documents. Ensuring eSign transactions can be easily facilitated from any business system in an error-free operation is a critical benefit of the technology. Setting up the transaction for processing is one of the most important aspects of an eSignature solution. Removing any manual setup, signature field "tagging," or data entry is essential for internal operational efficiencies and delivering quality document transactions that eliminate risk or exposure from an inaccurate or incomplete document signing.

Today though, an eSignature provider needs to also offer remote online notarizations as well as digitally signed receipts that can be texted to a mobile device. An effective platform should easily integrate, universally, with existing business systems across all departments and operating areas of the financial institution. Additionally, a financial institution needs to select an eSignature platform that meets all of the institution's unique requirements, while meeting industry security and regulatory standards.

Remote online notarization mirrors the traditional in-person notarial act. A signer appears before a notary on a video call, and together, they complete, sign, and officially notarize a document. And using a digital receipts solution, customers complete real time, end-to-end digital transactions, with remote signature capture, directly from their mobile device via SMS (text) message. Once the receipt is generated, it is automatically archived, and a final copy is texted to the member. The entire transaction is completed digitally in less than 30 seconds.

Managing Digital Transactions

Members expect the ability to eSign documents, have them notarized if needed, as a natural progression in a digital transaction lifecycle. As competition from FinTech and third-party providers increases, financial institutions must ensure that the digital experience they are providing is modern, seamless and worthwhile. Banks can now deliver new and dynamic methods for consumers to complete and sign documents, including remote signatures, while enhancing back-office processes and efficiency across the institution. eSignatures not only drive operational efficiencies and improve service but can also break down geographical barriers and attract the next-generation of customers.

Additionally, eSignatures with digital capabilities, allow financial institutions to close transactions faster, with fewer resources. eSignatures provide a powerful digital transaction platform that digitally connects the front office/customer experience to the back-office processes in a comprehensive, "end-to-end" environment, which enhances compliance, boosts productivity and drives organizational efficiencies.

In closing, we have moved from convenience to necessity in how we work, how we interact with others, and how we conduct our personal financial business. Financial institutions are experiencing a boom in digital-first relationships with both new and existing customers. They are requesting new account openings, obtaining loans, and modifying or extending existing loans; it all must be done electronically – and with reduced personal contacts. The day-to-day demand of account service and maintenance transactions have increased. eSignatures provide a solution to those operational activities – a way to place electronically fillable forms on an institution's website enabling consumers to complete and sign the appropriate documents to then be submitted directly to the institution. eSignatures and digital transaction management are now critical technologies for all financial institutions.

To learn more about IMM, visit www.immonline.com

How to Ensure Your Bank Remains Relevant When COVID Deposits Ultimately Leave

By Nathan Baumeister, CEO, ZSuite Technologies

Since the outbreak of COVID-19 in January 2020, U.S. banks have seen a surge in deposit accounts, with more than $4 trillion in cash at the end of 2021, according to FDIC data. Additionally, the M2 money supply is up from $15 trillion to $21 trillion in just two years, demonstrating a 40% increase in the total amount of cash circling the economy.

All of these factors have resulted in signs of inflation. For example, according to the Case-Shiller U.S. National Home Price Index, housing prices have increased almost 28% since the beginning of the pandemic. With the Federal Reserve Bank prepared to raise rates and tighten quantitative easing to combat inflation, the yield on 10-year treasuries has risen from a low of 0.53 percent in August of 2020 to 1.75 percent only 1.5 years later.

In a market-primed Fed tightening, banks can expect to see rates increase very quickly. Between January 2016 and April 2019, federal short-term rates increased by more than 2% in just three years. With this growth, banks must consider what would happen if cost of funds increased by 200 basis points (BPS) in the next three years.

Many banks will be unable to adjust to the market over the next five years and could be forced to consolidate or merge with another. Looking to the near future, is your bank prepared to thrive amongst a changing market?

What causes banks to struggle?

Banking management teams often cite rising interest rates and dropping net interest margins as a catalyst for their decision to consolidate, merge or be acquired. Credit problems or poor profitability are often primary factors as well.

In 2019, the industry experienced the most rapid bank consolidation and spike in mergers and acquisitions with three-fourths of these deals consisting of banks with less than $500 million in assets according to market research. When rates rise, smaller banks with less sticky deposits and a higher cost of funds struggle, while larger banks benefit because their Net Interest Margin increases.

Strategically focusing on stickier deposits

Despite the changing tides, smaller banks must solve this problem now. It is important to consider what factors are most vital to customer retention. By anticipating the imminent change and investing in long-lasting solutions, such as commercial cash management products, smaller banks will be prepared to attract and retain accounts and deposits when COVID deposits ultimately leave.

"Anything that keeps deposit customers at the bank will be extremely important when the COVID surge leaves and rates go up," said Jay Tuli, president of Leader Bank and founder and chairman of ZSuite Technologies. "No one is talking about retaining deposits right now, but we should be. To survive, we must develop a comprehensive plan to hold onto these deposits to offset the effects of potential higher rates and an outflow of deposits if inflation should occur."

For example, the more sophisticated banking clients with low cost of funds, such as municipalities, Interest on Lawyer Trust Accounts (IOLTA) and escrow, require certain technology services that often still leave much of the process to be done manually and are less prevalent in smaller banks than in their larger counterparts. Community banks, equipped with easy-to-implement technology that streamlines outdated processes, such as digital commercial escrow and sub-accounting products, can compete with big banks for these low-cost, core deposits that gain wallet share and drive future success.

The last word

Smaller banks must act quickly before the recent influx in deposits decline. At the beginning of 2020, banks were scurrying to make plans in what was a totally unpredictable year. Fortunately, banks now have the luxury to plan for a more predictable year. It is essential for banks to implement competitive technology, such as differentiated, digital tools that grow stable deposits, to support the needs of niche clients and retain their current customer base. With this, banks can prepare and compete for their share of the market and, most importantly, survive.

Nathan Baumeister is CEO of ZSuite Technologies, a fintech offering its flagship product ZEscrow, a digital escrow and sub-accounting solution, to community banks and credit unions.

Do Banks Know the Difference Between Customer Experience and Customer Engagement? Their Customers Do

By Sidra Berman, CMO, Engageware

In casual conversations, "customer engagement" and "customer experience" are often used interchangeably. But from a customer relationship perspective, they are absolutely not synonymous and it's critical to understand the differences. At Engageware, we've been defining each as follows:

Customer experience (CX) is the perception of an individual interaction (or set of interactions) delivered across various touch points via different channels. The customer interprets the experience as a moment in time feeling, based on the channel and that specific (or set of specific) interactions. A visit to an ATM is a customer experience, as is the wait time in a branch lobby on a Saturday morning, or the experience of signing up for online banking.

Customer engagement, on the other hand, includes the sum of all interactions that a customer has throughout their financial lifecycle including direct, indirect, online and offline interactions, face-to-face meetings, online account opening and financial consulting. Engagement with a customer over time and repeatedly through dozens of interactions (ideally) builds trust, loyalty, confidence and ultimately leading to greater investment of the customers' money in the FI's product and service offerings.

Why the Difference Matters

With customers demanding self-service and digital banking capabilities, bank executives focused on the user experience (UX) but that is merely a subset of CX and a poor substitute for actual customer engagement. Moreover, the promise of digital-first often doesn't meet adoption and usage goals, leaving customer experiences worse than before and technologies underutilized. The addition of digital-first channels can also cause confusion, frustration, and dead-ends, resulting in an even worse CX than before.

Take for example the experience of using an ATM. If the ATM is not operational, this singular transaction – occurring at one specific point in time – is unsatisfactory, leaving the customer unable to fulfill their transaction. However, it is doubtful that after this one experience the customer will move their accounts to another institution. If that customer encounters multiple instances in which they are unable to complete their desired transactions, cannot reach the appropriate representative when additional assistance and expertise is needed or is not provided with the most up-to-date information to quickly resolve the issue, they are going to be more likely to move to a competitor as these negative experiences compound.

When FIs focus on experience, they only look at point interactions in a customer's journey and make channel-specific investments – missing the big picture of customer engagement and can produce negative outcomes for the FI. Consider the addition of a new loan origination system that produces unsustainable abandonment rates. Or the introduction of live chat – only to be turned off because the contact center cannot support the additional chat volume and its subsequent effect of doubling handle times. These are prime examples of how an investment on a one channel, and not the entire engagement, backfires.

Instead, banks should prioritize engagement, which is critical to long-term success as it strengthens emotional, ongoing banking relationships and fosters better individual customer experiences over account holders' full financial lifecycle. Engagement spans all customer interactions and touch points from self-service to the employee-assisted and hyper personalized.

While banks often look at point interactions (customer experiences) to assess operational performance, banking customers judge their bank based on the entire engagement. Now is the time for bankers to consider things from the customers' perspectives.

Great things happen when banks engage with their customers. Engagement drives loyalty and strengthens relationships, which enable revenue growth as new accounts are opened and existing consumers expand their relationship. Banks can also experience increased productivity and efficiency as each interaction yields better results. In addition, by improving customer engagement, the various customer experiences will naturally improve.

Customer Engagement is the Real Priority

The distinction between customer engagement and customer experience is central to the concept of relationship banking. Rather than providing services that aim to simply fulfill customer needs, banks must consider a more holistic customer engagement strategy that connects individual experiences into a larger partnership, one that delights account holders and inspires long-term loyalty with each interaction.

Sidra Berman is CMO of Engageware, the industry-leading provider of customer engagement solutions, where she leads the marketing team for the organization. She has a successful track record of generating profitable growth at both start-up and turn-around organizations, aligning go-to-market and product strategy with the target markets, and identifying opportunities and creating strategies to expand market share. Sidra has held executive-level positions at companies including Axiom, Tangoe, Savi and Clarabridge. She can be contacted at sberman@engageware.com.

The Real Deal with Millennials and Phone Calls

By Rick Delisi, lead research analyst for Glia, and co-author of Digital Customer Service: Transforming Customer Experience for An On-Screen World.

It's a common misconception that Millennials and Gen Z hate talking on the phone; the lengths they'll allegedly go through to avoid phone calls makes them the target of many punchlines and criticisms. However, what these segments really have a disdain for is being forced to dial a phone number that is disconnected from their digital experience.

We all know that it's a 6x3 and A-Z world – people live on their screens so banks must as well. However, that doesn't mean customers and prospects don't want to talk with a bank representative in real time should issues or questions arise.

Phone and voice aren't the same thing, and the quicker banks realize this and act upon it, the sooner they will start to build loyalty with younger generations, a group central for long term survival and profitability. This is why leading banks have started to replace phone numbers with On-Screen voice, a critical component of a digital customer service strategy.

The trouble with telephone-centric customer service strategies

Poor customer service experiences put an estimated $494 billion in revenue at risk for U.S.-based companies. According to the National Rage Study, 18 percent of consumers who complained about an issue took active steps to increase public awareness of their bad experience afterward. And, a 2019 report from Adobe found that among U.S. customers between 18 and 34 years old, 9 in 10 said they will take action after having a bad online customer experience, such as telling friends, stopping purchasing from the company and posting reviews on a review site or social media. Unhappy customers have a louder voice and broader reach than ever before.

Service providers – including banks – are starting off at disadvantage given the universally negative attitude around customer service. While this perception might not be fair, it is reality. We are conditioned for negative experiences to stick in our minds more often and strongly than positive ones, and if the service experience goes poorly or requires much effort, the whole negative experience is just imprinted that much deeper.

It doesn't help that customer service departments at most banks were originally designed for a non-digital world. And as the demand for self-service has skyrocketed over the years and institutions have continued to invest in digital, these newer communication options like email and chat have been simply layered on top of a pre-existing phone-based service platform. This 'bolted on' approach has led to disparate service and support, with different channels often having entirely separate support teams.

The past 18 months prompted an unprecedented surge in digital usage as many leveraged these channels for the first time or more broadly than ever before. Such expanded usage inevitably lends itself to questions or situations where support is needed. The next step typically involves the customer disengaging from the digital experience to dial into a phone number for additional assistance. Then, they are forced to re-authenticate, explain the issue or situation at hand and try to verbally relay where they are within the digital banking experience. Everything the customer did on-screen before dialing in seems like a waste of time. Talk about a hassle.

Instead, it's time for banks to meet customers where they are on their screens for every part of the service interaction, including both virtual service and automated elements (like chatbots) and live assistance. If there's a need to verbally communicate with an agent, it should happen where the interaction began – on the customer's phone, tablet or laptop.

Going all-in on On-Screen Voice

While the terms phone and voice are often used interchangeably, they are, in fact, 2 very different things. An offscreen phone call (an interaction that starts by dialing the digits of a phone number) requires the agent to gather information about the customer, authenticate them verbally and ask a bunch of questions to understand their problem before starting to work toward a resolution. On-Screen Voice (an interaction that launches through a website, portal or app), on the other hand, can bypass those steps because the customer has already been authenticated, allowing the agent to immediately transition into a personalized interaction. On-Screen Voice seamlessly becomes part of the customer's already in-process digital session, making the whole interaction feel effortless. Leading institutions also provide the option to upgrade the voice interaction to video chat, enabling a deeper connection.

Plus, On-Screen Voice opens the door for banks to leverage additional On-Screen collaboration tools, which allows an agent to see exactly what the customer is seeing in real time. This is the digital equivalent of "standing side-by-side" with a customer while they are on the bank's website or mobile app. Perhaps one of the most beneficial types of collaboration is CoBrowsing, the ability to collaborate with the customer using dual cursors. Not only can agents instantly understand the issue or question at hand, but they can show the customer how to resolve the issue, empowering them with the knowledge to self-serve next time around.

Such communication and collaboration is just not possible during a verbal phone call. Even if the customer thinks they're following the agent's directions precisely, they very well might not be – and the agent has no way to correct or verify. It's no wonder these interactions are often time consuming, inefficient and frustrating for all involved. On-Screen collaboration dramatically decreases effort—and not just in terms of what customers have to do, but more importantly how it makes them feel.

Until the core of service moves away from being telephony-based, it can never truly transform. This doesn't mean avoiding voice conversations but transitioning from blind offscreen phone calls to On-Screen Voice that enable the customer and agent to be on the same page. Digitizing customer service means meeting customers where they are: wherever they first engaged, where they are in their resolution journey at that moment and where they are psychologically in the overall evolution of their digital-first lifestyle. Those banks that can effectively transform how they serve customers in a digital world will be well positioned to reduce improve employee productivity and increase the experience for customers and employees alike.

Risk Delisi is lead research analyst for Glia, and co-author of Digital Customer Service: Transforming Customer Experience for An On-Screen World. Glia is reinventing how businesses support their customers in a digital world. Glia's solution enriches web and mobile experiences with digital communication choices, on-screen collaboration and AI-enabled assistance. Glia has partnered with more than 250 banks, credit unions, insurance companies and other financial institutions across the globe to improve top and bottom-line results through Digital Customer Service.

Community Banks and the Adoption of Real-Time Payments

By Eric Dotson, Executive Vice President, Aptys Solutions

The Covid-19 pandemic dramatically reshaped how community banks approach digital transformation.

This is largely in response to the shift in fundamental consumer behaviors and new technology, as Americans adapted to the realities of the pandemic. According to a report from Mojo, 44% of consumers who wait to adopt new technology have shifted to an "early adopter" stance. Additionally, 41% of "later adopters" stated they were likely to adopt new technology at a faster pace, even after the pandemic subsides.

Digital innovation is no longer an option for banks. **Financial institutions must evaluate their digital products against consumer expectations**. Leading the list of customer demands is access to more convenient and immediate payments. The pandemic's remoteness made receiving and making immediate payments a necessity, accelerating the movement to real-time payments (RTP).

RTP are not a new concept; many countries have transitioned from paper-based payments and directly to real time. The U.S. has successfully worked with electronic payments but is now behind in the global shift to real time. The Clearing House launched RTP in 2017; it experienced slow but steady growth initially but has been propelled by the pandemic more recently.

Addressing the growing need for immediate payments, the Federal Reserve announced plans for FedNow to streamline the clearing and settlement process. FedNow will enable customers to move funds instantly between accounts, pay bills and transfer between family and friends. Though FedNow garnered strong support from banks, it is not expected to launch until 2023 at the earliest.

No Time to Wait

Financial institutions are finding it difficult to wait for FedNow. Although vaccinations have blunted most of the impacts from the pandemic, the changes in consumer habits engendered by the pandemic persist — including demand for innovation in real-time payments. Consumers looked to technology for shopping, entertainment, paying bills and banking in general. A recent PYMNTS survey found that 24% of consumers would switch to financial institutions that offered RTP capabilities. It's critical that banks recognize and react to this paradigm shift in payment by prioritizing RTP solutions.

Popular P2P payments apps like Venmo, PayPal Holdings, and other solutions from big tech companies underline that consumers are willing to adopt new technologies to meet a need.

Now, these firms are offering credit cards, loans and even demand deposit accounts. (I even received an invitation to open a checking account from my cell phone company!) This should be a wake-up call to banks. In the same PYMNTS survey, researchers found 35% of consumers consider access to real-time payments as "extremely" important. These survey results reflect a growing trend and reality that financial institutions must recognize and address.

The race is now on to compete with non-traditional providers and megabanks to attract and retain tech-interested customers. Real-time payments are where consumers and businesses are headed. Financial institutions need to be fully engaged to connect to RTP or FedNow.

This is not an easy path for financial institutions that are used to making project decisions based on calculating the return on investment of the project alone. Strategic technology initiatives should be evaluated broadly, including the cost of doing business in banking. Large financial institutions have already moved forward to deliver top-notch digital services and experiences. **To level the playing field, smaller institutions should look to technology savvy leaders and fintech partners to help deliver innovative solutions**. Unheralded sources for fintech solutions are the bankers' banks, which play a vital role for technology and as funding agents in RTP/FedNow and are offering innovative solutions to help community banks connect to real-time payments.

Changes in customer behavior and heightened demand for immediate payments driven by Covid-19 are here to stay; adoption of RTP will only continue to grow. In just the last year, real-time payments in the United States grew 69% year-over-year, according to Deloitte.

To act now, financial institutions should consider fintech partnerships to remain relevant in a dynamic financial and regulatory landscape. Financial institutions that tap into technology companies' speed to market and access to a broader audience can approach RTP as a competitive advantage that distinguishes them in their local markets and attract new customers. Those taking a "wait and see approach" are already behind.

Eric Dotson is executive vice president of sales for Norcross, Ga.-based Aptys Solutions, provider of enterprise software, faster payments and mobile P2P solutions. In this role, he is responsible for business development and client relations.

A Look Ahead to 2022 – The Year of Digital Lending

By Joe Ehrhardt, CEO and Founder, Teslar Software

2021 was a year of challenge and change for community bankers, especially when it comes to lending. A lot of loan activity was modernized and made digital during the pandemic, and as a byproduct, customers have begun to realize the inefficiencies in traditional lending processes. Community financial institutions that hope to stay ahead in 2022 should prioritize the incorporation of digital and automated loan processes.

Although the need to digitize commercial lending has long been a point of discussion, the Paycheck Protection Program (PPP) sparked a fire that turned talk into action for many institutions. Bankers quickly jumped in and helped small businesses receive the funding they needed, whether that meant long hours, adopting new technologies or creating new processes. The amount of PPP loans processed in that small window of time would not have been possible without many bankers leveraging trusted technology partners.

As a result, bankers were able to step up to the plate and help small businesses while also enhancing transparency and boosting efficiencies. Many in the banking industry saw firsthand that, despite the commonly held belief, it is possible to digitize lending while maintaining personal, meaningful relationships. Bankers have realized that they do not have to make a choice between convenience and personal connection; expect to see more institutions blend the two going forward.

Bankers also have a newfound familiarity with SBA programs following PPP. The program marked many institutions' first time participating in SBA lending. Many now have a greater understanding of SBA lending and are more comfortable with the programs, opening the door for continued involvement.

Embracing digitization in lending will enhance efficiencies and create a more seamless experience not only for the borrower, but for employees institution-wide. This will be especially important as the "Great Retirement" continues and bank executives across the country end their careers with no one in place to succeed them. To make the issue even worse, recruiting and maintaining technology talent has become increasingly difficult, even more so in rural markets. Such issues are even causing some banks to sell, disrupting the businesses that rely on them.

However, partnering with technology providers can give institutions the bandwidth to effectively serve more small businesses and provide them with the customer experiences they have come to expect without increasing staff. By adopting more digital and automatic aspects in small business lending, banks can reduce tedious manual processes and optimize efficiencies, which in turn frees employee time and resources to focus on strategy and growth efforts. Not to mention, such a work environment is more likely to attract and retain top talent.

Technology partners and centralized lending are also beneficial from a regulatory compliance standpoint, especially as many potential changes loom on the horizon. Incorporating more digitization across the loan process provides increased transparency into relevant data which can streamline and strengthen reporting. The most successful institutions will deeply integrate lending systems into their cores to enable a holistic, real-time view of borrower relationships and their portfolio.

Community institutions have been a lifeline during the last two years, but if they want to build off that momentum and further grow their customer-base, they must continue to lean into technology and innovation for lending practices. By developing a comprehensive small business strategy and digitizing many aspects of commercial, small business and SBA lending, community banks will be well positioned to optimize margins, better retain talent and help their communities thrive.

Joe Ehrhardt is the CEO and founder of Teslar Software. Teslar Software provides portfolio management tools for community financial institutions that aggregate and automate lending and deposit operations processes into a single system, enabling institutions to scale and improve all aspects of the bank. This SaaS solution with over 20 modules boosts efficiencies by providing easy access to centralized, relevant information to balance portfolios, optimize profits and help community bankers more efficiently serve their customers and better understand their needs.

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How Data Can Help Banks Drive True Financial Wellness and Strengthen Customer Loyalty

By Izabella Gabowicz, COO, Sensibill, the only customer data platform designed specifically for the financial services industry

As the competitive landscape continues to become more crowded, banks and credit unions are continuously strategizing on how they can attract and retain customers, protecting these relationships and market share both from the institution down the street as well as nontraditional competitors. An area that's becoming increasingly important to customers and their loyalty, and for good reason, is financial wellness.

After the events of the past two years, rebuilding and fortifying financial health has become a significant priority for the majority. Employees are increasingly looking at financial advice as a need-to-have benefit according to PWC's latest employee financial health survey, and customers are turning to and more loyal to institutions that provide financial wellness tools and resources. And we know consumers are expecting their data to be used, providing them with value in return.

But then how can institutions use their customers' data to help them achieve financial wellness? The answer lies in personalized financial guidance and digital banking tools that offer utility and relevance in their users' lives.

Data has more to do with financial wellness than we think

Data makes the world go 'round. You can't buy a book on Amazon, watch a show on Netflix, or purchase a coffee with your Starbucks app without your data being collected and used to communicate with you more effectively the next time around. And, when it comes to digital banking, data is the key to truly understanding an institution's customers. Except rather than selling them another consumer good, data can play an integral part in customers' financial lives.

Customers' data enables banks to understand them on the deepest level possible, and easily identify where they can be spending wiser and saving smarter. Once these insights are unearthed, it's time to put them into action—transforming everyday banking tools into everyday financial wellness tools.

Financial advice that's real-time (and relevant)

Customers know that data is like currency—it's valuable. If they're sharing this data, they typically want something in return.

At the same time, customers don't want to give up data for the sake of receiving product recommendations or quick services alone; the data collected has to be used in meaningful ways. For example, using data to provide tailored financial advice, custom messaging, timely financial products, relevant spend optimization tips and more, so that customers are equipped to build healthier financial habits.

Insights from your customers' SKU-level spend data, the deeper details around what was purchased, can help drive relevant advice for today and into the future—like generating timely and relevant financial guidance through actionable tips, achievements, and spend recommendations, all within the digital banking experience.

This deep data can also reveal critical opportunities to find and save valuable dollars. Now that's a strong way to build loyalty that lasts.

Personalization, but make it human

Valuable data and insights from everyday spend, savings, and even investments can help create customer-first personalization strategies. This data reveals much about what your customers need, right when they need it most.

Customers have proven time and again that they expect more personalization across all experiences, including banking. Generic marketing and product offerings simply will no longer cut it when it comes to securing and maintaining relationships, and 72% of consumers say they only engage with personalized messaging, according to a report by SmarterHQ.

That personalization can and should happen directly within digital banking tools, providing tailored advice, nudges, recommendations, financial literacy, and more. This shows empathy for the customer by helping them reach their goals as effectively as possible and is how basic banking tools can be transformed into wellness tools that keep customers coming back.

Look to the future

Customers' needs and goals are constantly evolving, making it imperative that an institution maintain a pulse on current needs and can anticipate future ones. SKU-level data that uncovers financial habits and behaviors can help connect those dots as customers transition across every life stage.

When deep customer spend data is leveraged to predict needs, banks and credit unions can:

- Share relevant and timely advice and insights around everyday spend, supporting customers in building healthier financial habits for the future.
- Provide personalized product recommendations for future needs based on current spend and purchase behaviors.
- Equip customers with spend tracking and management, allowing institutions to gather more data to help them save and optimize spend down the road.
- Support business banking customers in providing financial wellness tools and resources to their employees, in turn.

To learn more about Sensibill, visit www.getsensibill.com

Customers go where financial wellness follows

Consumers are quickly proving that they will take their business elsewhere when a brand doesn't offer a personalized experience, and financial institutions are not immune from this expectation. This is even more true among millennials who place a growing focus on financial health.

Now more than ever, customers expect more from their digital banking experiences, demanding the resources, insights, and advice they need to achieve their own unique version of financial well-being. Institutions that can deliver on those demands, treating each customer as a segment of one, are strongly positioned to attract new customers, grow existing relationships and expand market share for years to come.

Are You Missing Out on Boosting Your ROA?

By Anil Goyal, President, Corserv Solutions

According to the data from the Federal Reserve Bank of New York, the average Return on Assets (ROA) for banks was less than 1.0% in 2020 and has never been higher than 1.5% in any year since 1991.

National credit card issuing banks, on the other hand, typically enjoy higher than 5.0% ROA on credit card loans.

Credit cards are very complex products, which is why most banks don't issue them. Often small and midsized banks can't afford to take on the costs that come along with owning their own card program. According to FDIC reports, 83% of US banks do not own credit card loans. However, with technology and innovative digital services now available, community banks can easily boost their ROA by booking credit cards loans and offering this high demand product to their relationship customers.

Credit card products could offer the highest Return on Assets for a bank by benefiting from issuer Interchange, fees, and loan interest, and within the risk appetite for the bank. Here are the three considerations to evaluate credit card issuing by community and regional banks.

Credit cards as a service:

To compete with national banks, community banks need credit card offering with modern technology with low costs, built-in compliant processes that enable easier sales and marketing, integrated via APIs for enhanced customer experience, and full-featured products delivered in functional apps enabling a personalized experience to their customers.

Community banks should evaluate turnkey services that offer a low-cost entry with comprehensive services to offer and manage credit cards. The capabilities should include underwriting technology, customer portals, administrative portals, reporting and analytics, mobile app and APIs to integrate credit card experience in online banking.

With new technology and expertise, there are solutions available for a bank to be able to get all these capabilities of managing a credit card program as a service and launching it for their customers within 90 days.

Virtual cards:

Community banks place an emphasis on supporting small and local businesses by providing financial products valuable to these organizations. Commercial cards and B2B payments are in high demand. The pandemic has accelerated the trend for digital payments for businesses. This gives community banks the perfect opportunity to invest in themselves and provide this service to their customers. Virtual cards are an important feature of commercial cards. They can be recurring, or one-time use on-demand digital card numbers that enable accounts payable managers to restrict usage to a specific amount, supplier and time period to pay an invoice. There are also services that enable a company's vendor to accept virtual cards at no cost to the bank or the company.

Virtual cards are unique in that they are digital and able to facilitate lower payment processing expenses and are easily reconcilable with financial systems. Industry estimates are that a payment with a virtual card saves a company about $8 over the cost to print and handle a check. Virtual cards also mitigate the fraud risk often associated with cards, while increasing working capital by managing cash flow. Lastly, they are helpful in strengthening supplier relationships for businesses.

Relationship banking:

Community banks thrive in relationship banking, embrace compliance within a regulatory environment and have access to low-cost capital and funding – ingredients that enable growth and success in banking. Community banks are best suited to understand the needs of their customers. As a result, they need to have local underwriting and control on making credit decisions. However, most community banks check the box credit for card products through an Agent Bank partnership in which they lose their franchise relationships and have no control on underwriting decisions.

Offering a credit card program with control on decisioning and servicing enables banks to deepen their relationship. Leveraging proprietary relationship data enables a community bank credit card portfolio to have better credit profile, increased usage and improved retention, resulting in higher ROA with lower costs to acquire a credit card customer. While credit card usage and balances dropped in 2020 because many consumers resorted to saving and paying down balances during COVID-19 growth, it rebounded strongly in 2021 as the economy and the spending recovered.

It is becoming more and more crucial for small/midsized banks to enable themselves with the tools to compete in the evolving industry. Having the right partner with expertise to leverage sales and service technology, integrated customer experience and customized product set allows community banks to fill the gap on credit cards. Combining these with low cost of funds and relationship banking is truly a winning formula in credit card business.

To learn more about Corserv visit www.corservsolutions.com

Technology Helps Financial Institutions Streamline the Home Equity Lending Process

By Allen Jingst, Chief Revenue Officer, LenderClose

Financial institutions (FIs) considering expansion into home equity lending can use technology to do so without changing their technology stack or adding staff. Having an easy-to-implement and use system will prevent disruptions and allow FIs to significantly grow their portfolios.

The federal government plans to raise rates at least four times in 2022. This means loans will be more expensive for consumers, and they will look for other ways to maximize their investments. One area they will consider is the largest investment most Americans have: their home. Increased interest rates mean cash-out refinances may be off the table for a while, making home equity loans more attractive to homeowners. FIs that effectively harness technology to offer these loans will be able to meet a growing need and expand their portfolio at the same time.

The pitfall in offering home equity loans is using the same process for conforming and first loans on their non-conforming business, which includes home equity lending. This process has unnecessary steps, but it is often the only way these FIs know how to process loans. The result is a stalled clear-to-close rate.

There is no reason a consumer should have to wait 45 days for a home equity loan. This has been the status quo because of the unnecessary procedures of a full appraisal and title insurance policy. As an alternative, financial institutions should consider that technology can take this process from 8 to 10 weeks, to under a week. And adding a home equity line of business does not require an investment in a new technology stack.

By leveraging available technology and services, FIs can improve and update longstanding procedures and optimize operations such as having an automated valuation model instead of a full appraisal.

As a FI expands into the home equity lending space, the effective use of technology will ensure a positive experience for everyone involved. There is technology that can make the home equity loan process as easy as originating a car or personal loan. Using automated and intelligent workflows can keep the process on track and typically reduces the time and stress it takes to process a loan. Adopting innovative workflows and automation will significantly reduce manual data entry and errors and give loan officers the bandwidth to complete more home equity loans. Loan officers using this technology will have the time to incorporate more consultative lending practices that ultimately benefit the borrower and the FI. This results in a better experience for the borrower.

Why should FIs consider this now? This market has growing competition, not only from other FIs but from fintechs that offer direct services to consumers. And while consumers tend to look to an institution because of good rates, they remain loyal if they've had great experiences, like an on-time closing. Unfortunately, this is where new fintechs are edging ahead of FIs as they can provide a great experience that quickly meets demands. Implementing technology that strengthens borrower relationships will allow FIs to effectively compete with fintechs.

Implementing and creating a better lending experience is not exclusively reliant on technology; it also depends on the adoption of an open-minded outlook by FI executives regarding innovative ideas and inventive approaches. Extremely beneficial when adding home equity to their suite of offerings, they must be willing to consider fresh perspectives and new concepts.

When looking ahead, executives must consider how innovation can be applied to accelerate, enhance or establish their home equity line of business. Simply put, using technology to help streamline the home equity lending process allows FIs to not only increase their portfolio but improve the borrower's experience.

Allen Jingst is the Chief Revenue Officer at LenderClose, a fintech company engaged in providing technology solutions to home equity and real estate lenders. With more than a decade of experience in the technology sales industry, Jingst is considered to be a transformational and sound leader in his sector.

Play the Game to Win – It's Time to End the Customer Journey

By Barry Kirby, Senior Vice President, CuneXus

The digital experience has evolved and so have consumer expectations, permeating all aspects of financial services. Consumers crave a new level of convenience and immediacy and have proven they're not afraid to walk away from their traditional institutions if their expectations aren't met, especially in today's competitive landscape that offers plenty of other banking options to choose from. A customer on a journey is anyone's customer—meaning a customer on a mission to find a new credit card, loan, etc., will most likely find it elsewhere.

This could be a result of pre-approvals that ultimately fail, lengthy forms, an inconvenient application experience, and more. Think about the frustration that sets in when waiting for a browser to load or the Wi-Fi to kick in. How much time does it take before giving up and moving on? Now apply that same frustration threshold to a loan application process.

For financial institutions to survive and compete in this environment, they must leapfrog these alternative players with next-level service that delivers personalized, on-demand experiences and eliminate the customer or member journey completely.

So how can banks and credit unions play the game to win?

Financial institutions are often focused on streamlining processes with automation tools that create a better experience for the institution employees and enhance the customer or member experience. But most loan application processes are obsolete and stuck in the early years of online account opening. Even if updates have been added to scanning IDs or automate the re-entry of information, the basic workflow is broken and often leaves the heavy lifting to the customer, ultimately driving them away. According to Temenos, 70% to 90% of loan applicants abandon the process before their applications are submitted for decision. This is not surprising, as we live in a world of technology that drives almost instant experiences and gratification and has dwindled attention spans, especially when it comes to money.

It's time banks and credit unions leverage the plethora of readily available data at their fingertips to meet consumers before their moment of need. This proactive and convenient approach eliminates the typical lending model of reacting to the customer once they have already expressed an interest. Financial institutions can implement business models that are built to offer quick, convenient, and personalized offers that anticipate an account holder's needs and demonstrate exceptional service as they are guaranteed to get approved. This approach also eliminates the fear of rejection and confusion that can occur when applying through a traditional lending solution, without knowing if you will get approved or not, allowing customers to shop with confidence.

However, most financial institutions overlook the amount of data available to them, leaving room for missed opportunities to retain customers. Financial institutions know their customers and members more than they realize, and have information including relative active credit lines, income, spending patterns, and so much more. Consumers want a personalized experience, so why not take advantage of these insights? In fact, a recent survey from NCR found that 86% of people would prefer if their financial institutions had greater access to their personal data, rather than big tech companies like Amazon.com and Alphabet's Google. Financial institutions should proactively show account holders the array of products available to them, using insights from the data provided, rather than waiting for them to come up with a need and reach out. When a customer walks into a restaurant, they aren't tasked with guessing what the restaurant is serving, they are offered a menu of options with the freedom to choose what item best pleases their tastebuds.

Savvy lenders have already adopted alternatives that curate this white-glove service, providing a catalog-like shopping experience to match companies like Amazon and Walmart—who are known for making it easy and convenient for consumers to shop at any time, and proactively offer options to pay or finance purchases based on their data. These innovative companies continue to reshape consumer expectations with instant transactions and applications. Another example is Apple Pay. Consider purchasing products or services on an iPhone. It most likely prompted the user to pay using Apple Pay with just one click, and possibly a seamless face identification. And if the consumer doesn't already have an Apple Card, they might offer an almost effortless 'one-click' application process, embracing every opportunity to eliminate the journey of searching for an Apple card or typing in the customer's respective institution's card number.

It is crucial that financial institutions begin to provide an experience that meets and anticipates consumer needs, much like what Apple has done with Apple Pay, when they log onto online banking. This proactive approach allows the institutions to get in front of the account holders before they have a need to shop, keeping qualified borrowers perpetually approved for an array of personalized loan offers and ensuring that the bank or credit union is top of mind anytime customers and members enter into a purchase market.

To learn more about CuneXus, visit www.cunexusonline.com

Why a Clean Data Environment is Key to Acquiring and Retaining Customers

By Bob Kottler, Executive Vice President and Chief Revenue Officer, White Clay

Customer acquisition and retention have become increasingly difficult as the market continues to consolidate, and non-traditional competitors disrupt the financial services industry. Not only has the competition expanded, but so has the role of regional and community financial institutions in the lives of their customers. To remain competitive and deliver personalized banking experiences, financial institutions must have a clean data environment that meaningfully curates customers' data to form a single source of truth about their banking relationships. Equipped with these details banks and credit unions can improve their customer acquisition and retention strategies.

Employees are influential in the financial institutions' ability to attract and retain customer relationships. A clean data environment enables employees to interact and engage with customers much easier.

Knowing how each customer derives value from from their primary financial institution presents an opportunity to deepen that relationship. For example, employees can help the financially vulnerable succeed by sharing tools to support them in managing their finances and prepare for unexpected family situations. Or, they can assist small businesses with loans, governmental assistance, or taxes, and deter them from using non-bank products. Or, they can serve newly married customers as they navigate their first mortgage, joint checking/savings accounts, or 529 plans.

A clean data environment is also beneficial for coaching employees on how to help their customers succeed as they can see the impact that they bring to the relationship. Seeing this impact can also motivate employees and boost their engagement, which helps the bank improve overall customer service levels.

Because employees now have account and transaction-level details in one place, they can recommend personalized products and services based on individual or household needs or preferences. This level of visibility and transparency across the organization also allows them to expand relationships by cross-selling new products and services. For example, a bank might view two customers as a household now and offer life insurance or a better rate for an auto loan. Or, a credit union could notice that a college-aged son or daughter has moved back home during the pandemic and might not need mortgage-related offers but could use a low-interest credit card.

Not only does a clean data environment help with cross-selling efforts, but also leads to more tailored marketing campaigns and communications. Receiving a relevant offer for the household can create loyalty, nurture existing relationships, and attract new interest from younger family members. A bank can also target individuals with similar financial habits and behaviors, then market products and services to help them achieve their goals. For example, younger generations might be more inclined to use non-traditional personal financial management and investment solutions because they're unaware that their financial institution also offers these services. Having this knowledge presents an opportunity for a credit union to educate their members and promote their offerings. Customers want to feel like their bank or credit union actually understands their financial needs. And this can no longer be done with mailers, emails, and ads around services they either have no interest in using or use already.

Lastly, when acquiring and retaining customers it's important to determine which relationships are the most profitable and set appropriate pricing. Banks and credit unions that have a clean data environment can understand how customers will respond to changing fees, offers, and services based on their current relationship, helping them price relationships better. When relationships are accurately priced, banks can see which are more profitable and impactful to the bottom line, then find ways to strengthen them. Financial institutions can also determine the profitability and pricing of new relationships based on their current ones, further driving revenue efforts.

Having a clean data environment will be a key component to a bank or credit union's customer acquisition and retention strategies. As competition continues to increase, financial institutions will be challenged to make the most out of their data and deliver uniquely tailored offers and experiences that meet their customers where they are. This is the only way to remain competitive in the market and to build more resilient and profitable relationships that can last a lifetime.

Bob Kottler is executive vice president & chief revenue officer of White Clay, a company that provides financial institutions with a single source of truth to optimize revenue and deliver value to customers and shareholders.

To learn more about White Clay, visit www.whiteclay.com

How To Deploy New Technology During a Pandemic

A Guide for Bankers and Vendors

By Craig McLaughlin, CEO, Finalytics

It's been nearly two years since the beginning of the pandemic, and we are still waiting to go back to a normal that will probably never come. At first, financial institutions either put everything on hold waiting for the pandemic to pass or accelerated any plans to move to a more digital world. Since then, we're seeing many organizations going back to their previous speed of change having weathered the initial storm.

In April 2020, bankers saw that their existing processes and technology did not account for the massive disruption they were facing. Traditional internal processes and supporting technology were not built for a distributed workforce, let alone one that is working from home full-time. When looking at customer-facing digital experiences, if designed by the institution at all, these were certainly not constructed for a digital-only or digital-preferred world. For example, most organizations have remote mobile deposit limits that only allow low value checks to be deposited. The situation was tolerable in a world where a customer could go to a branch and deposit a larger value check, but this is not always the case anymore.

Technology vendors say they have solutions that can address financial institutions' shortcomings, but as usual, financial institutions cannot move quickly enough to deploy them. Technology providers are reaching banking executives, but the discussions seem to lead nowhere. So, what can bankers do differently and what are tech vendors doing wrong?

A Solution: For Bankers

The solution to these problems is not defining a new strategy, or setting up an innovation function, or becoming agile. Although all these options are good, they require significant time, planning, and resources.

The solution is risk management. Risk management is almost always overlooked when thinking about innovation, process improvement, and solving problems. This resource is often blamed for building barriers that stifle change. However, given a chance, risk management can be a great problem solver and an enthusiastic innovative change agent.

Here are a couple of examples:

A good example of when risk management saved the day was Paycheck Protection Program (PPP) loans. Once the pandemic hit and the Small Business Administration (SBA) released guidance on PPP loans, financial service observers were tasked with interpreting it at the eleventh hour. While many organizations had trouble getting their programs ready in time, some financial institutions did set up processes and were taking loans the day after the release of the guidance. Those were the ones with a strong risk management focus, who had built disaster processes and were ready for any eventuality.

My next example is from my personal experience. Back in 2010, when we introduced mobile deposit capture, my former colleagues and I involved our risk management team in developing processes and policies for what was then cutting-edge functionality. We understood that technology was ahead of any applicable guidance and industry experience was nearly non-existent. Our risk management team made policy and process recommendations that were beyond technological capabilities at the time. More than ten years later, I still see mobile deposit policies and procedures throughout the industry that can't compete with what our team developed then. This experience alone taught me to always include risk management and I have never regretted it since.

Conclusion

In conclusion, as bankers identify processes and policies that need adjustment for today's reality, they should be engaging their risk management resources early. Risk management should be included in defining the problem, not just in approving an already proposed solution.

A Solution: For Vendors

The process of vetting a new technology provider is a complicated one for all financial service companies. It is an exercise that touches most facets of a company's risk management program. Companies are looking to protect their customers and themselves, while complying with regulations that are often behind the times by decades.

Vendors are aware of this challenge. Bankers that are responsible for buying technology and technology services also know this problem well. Yet, the process remains the same. The buyer expresses interest in the vendors' solutions followed by a period of 'dating' that can mean everything from simple demos to stringent RFPs, and proof of concept projects. Both parties take turns going back and forth sharing information with each other, but the marriage takes a long time to happen.

Neither bankers nor vendors are happy with the slowness of the process, and they blame risk management. As per my suggestion above, bankers can bring risk management along early in the conversation but that alone will not solve the problem. Vendors must do their part to make the process move as quickly as they can. In the 20 years I have been involved recommending or buying services from technology providers, I can count in one hand the times when a vendor seemed to be genuinely prepared to make the due-diligence process more seamless.

Technology providers selling to financial services should have a due-diligence package pre-assembled and ready to be turned over to the financial institution as soon as a mutual non-disclosure agreement is signed.

At a minimum, a due diligence package should include:

- General company information
- A copy of the latest audited financials
- Insurance certificates
- Explanation on legal and regulatory compliance
- Information security technical review, including penetration test results
- Description of business continuity and disaster recovery
- Sample contract

In addition, I have also seen vendors include documents that can help the banker speed up the review and approval process, like sample RFPs, business cases, and financial models.

Conclusion

Risk management can be a hindrance when trying to move quickly in the best of times. As we continue to face an unprecedented situation, it is paramount that financial service companies and their technology vendors re-frame the vendor on-boarding process to deploy solutions quickly. Bankers should involve their risk management teams from the problem definition through final rollout, while vendors should aim to make the purchasing process as easy as possible by doing as much of the work for the banker up-front.

To learn more about Finalytics, see www.finalytics.ai

Modernizing technology and member service strategies: 5 areas for credit unions to watch in 2022

By Gary Lee, Chief Client Officer, MDT

2021 was yet another eventful year as the pandemic's impacts lingered. One constant that remained was credit unions' dependability. Through good times and bad, they've proven their dedication to doing what it takes to support their members and communities. This year, credit unions will need to continue to pay close attention to members' evolving wants and preferences and adapt their service and technology strategies to effectively support them. Here are several key areas to watch:

Outsourcing to keep rising in popularity. It has become even more difficult (and expensive) to attract and retain top tech talent, especially for those outside of major cities. Outsourcing the core and critical IT infrastructure has emerged as a strong option for many credit unions, as it frees them from the burden of managing the hardware and software in house.

When outsourcing is done right, the technology partner is the mechanic taking care of the car and the credit union's IT staff is the driver. Such an approach allows credit unions to optimize efficiencies as well as free employees to focus on strategic, member-facing initiatives. But, credit unions must prioritize partners that have the knowledge base, expertise and proven track record of keeping member data secure. Consider a partner that has built a strategic network of vendors and products that they work well with. Evaluating the partner's disaster recovery and business continuity plans is another important factor as well.

Outsourcing will prove to be especially valuable as **The Great Retirement continues, forcing credit unions to make weighty decisions about their future**. Americans are retiring earlier than ever before; in fact, nearly half of Americans in a New York Fed survey said they expected to retire before turning 62. For smaller institutions, the abdicating of longtime leaders can sometimes even mean having to shut their doors or be acquired to go on. Relying on strategic partners that can help maintain operations during times of transition will be even more critical. And, as new leadership takes the helm, expect a shift. The next generation of leaders are proving to be more innovation-minded and open to new ways of doing things.

Digital strategies will define the member experience. Personalization is a key differentiator in the digital experience. Credit unions have a wealth of member data at their fingertips (way more than retailers or ecommerce providers have access to), but many don't know how to properly organize and analyze it. Members need their credit union's expertise and support now more than ever. The institutions that can leverage this data to offer targeted guidance and tools will be well positioned to deepen relationships. Providing an intuitive, personalized digital experience will be a top priority this year.

Credit unions must form a strategy when it comes to cryptocurrency. According to a Bakkt Holdings study, nearly half (48%) of U.S. consumers reported investing money in cryptocurrency during the first half of 2021. As more members get curious about and involved with digital currencies, credit unions can't afford to ignore this trend. Those that aren't actively mapping out their cryptocurrency strategies risk losing members to other institutions or even nontraditional providers. This year, credit unions will increasingly look to tech partners to help them make informed, strategic decisions around cryptocurrency offerings.

M&A will remain active. The mergers and acquisitions landscape was busier in 2021 than in years past, and this momentum is only expected to continue. According to S&P Global, the NCUA approved 74 mergers in the first half of 2021, compared to 67 consolidations in the first half of 2020.

While mergers can present a strong option for credit unions to more seamlessly scale and broaden their capabilities, tech budget and expertise, they also can bring many challenges. To ensure the transition is smooth for all parties, it's essential that credit unions conduct proper due diligence, invest proper time for preparation, encourage buy in and participation from both merging organizations to effectively fuse cultures, and prioritize member education and support before, during and after the merger is complete. It's also critical that the merging credit unions' tech partners can seamlessly support the merging of the credit union's data and systems.

This year, institutions need to strategically evaluate their technology roadmap and service model to ensure that they're evolving with their members. While many unknowns remain in the current environment, what is certain is that members will continue to look to their credit unions for financial support and stability. Those that keep a close pulse on these trends and adjust strategies and operating models accordingly will be well positioned for success.

Gary Lee is the chief client officer of MDT, a provider of a private cloud alternative for core processing and IT needs. The CUSO hosts the Episys® core platform from Symitar®, as well as dozens of seamlessly integrated solutions and supporting services to help run the entire institution, such as digital banking, payments, lending, cybersecurity and imaging. Rounding out its comprehensive suite, MDT also offers business continuity, disaster recovery and regulatory solutions as well as consulting, data analytics, email hosting and hardware purchasing services.

3 Reasons Banks Must Offer Virtual Cards

By Kelly Payne, Chief Marketing Officer, MOCA

Common sense would tell you if it's not broken don't fix it. However, improvements are always possible, and innovations are constantly moving the industry forward. Many times, it takes time for banks and other financial institutions to implement the changes that help them keep up with ever-evolving industry trends. Successful financial institutions anticipate customer preferences and deliver the right solutions at the right time.

Many banks consider their debit and credit card offerings to be perfectly adequate. Why add virtual cards if physical cards are working fine? If customers are not demanding change, why take the time to make the change?

Well change is already here, so you can choose to evolve or stagnate. In addition, many considerations forced your competition to face reality and begin offering virtual cards. Chief among those considerations is competition, consumers, and cost.

1. Competition

Banks are always facing competition. Other financial institutions and even non-bank players across the industry are redefining how consumers pay. Apple successfully launched their popular virtual card, and Capital One has its own online payment assistant, Eno. There are almost limitless possibilities for P2P payments in the form of PayPal, Venmo, Cash App and other services.

Banks – specifically community banks – must begin to do the same if they want to remain viable or, better yet, competitive in today's crowded market. You don't have to be told how these outside payment providers are drawing deposits and transactions away from you every day. According to NerdWallet, 68 percent of survey respondents say they have maintained a balance – almost $300 on average – in their mobile payment app accounts. Every time a consumer chooses one of these services over their own bank, that bank loses market share, whether it be for P2P payments or cards.

2. Consumers

Because of the advancements in payments technology, consumers expect more. Customers will not tolerate a cumbersome payment experience from their bank. Instead, they can and will seek a simpler solution from another payment provider, and there is no shortage in who they can choose from.

The coronavirus pandemic has also shifted consumer preferences in a way no one really expected. The pandemic drove innovation at an unprecedented pace, and the state of payments technology is far ahead of where people expected it to be.

Digital payments have exploded in popularity due to the need for contactless transactions. Juniper Research found that digital wallet spend is projected to increase 83% by 2025 due to adoption of digital payments during the pandemic. Digital payments have become ubiquitous in people's daily lives – at restaurants, in ride shares and in retail, to name a few. Banks and other financial institutions must provide these same services to meet customer demands.

3. Cost

A common belief among financial institution leaders is that technology has substantial upfront costs and takes a long time to produce a return on investment. However, virtual cards are unique in that they can create revenue immediately.

Since banks can issue virtual cards instantly and virtual cards come preactivated, they add immediate interchange opportunities compared to a plastic card that a consumer must wait a week or more to have in their hands.

It is easy for financial institutions to get their interchange check and ignore ways that income could grow. In a way, it feels like free money – why mess with that? Virtual cards bring in a higher interchange rate for the issuer, increasing income for the bank without any additional time or effort. Virtual cards are also easier to use for online transactions, which leads to even more revenue as more people spend online.

Your bank's card program may not seem like it needs an upgrade at first glance, but it is time to take a second look. Virtual cards help banks stand out among the competition, surpass consumer expectations, and create more revenue than their card programs do today.

Kelly Payne is Chief Marketing Officer of MOCA (www.mocapay.com), a digital-first next-generation card-based payment platform provider.

Top Ten Trends Impacting Bank Technology for 2022

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

"It is important for the common good to foster individuality; for only the individual can produce the new ideas which the community needs for its continuous improvement and requirements – indeed, to avoid sterility and petrification."

- Albert Einstein

Our nation is stronger with a sufficient number of diverse, community-based financial institutions serving every community and every American citizen by providing access to financial services from a trusted and stable provider. I want to see people realize the American dream by establishing relationships with bankers who care and who help them become homeowners, obtain an education, start their own businesses...whatever their dreams may be, effecting generational change that benefits their families and our society as a whole. That dream is still alive...thanks largely to local community banks and credit unions.

Unapologetically, I am an advocate of community-based financial institutions. A community bank changed my life by employing me at a young age (19), paying for my education, mentoring me, and putting me on a path to live the American dream. Now that I have my own firm, our mission is to help those that helped me to succeed in a rapidly changing competitive landscape where technology can level the playing field and give even small institutions capabilities they only dreamed about years ago.

As Dr. Einstein said above, "sterility and petrification" are to be avoided in a healthy community. Traditional banks will only become petrified by not embracing change and not employing the right people, processes, and technology. Sterility will be self-induced, not as a matter of environment but of inaction. Let's get 2022 started with ten technology initiatives that will power your bank into a new era of digital transformation.

Prediction #1 – Core Providers Become More Valued Yet More Scrutinized

New core banking systems that can actually run the entire bank (including such applications as commercial loans and treasury management) have proven more elusive than Bigfoot. We have some grainy photos but none in captivity. Yet...the tales continue to be told.

This reality has caused bankers to gain a new appreciation for their traditional core providers, but it has also invited more scrutiny in the form of structured due diligence to evaluate core providers and determine their value and ability to deliver the world-class digital services required to compete. We need more competition in the oligopoly that exists with core banking providers. Accordingly, the search will continue, as it should.

In 2022, banks' executive management teams and boards of directors will no longer accept speculation or opinion from their IT teams. Instead, they will require documented and thorough analysis of core provider relationships, new or old. Before a core contract is renewed, there will be a new emphasis on negotiating the right contract terms and pricing. The advent of "bundled pricing" by many core providers will require bankers to dig deeper in the investment analysis to truly determine what services are included in this "pig in a poke." Per unit pricing will require more sophisticated projections based on the bank's anticipated growth and its customers' adoption of digital services at an increasingly rapid rate. Application by application, bankers will analyze which applications are best integrated in the core versus which are better outsourced to third-party providers with robust APIs.

Challenge Question – When did your bank's management team last evaluate your core provider and was the due diligence documented, presented, and approved?

Prediction #2 – Bankers Stop Obsessing Over Fintechs and Start Beating Them at Their Own Game

An August 17, 2021 report by Matt Egan of CNN Business noted, "Nine of the top ten PPP lenders with the highest rate of suspicious loans are fintechs — and the remaining one acts like a fintech company, according to the study by researchers at the McCombs School of Business at the University of Texas at Austin."

At last check, K Servicing, the offshoot of fintech Kabbage that processes, according to their website, "Kabbage Funding loans or PPP loans taken prior to October 16, 2020," had 2,156 complaints on the Better Business Bureau website. How many does your traditional bank have? American Express acquired Kabbage but, perhaps wisely, not its existing loan portfolio.

Trust still matters. Integrity in banking is still expected. Technology doesn't change that dynamic.

Chime, the neobank that claims to have over 12 million customers, is not really a bank. As a matter of fact, the California Department of Financial Institutions required Chime to stop calling itself a "bank." Chime now calls itself a "financial technology company" noting on its website disclaimer that banking services are provided by the Bancorp Bank or Stride Bank.

This is why I believe bankers that focus on their strengths can beat fintechs at their own game. Banks have real customers with actual account balances, not just zero-balance or low-balance accounts that will not sustain a business. Not to be underestimated, traditional banks have the centerpiece and the foundation of the customer relationship...the checking account. The right technology can make that checking account powerful, useful, and ironclad.

Should traditional bankers ignore fintechs? Of course not! However, as Elvis sang, it's time for "a little less conversation" and "a little more action, please."

There is nothing a fintech is doing that a traditional bank cannot do with the right strategy and tactics.

Challenge Question – Does your bank spend more time talking about fintechs or actually making the necessary changes to defeat fintechs?

Prediction #3 – A Renewed Focus on Efficiency Drives Bankers

In the banking industry today, we have a lot of technology solutions to problems that never existed. We should ask, "What is the problem we are trying to solve? What are customers demanding that we don't have?"

Is it a problem that your vendor management system doesn't include the guy who brings coffee to the bank? Are customers, perfectly satisfied with Venmo and Square Cash, really demanding a bank-branded P2P payment solution that could increase fraud and damage the customer experience? What is the actual usage of your bank's PFM app, if you've invested in one to compete with the thousands on the market, including those by Intuit (i.e., Mint and Quicken)?

As I've noted in previous years, these three resource hogs continue to feed at the trough of inefficiency, causing bankers to misallocate valuable time, money, and resources to bloated and unnecessary solutions. It's time to slaughter inefficiency.

My simple way of helping my banking school students understand the efficiency ratio is by asking, "How much does your bank spend to make a dollar?" An efficiency ratio of 60% means that bank spends 60 cents to make a dollar. As of December 31, 2021 data, the national benchmark for the efficiency ratio in U.S. banks is 67.81%, according to our friends at Seifried & Brew LLC.I would contend that banks' efficiency ratios must get much better to survive the future where costs are being driven down by digital services.

Challenge Question – Are your people devoting their time to the right applications?

Prediction #4 – Bankers Learn to Balance Cybersecurity Controls as a Service Business Should

As I have preached for years, we cannot lock our banks down so tightly that our employees don't want to work for us and our customers don't want to do business with us. There must be a balance of the risk-reward proposition that is the very foundation of banking.

Overzealous IT staff, fueled by the latest newsfeed about cybersecurity threats or an uninformed speaker at a tech conference, often forget they work for a service business, one that must open its doors, physically and digitally, to the outside world. A bank is not a military installation. A bank must engage customers to survive. So, there is a balance between the customer experience and cybersecurity that must be achieved, and achievable it is. Executive management and the directorate will get more involved in cybersecurity preparedness, making sure the IT staff, with good intentions, doesn't kill the bank competitively with unnecessary policies, controls, and security measures.

IT audit firms operating without integrity from the reporting extremes of "all is well" to "lock it all down" will be exposed and terminated, eventually ceasing to exist. Qualified and reputable IT audit and cybersecurity testing firms will be engaged to help bankers test their controls while getting professional advice on a reasonable balance that encourages high performance by bank employees and complete satisfaction by bank customers.

Challenge Question – Have you engaged the right IT audit firm, and do your bank's cybersecurity preparedness measures make it more competitive or less competitive?

Prediction #5 – Banking in the Metaverse Emerges

What is the "metaverse" and what does it have to do with banking? According to Investopedia:

> *The metaverse is a digital reality that combines aspects of social media, online gaming, augmented reality (AR), virtual reality (VR), and cryptocurrencies to allow users to interact virtually. Augmented reality overlays visual elements, sound, and other sensory input onto real-world settings to enhance the user experience. In contrast, virtual reality is entirely virtual and enhances fictional realities.*

Think about the movie, Avatar (2009), but with banks and their customers, not blue-skinned humanoids.

What about video banking? Isn't that preferable? I think not, based on the failure of Amazon's Mayday video customer service and the fact that most people turn off their video on Zoom calls these days. Many people are still not comfortable on video. However, they might be entirely comfortable as an avatar interacting with their bankers in the metaverse.

See Facebook (Meta) Horizon as one example. Online, virtual worlds such as Second Life, which launched way back in 2003, are nothing new. However, the technology and our society may be ready for this world, the metaverse, to truly become a viable place to do business. This may be more about how we interact via tech than the tech itself. Build your bank's awareness of the metaverse in 2022 so that you're positioned should this new channel take off and reach critical mass.

Challenge Question – How is your bank positioned to leverage the metaverse to a competitive advantage?

Prediction #6 – The Payments Franchise Is Protected at All Costs

Bankers have the payments franchise. All roads lead back to the checking account.

We have so many ways to pay these days. Recently, I paid for my breakfast by scanning a QR code on the receipt using the Toast POS system. Another time, I used my smartphone for an in-person yet contactless payment at an Amazon 4-Star store. I pay for DoorDash and InstaCart via the apps. What do all of these have in common? My bank is getting interchange revenue from these payments as all must hit my credit cards or checking accounts, eventually. Even my Venmo and Square Cash app transactions ride my banks' debit card rails.

Still, many banks don't allow loan payments online or by card. The capability is there…they just choose not to use it, regardless of customer demand.

Inevitably, I get the question about cryptocurrency when discussing payments. Can this truly be a "currency" if not backed by a central government? Can a "currency" fluctuate wildly in value each day? Ask Odell Beckham, Jr. who requested his salary be paid in Bitcoin when he joined the Los Angeles Rams in November 2021. Bitcoin was priced at $64,158 at that time. As of January 24, 2022, Bitcoin was down 46.55% since he signed. His $750,000 became about $401,500, but he will still be required to pay taxes on the full $750,000.

Back to what we have more power to control…is that your bank's debit card or credit card loaded in your customer's digital wallet, app, or online profile? If not, why not? What are you doing to secure that spot and therefore the payments franchise?

Challenge Question – What is your bank's payment strategy?

Prediction #7 – Debit Card Programs Become More Effective

The average consumer is not a banker or a tech entrepreneur. When discussing digital transformation and payments, we often forget that our customers do not always behave like us.

For example, the Federal Reserve Bank of Atlanta's 2020 Survey of Consumer Payment Choice (released in 2021) reported that consumers made 68 payments per month on average in 2020, a number that held steady from 2019. So, which payment method do consumers use most? Debit, credit, or cash?

Of the 68 monthly payments noted above, debit cards were used most often at 23 per month on average. Credit cards were next at 18 payments, and cash was last at 14 payments. The remaining 13 payments were spread across prepaid cards and other methods.

The survey found that 85% of consumers own a debit card with 68% using it each month.

So, what does this mean for your bank? One word… revenue! Non-interest income is hard to find. Here it is. Now, are you feeding this golden goose or are you killing it? Many banks have such draconian controls over debit cards that the customer experience is terrible due to blocked states, frequent transaction denials, and low POS limits. I call this the "dollar for a dime equation." At a minimum, your bank's debit card fraud losses should be no more than 10% of your interchange revenue (e.g., $100,000 in losses should be balanced against $1 million in interchange revenue). You give me a dollar and I give you a dime. I'll take that return.

I often find that bankers can quickly tell me their losses but have a harder time knowing the revenue figures. By tracking both numbers, month by month, bankers can see the impact of debit card strategies designed to leverage this popular payment method while improving customer satisfaction and bank profitability.

Challenge Question – Who is in charge of deciding which debit card controls are applied at your bank?

Prediction #8 – The Death of Brick and Mortar Proves Greatly Exaggerated

In 1987, the U.S. had 13,823 FDIC-insured commercial banks with 45,851 branches. As of June 2021, the number of charters had shrunk by 9,448 to only 4,375. Yet, the number of branches over this period increased by 33,515 to 79,366 (Source: FDIC). Is the branch dead? Evidently not.

Are there branch closures? Yes...2,927 in 2021 to be exact. However, according to a January 24, 2022 article in Banking Dive, five banks (Wells Fargo, US Bank, Huntington Bank, Truist, and Bank of America) accounted for 38% of these closures, mostly due to acquisitions resulting in overlapping branch networks, a normal occurrence.

Financial services are more personal than buying coffee pods on Amazon, who, by the way, also has its share of physical locations (over 600) via Whole Foods, Amazon Fresh, Amazon Go, Amazon 4-Star, and Amazon Books. Amazon even opened its first hair salon in London and will open its first physical clothing store in Los Angeles soon.

One cannot ship a haircut via Fed Ex.

Even those who championed “digital-only” bank startups are now realizing that a hybrid model works best. I’ve always advocated “digital-too” over “digital-only” as there is no shame in having a high-tech, supremely convenient branch.

The branch is changing. It’s becoming smaller, more efficient, more digital. Similar to the holometabolism, the complete metamorphosis we see when a caterpillar becomes a butterfly, the branch is not dead...it’s just transforming into something better.

Challenge Question – How will you leverage your branch network as one of the channels of choice for your customers?

Prediction #9 – Bankers Learn the Power of Three as in the Three Phases of Digital Adoption

When I help banks with digital transformation strategies, we cover my three phases of digital adoption. Simply put, these are (1) Awareness: As a customer, I have to know about the service, want it, trust it, and perceive value; (2) Enrollment: I need to sign up for the service on the channels of my choice, it needs to be easy, and I might need access to people who can help me complete the enrollment; and (3) Use: I want to install the service correctly, feel that it has utility on a daily basis and will work properly, and that I am simply happy with it.

Too often, bankers do not test their digital services for the three phases, putting themselves in the customers’ shoes from awareness to use. By doing so, we can eliminate obstacles and increase customer acceptance and usage of digital services. If we don’t, our competition is glad to welcome our dissatisfied customers, quietly and permanently.

Challenge Question – How do your three phases of digital adoption stack up against the competition?

Prediction #10 – Customer Relationships Are Built Channel by Channel and Dollar by Dollar

Focusing on one customer segment or one channel are strategies that lack diversification and sustainability in most banks. Smart bankers understand that customers are unique at different stages of their lives and therefore these relationships should be treated as such.

The net borrowers of the under 40 crowd often give way to the net savers of later years. We need both, although each has different needs. We need all customer segments for a bank to be profitable and high-performing.

Expect bankers to worry less about individual customer profitability and instead focus on building those customer relationships to obtain as much of the deposit and loan share possible. As many fintechs have learned, having a low-balance account is not a profitable customer relationship. Like the airlines, bankers will get passengers on the plane first, then these customers will become more profitable as they rack up more miles (read deposit and loan balances). Profitability will then be a matter of the bank's pricing, not the customer's current status.

Banks offering the right digital channels will succeed as the complementary nature of all customer segments and all channels work together to achieve a profitable and mutually beneficial relationship.

Challenge Question – Which of your channels is most in demand and are you tracking activity across all channels?

Summary

The previous two years have presented several challenges...testing our logic, our trust, our temperaments, our will. As we look ahead to 2022, I like what James Thurber said: "Let us not look back in anger, nor forward in fear, but around in awareness." Returning to some semblance of normalcy and optimism, the only mandate for 2022 is for bankers to help re-establish a bank tech meritocracy where performance is rewarded, and innovation is encouraged. A heightened awareness of trusted providers will make that happen.

Challenge Question – Who is in charge of deciding which debit card controls are applied at your bank?

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Building Tomorrow's Payments Back Office

By Casey Scheer, Director of Marketing & Sales, BHMI

The payments landscape has experienced rapid change in a very short time. We have moved quickly from traditional card transactions in brick-and-mortar stores to real-time payments through our smart phones to online retailers. While this has been exciting and liberating, these changes have come with a cost. Today's payment processing environment has become more complex than ever before, presenting some serious new challenges for the industry. This is especially true for the back office.

Though often overlooked (and regularly underappreciated), the payments back office is critical to the payments process. Taking over the heavy lifting once a transaction is authorized, it performs several key functions from transaction reconciliation, settlement processing and funds movement, to assessing transaction-based fees and managing disputes. Additionally, the back office helps provide access to real-time transaction data and financial positions, allowing users to research transactions and generate timely reports.

The challenges of real-time payments

While the quick spread and adoption of real-time payments has been beneficial, it has also created challenges. New methods mean new processing requirements, and for real-time payments, this means fund transfers between a payer's and a payee's account need to happen in seconds. Unfortunately, many of the older, legacy back office solutions in use today cannot handle this speed. Decades old, these batch-oriented systems were never built to support the fast, continuous processing requirements of a modern real-time payments environment. Inevitably, these systems become a bottleneck for transactions.

What's more, this problem may be somewhat hidden. Today's financial institutions and service providers have done a great job designing front-end applications that are not only streamlined and user-friendly, but more importantly, let users quickly create and post payments. However, the problem is that no payment is truly completed until it is settled, regardless of how fast it posts. If the back office is batch-oriented (as most are), then a payment will not immediately be processed to completion. Instead, it will join other payments collected over a period in large batches that will be processed for settlement once or twice throughout the day. In turn, this can also impact a payments company's ability to offer an overall view for all transactions. This means that a payment's true status cannot really be known until the batched settlement process has completed, which could be hours after the initial post.

Another big challenge for real-time payments is the ability to support new payment message formats like ISO 20022. Until recently, the industry has relied on ISO 8583 as the international message standard when it comes to exchanging card-based transactions between payments systems. However, with its ability to provide better, richer data, ISO 20022 use is rapidly gaining ground across the globe with faster payment networks and rails.

While companies often want to keep up, replacing or adjusting these legacy back office systems can be easier said than done. Since most were built only for traditional card-based transactions, changes to support newer payments capabilities can require extensive software or code updates (often high in both cost and resources).

The growing issues of real-time disputes management

The rapid pace of both the adoption and demand for real-time payments has unsurprisingly created a rise in the number of disputes. For standard card-based transactions, disputes processes are fairly simple and straightforward. However, this is not the case when it comes to real-time payments.

Much of this complexity stems from its relatively new status. Most card-based payment methods have been on the market (and often little changed) for decades. In turn, their regulations and expected updates are well defined and predictable. What's more, most consumers have a fair degree of trust in these methods. They tend to generally understand their associated risks and liabilities, with most users confident that disputes will be resolved quickly and accurately.

However, P2P and other real-time payment methods are comparatively still new, which can create uncertainty – and unknown effects. While the real-time payment networks are working to create dispute regulations and procedures, most are still in the initial stages of development and the details can vary from network to network. This can also mean real-time payments' update cycles can be unpredictable. Furthermore, because these methods are so relatively new, users may be uncertain who is responsible when it comes to a dispute until they are actually in the middle of one.

To add to the possible confusion, the average amount of time to research and resolve a real-time payment dispute is nearly the same as with traditional payments. So, a funds transfer that occurs in seconds could result in a reimbursement that takes weeks (or months) to resolve.

Future-proofing the back office

While companies should focus on changes that will allow their back offices to manage the payments needs and methods of today, it is just as important to help ensure they can meet tomorrow's processing requirements. To help future-proof payment back offices, payments companies should consider:

- Implementing a system architecture that can support continuous processing while maintaining batch support
- Automating workflows and creating tight network integrations to manage disputes and remain compliant
- Creating a complete view across all enterprise transactions with the ability to dynamically adjust as needed, and ensuring real-time monitoring of transactions and financial positions
- Automating transaction reconciliation with a goal of immediate settlement processing
- Cultivating a flexible, adaptable environment that can support all payment types, whether traditional card-based or newer digital and real-time payments methods
- Creating robust, flexible data extracts for custom reporting in both real-time and batch environments

Our modern payments environment continues to evolve quickly. Whether real-time, near-real-time or same-day, the world of digital faster payments is here now – and with growing volumes. To keep up, payments companies must evolve quickly, too. By implementing the right changes, they can ensure their back offices can not only meet the rising, shifting demands of today, but also tomorrow.

Casey Scheer is the Director of Marketing & Sales at BHMI, a leading provider of software solutions focused on the back office processing of electronic payments. The company is best known as the creator of the Concourse Financial Software Suite® – a unique integrated collection of back office products that allow companies to adapt to the rapidly changing world of payments and was named "Best Real-Time Payments Solution" in 2020.

HR Managers Can Use Health and Wellness to Attract and Retain Talent

By Dinesh Sheth, Founder and CEO, Green Circle Life

Economists say it could take years for the U.S. jobs numbers to recover from its current historic shortage of workers. Some people who were either let go or furloughed during recent pandemic have not been rushing to become reemployed. According to several reports, the employment numbers have begun to rebound slightly as the economy and schools have once again opened up. Of the 10.9 million jobs that were available as of the end of July, according to the U.S. Department of Labor and Statistics, there were 116,000 more in finance and insurance while the lion's share of the additional positions were in health care and social assistance at 294,000.

Along with the people who are unemployed and taking their time to find the right fit, there are people doing self-reflection as to whether they are truly content and fulfilled in their current job. More companies are now amenable to having remote employees and offering benefits that fit the growing need to live more wholistically. Gone are the days when the norm of landing your dream job requires you to endure a long commute or physically be in the office. Employers have learned that it is possible for employees to be productive and satisfied working from the comfort of home or anywhere, for that matter. One wonders has "relocating to get a new job" become a thing of past?

Employers have the opportunity to develop compensation packages that show they are concerned about more than productivity and a job well done but with the whole person including their overall mental and physical wellbeing.

In today's environment, companies need to determine how they can attract talent and keep them so they do not jump ship a few months later for a position that may sound more appealing – either compensation, location, benefits, flexibility, culture, etc. Building company brand identity for employees and company culture, using enterprise-wide platform to communicate and to cater to the areas that are of interest to employees will go a long way to keep people in place long after the initial on-boarding and probationary period is over. Involving family members in the company brand is as important as it is for employees, and they have material influence in your employee's engagement in your company.

People are also more attuned to their holistic wellbeing and how to manage the stress that comes from any job. They have become more aware of what makes them happy, whether it's taking a walk in the middle of the day to collect their thoughts, spending time with family to do something rewarding or cooking a well-balanced tasty meal. In data we have collected, people who engaged in wellbeing programming had less than half the turnover rate at companies compared to those who did not engage in such programming.

These and many other nonwork related activities have become a priority in people's lives. If an employer can provide relevant information that focused on employees' daily lives (such as physical and mental health), that company could stand a greater chance of keeping the employee for the long term. The employee will feel that the company is investing in his or her wellbeing.

Additionally, there is an entirely new generation that is being very selective and looking for companies that meets more of their right-now needs. Companies such as Starbucks, Google, Amazon and others are offering to either foot the entire bill for a person's higher education or a portion of it, are very attractive to this generation. And these companies are reaping the benefits from offering more than just a paycheck. The loyalty, high morale and productivity have helped create employee and company stability.

Human resources managers have a great opportunity to think outside the box when highlighting the benefits of working for their company. In addition to monetary compensation, childcare, vacation, healthcare benefits, companies have a chance to outshine competition if they provide more unique offerings to meet an employee's wants and desires. There seems to be an app for everything these days from shopping to music to banking; you name it. Having your own company branded app with benefits and service information such as health education, exercise options, mental health, weight management and meal planning and prep that can be easily accessible can also be enticing to an employee who wants a healthy lifestyle. According to the Foundation for Peripheral Neuropathy, living a healthy lifestyle can help prevent chronic diseases and long-term illnesses. Feeling good about yourself and taking care of your health are important for your self-esteem and self-image. A company that builds partnership with employees and their families in their journey for better life will attract and retain hard to find talent.

While companies determine how to best represent themselves in attracting qualified employee, thinking outside the conventional will serve them well. Human resources managers have a daunting task at hand, and they should use every tool possible to ensure they can differentiate themselves and are able to hire and retain their talent.

To learn more about Green Circle Life, visit www.greencirclelife.com

Leveraging AI to Build a Better Banking Experience

By Kavita Singh, Vice President of AI Product Management, Payrailz

The abundance of competition in the banking industry creates a challenging environment for banking and credit union leaders to showcase what makes their institution unique from others. This is especially true for mid-size banks, credit unions, and community banks when it comes to the digital channel. Simply providing a digital experience is not enough, as nearly every bank or credit union offers some kind of online and mobile capabilities today. To truly be successful in today's environment, financial Institution leaders must go a step further and find a strategic differentiator to build closer digital relationships. AI empowers these leaders by providing that competitive advantage or key differentiator.

Putting Data to Work

Banks and credit unions possess large stores of highly valuable, but mostly underutilized consumer, financial and behavioral data. Incorporating AI and machine learning into the bank or credit union enables the institution to cater to the unique needs of their account holders. By effectively making this data actionable through AI, financial institutions can add value for their customers by creating personalized, meaningful, and memorable experiences. AI identifies patterns in each consumer's behavior and uses these patterns to create a more engaging personalized experience unique to each individual.

For example, an individual may pay a particular bill around a certain time of month. AI will learn this historic behavior and begin to proactively alert, or remind, customers in advance of the pending bill or more importantly, if it looks like the payment of the bill has been missed.

Providing Solutions, Not Problems

AI extends beyond proactive alerts and adds value by easing financial stress for consumers. AI possesses the ability to forecast how much money a customer needs to pay their upcoming large bills they usually pay at a certain time of the month and compare this aggregate amount to the account's balance, so, if needed, the customer can move their money between accounts to ensure there is no risk of insufficient funds. AI can also identify when they are overpaying for common household bills and help lower them.

Sending proactive, predictive alerts can be valuable to customers and ease the stress of managing bills and payments. However, making these alerts actionable is another key differentiator. AI, when done right, adds the dimension of a call to action, unlike mere alerts. Actionable AI can move the conversation from the standard "you are paying too much for this service," which beckons a "what's next?" to "do you want us to reduce your bill for you?" which creates a superior customer experience and demonstrates that the customer is top-of-mind for their financial institution.

Preferences are Changing

These kinds of personalized, actionable experiences are appearing frequently in the consumer technology industry. Leading tech companies such as Amazon and Google – and social media platforms – thrive on the level of personalization they can provide. For example, Amazon recognizes your shopping patterns, knows your preferences, and makes tailored recommendations based on that information. Amazon also provides actionable alerts, making it easy for customers to repurchase products they buy frequently.

The challenge is not only that these experiences exist beyond the financial services industry, but more so that consumers are growing accustomed to these experiences and expect them across all areas of their lives – including financial services. According to BCG's 2020 Retail Banking Advisory survey, 37% of respondents want their financial institution to be more like Amazon, and 29% of respondents who want their financial institution to be like a personal shopper.

Consumers prefer a financial institution where they feel that they are seen and heard. Personalization is and will remain, vital for banks and credit unions to demonstrate the depth to which they know and understand their customers or members.

“[Financial institutions] are looking for new ways to differentiate themselves from one another since many offer many of the same products and services without a significant difference in fees and rates. They also see specialization as a way to set themselves apart,” notes the 2021 Bankers as Buyers Report from the William Mills Agency.

A true digital, yet personal, experience will set the leaders in the banking industry apart. This approach to the digital experience will also become critical to begin fostering unique and valuable payment experiences. As with other industries, the experience provided matters and is the key to stronger and lasting customer relationships.

When consumers are unhappy with their service or do not feel valued, there is no shortage of options for them to take their business elsewhere. Banks and credit unions thrive on a mutually beneficial relationship with customers and adding the benefits of AI into the mix is a sure way to build a strong bond and ongoing loyalty.

Kavita Singh is Vice President of Artificial Intelligence Product Management at Payrailz

What is Your Banking Tribe?

Mambu identifies five consumer financial tribes post pandemic and how they are shaping the future of financial services

By Robin Smith, Regional VP Sales, Mambu

Finding highlights:

- Pandemic makes 75 percent of consumers more likely to use digital banking in the future
- 61 percentof consumers globally using digital banking services more over the last 18 months
- 41 percent using digital banking services for the very first time because of the pandemic

Robin Smith, Regional VP Sales at Mambu explains that each tribe tells us something significant about the way consumer behavior is adapting and what banks must do to stay ahead of the curve.

"Traditional audience segmentation in financial services is outdated. The one-size-fits-all model, in which customers are divided based on how much they earn, or simple demographics, is redundant in a world of open finance and rich data.

"If banks want to thrive in the future, they must think about how to affiliate themselves with the dynamically changing groups within society and appeal to them with products and experiences that meet their shared values and financial needs. Globally, we have more than 55 million end customers which demonstrates the growing demand for new and digitally-enabled financial products," said Smith.

Mambu's global report, The financial tribes you need to know, surveyed more than 4500 individuals who have a bank account to determine common traits that will be the key banking trends in the coming years.

Here are today's five identified banking tribes:

Ethical Bankers - One of the fastest growing tribes and with the loudest voice. This tribe is second largest globally, making up 31% of respondents, and nearly half (49 percent) are between 18 and 34 years old. These young, purpose-driven savers want to make an impact on society and the environment, and they want their banks to do the same. More than three quarters (78 percent) prefer banks that put purpose over profit and are happy to pay a premium to support communities or help the environment.

Convenience Cravers - One-stop shoppers, often time-poor, who want all-in-one services at their fingertips and at no extra cost. They consist of almost a quarter (23 percent) of respondents globally and are predominantly middle-aged or older individuals - with more than half (55 percent) over 35 years old. This tribe is least likely to pay a premium for services that save time or offer flexibility, expecting a best-in-class customer experience as standard. They value ease of use and are happy to pay for a hassle-free experience. They likely use super apps like Alipay or Revolut.

Techcelerators - Tech savvy, home-owning, slightly older consumers who manage their finances online despite banking with traditional banking institutions and sometimes using cash for some services. At 33 percent, this is the largest tribe globally. They are recent converts to digital banking who have adopted digital services amid physical branch closures. More than half of this tribe is (57 percent) over 35 years old, and they are most likely to have used online and digital banking services more frequently in the last 18 months.

Covidpreneurs - Entrepreneurs who set up their own business during the pandemic, in need of easy-to-use and reliable business banking services. They value online, convenient banking services for businesses that are always on and cash-free. Covidpreneurs are the youngest tribe globally, with almost two thirds (64 percent) under 35 years old and a quarter (25 percent) under 25 years old. This group is most likely to agree favorable business services are important in a bank and most likely to invest in traditional assets.

Neo Asset Hoarders - Individuals in this tribe own cryptocurrencies (75 percent) like Bitcoin or Ethereum, they purchase NFTs (26 percent) or invest in gaming companies and want to use their financial institution to buy, trade and hold assets. They feel priced out by traditional assets like property or bonds and want their banks to support sale or management of these assets. This is the smallest group but rapidly growing globally. Two thirds (66 percent) are male, and more than half (55 percent) are under the age of 35.

One of the most striking findings is that the new audiences are not only defined by financial behaviors but also share core values and way of life. Technology has changed the way these individuals interact with their finances: they can manage their transactions entirely on their smartphones or interface with non-financial companies. To keep up with the demands of these new consumers, banks need to rethink how they engage with their customers to retain their audiences and attract new ones.

Thinking about tribes, what would a bank focusing on yoga teachers look like? How could they tie together financial health and physical health? What about a bank for crypto holders, one that can also create a community around a commodity? Or can banks provide cashback in exchange for reforestation projects?

These are merely a handful of examples of how a financial institution could gain loyalty just by being focused on a tribe. Thanks to customer centricity, we have already experienced digital revolutions in communication, travel and entertainment. Are we in the midst of a tribalism revolution in financial services too?

Belonging to a tribe is nothing new. However, what is new is the fact that by being tied into one gives consumers more power in shaping the world of financial services around their personal needs or beliefs. The pressure is now on for financial institutions to show how they can deliver on ethics, efficiency, and digital innovation.

To learn more about Mambu, visit www.mambu.com

Meeting Customers Where They Are: The Rise of Online Lending

By Lance Solomon, Vice President of Client Operations and Support, Vergent LMS

After spending declined across the board during 2020, consumers are feeling more optimistic, and personal lending is one of the fastest growing financial products heading into 2022. According to Grandview Research, the digital lending platform market size globally was valued at nearly $5 billion in 2020 and is expected to expand significantly until 2028 at a compound annual growth rate of 24%. The scale of the market and its projected level of growth make it difficult to ignore.

Much of the growth in online lending can be attributed to consumer demand. Today's consumers tend to prefer self-service options. Data from the Technology Services Industry Association shows that 67% of consumers across all age demographics and geographies prefer to use online self-service channels. Consumers are also more and more comfortable with conducting major financial transactions online. The 2021 Cox Automotive Car Buyer Journey found that satisfaction levels increase as more online steps are taken to complete the transaction, and MERS reported an 83% year-over-year increase in the number of companies transacting on the MERS® Mortgage eRegistry in April 2021.

The rapid increase in demand has resulted in dozens of fintech companies entering the market offering a full online lending experience. For credit unions, community banks and other lenders, this competition is a threat to their existing customer base. Only by making a concerted focus on expanding their digital services can financial services organizations tap into the demand for a complete online lending experience.

COVID-19 Added Fuel to the Fire

Consumer preferences and increased competition started the shift toward online lending, however there is one factor that turned the online lending trend from steady growth into a landslide – the pandemic. The COVID-19 pandemic, as it did with nearly all other industries, brought digital solutions to the forefront of both borrowers' and lenders' priorities. While online lending had occasionally been an option for borrowers, self-service became the only choice at the onset of the pandemic. Brick and mortar locations were closed, but people still needed money. The ability to apply online and get loans funded quickly changed the borrower's perspective. Online lending immediately turned from an option to a preference.

For the borrower, the experience itself is key. Using digital options to remove friction from the borrower's journey delivers the efficiency and immediacy expected in the online space. Gone are the days of handwritten applications or standing at the counter sharing your information while others are in nearby proximity, commonly associated with in-branch transactions. Two borrowers may end up with the same loan amount and terms, but the amount of time and effort expended via the more traditional route will surely tip the scales in favor of the online experience.

Today's consumers, especially younger generations like Millennials and Gen Z, expect instant fulfilment at every turn. They have grown up with ever-evolving digital options available to them, and that has formed their expectations for every transaction they make. With a paper application, it not only takes time for the borrower to complete but then takes additional time for a lender to review the application manually and deliver a decision. With an online application and decision engine technology, a process that may have taken hours or days can occur in just minutes.

It is also important to note that online lending's popularity is not only due to the improved application process, but also because of enhancements in the servicing experience. Borrowers can automate their loan payments, receive digital notices and reminders, and make payments directly in the online lending platform, reducing the need for human interaction, further enhancing the borrower's experience even after the loan closes.

Online Lending Help Lenders Maximize the Bottom Line

While the customer experience is a key facet of online lending, there are significant benefits for lenders. Online lenders don't require physical storefronts around the city, with full-time staff in branches waiting to serve the occasional customer – they can be much more efficient with a call center approach. Digital capabilities allow lenders to serve more borrowers more efficiently, as the technology automates many of the work processes. With the lending platform able to evaluate borrowers and deliver decisions on their applications, as well as service the borrower, lenders can use their time more efficiently and focus on the small percentage of customers who need human interaction.

Companies that are not traditional lenders are making an investment in online lending to allow them to otherwise grow their business. For example, there are law firms that will finance a client's legal bills or provide loans in advance of a settlement process, and there are doctors or dentists that want to help patients finance procedures insurance may not cover.

The sophistication of the online lending platforms allows this reality. With much of the technical work taking place within the platform itself, these businesses do not need an extensive financial services background, just an understanding of their customer and their needs. Whether lending to other businesses (B2B) or financing for customers (B2C), nearly any business can utilize online lending, so long as they have the right technology and the right partners in place.

Steps to Making 2022 the Year of Online Lending

With all the benefits of online lending, it is easy to wonder why there are still lenders that are not investing in technology today. The truth is that many lenders are held back by their legacy providers. Most lenders see the benefits of online lending, but their systems simply cannot handle it. This should serve as a wake-up call to those that are allowing their legacy systems to limit their potential for growth and success.

With the use of APIs, lenders can add solutions that automate origination, servicing, reporting, and accounting to add more functionality, much more than legacy providers are capable of handling. Through one connection, lenders can open up a world of possibilities for back-end and front-end capabilities that promote efficiency and enhance the borrower experience.

Another factor holding lenders back is simply a reluctance to try new things. There is a fear of the unknown when implementing new solutions, however a shift in mindset can fix this. As with any new product, think of the process as a journey. Begin small – introduce online lending to the existing customer base and get comfortable with online lending. This allows then lender the time they need to ease into a new channel and ensure an exceptional experience, while borrowers receive additional services from a lender they already know and trust.

Next, begin by looking at new products or market niches that make sense. Does the business or local market have a specific need to be fulfilled? Consider financing opportunities around home improvement, large purchases, debt consolidation, or leisure travel, depending on the needs of the market.

Regardless of how each lender decides to focus on online lending, start with a loan management platform that can make the process as easy as possible. The best systems will work alongside existing infrastructure, provide user-friendly loan application tools, strong underwriting, and comprehensive servicing.

Lance Solomon is Vice President of Client Operations and Support at Vergent LMS, a premier fintech lending platform provider.

Bulked Up Banking - Banking Trends for 2022 and Beyond

By Bhavin Turakhia, Co-founder and CEO, Zeta

It's no secret that the banking world has seen a slew of changes over the past year and a half. Banks have had to make rapid changes and ensure their tech is locked and loaded for their current and new customers. Between round the clock services to an amplified arsenal of tech, banks have had to work quickly to make banking options available anywhere, anytime and through any type of smart device.

In 2022, we expect things to continue towards the path of amplified banking and here are just a few areas we anticipate booming in 2022 and years following.

Next Generation Credit Cards

When it comes to credit cards, banks have traditionally been forced to follow the model that big credit card companies offer them and were limited in options for features as well as the amount of return for offering their customers credit cards. However, things have changed. Banks are now able to bring their credit cards in-house to offer next generation credit cards.

The biggest draw of this is obviously the higher return on revenue and lower TCO (total cost of ownership) but also it is another method of growing relationships with your customers. From BNPL to secured and unsecured credit cards, all of these solutions are available for banks of any size to have a robust arsenal of credit options.

For customers this is a major advantage due to working with an organization they already know and trust. Similarly for the bank, the white-labeled offerings fit perfectly with their branding and allows them to easily move money between accounts and helps customers manage their transactions, payments, rewards and manage card controls within an application they are already familiar with.

Bigtechs, Fintechs and Challengers

Frequently news crosses your screen of a new fintech company, a challenger bank or a tech giant entering into the banking space looking to make waves in the industry and pose a threat to traditional banking. The fintech sector alone nabbed $91.5 billion in funding in 2021 which indicates there is a lot of promise in the financial industry to evolve.

Similarly, bigtechs or big technology organizations such as Apple and Google and Amazon have also started to move into the banking space. This could be a major threat to banks as people flock to these brands due to their reputation and their user experience. While this can feel daunting for banks, these companies do not appeal to all generations and people, so don't fret just yet.

Another type of bank that has been on the rise is the challenger banks. The challenger banks have been making quite a noise over the last few years due to their fully digital and innovative stack. Challenger banks have gained rapid adoption as they appeal to the younger demographics who prefer their banks to be their smartphones or tablets or computers. Another reason is challenger banks are heavily dependent on APIs which allow them to incorporate the latest solutions without having to shut down branches and access to accounts for these upgrades. This also means that they are not limited by their core provider of what they can incorporate into their offerings.

Fintechs, bigtechs and challengers are one the rise and will continue to do so which will cause traditional banks to go back to the drawing board and ensure they can compete in 2022 and beyond.

Cloud-based Solutions

Everyone rushed to the cloud as soon as lockdowns were put in place. Not only was it a way to back up data easily but also a way for banks to continue business as usual in a virtual environment. The point of the cloud is to keep vital information accessible to those who need it and secured for those who don't without having to worry about having a "data room," on site that has a higher probability of network issues, power losses and other factors that puts your bank on hold when issues arise.

Heading into 2022 we anticipate this trend will continue as this is the way most technology will be hosted moving forward. Banks will adopt cloud based technologies for launching innovative products and services to allow them to retain existing customers as well as acquire new ones.

Looking ahead to 2022 and beyond, there is a lot that is in store for both banks as well as offerings customers will have access to. Between looking at banks as a whole and modernizing the approach to banking through bigtechs, fintechs and challengers as well as incorporating new credit cards solutions and moving things to a cloud environment, 2022 will be the most innovative year for banking yet and will continue to improve in the years to come.

To learn more about Zeta, visit www.zeta.tech/us

3 Key Considerations Before Rolling Out a Crypto Platform

By Patti Wubbels, SVP of Client Development and lead cryptocurrency advisory services, SRM (Strategic Resource Management)

Many of you will remember the initial fear experienced when the Internet debuted in the 1990s. At the time, the popular narrative was that every business, no matter how big or small, would be on the information superhighway by the year 2000, replacing conventional media forms like newspapers, billboards, and the yellow pages. Fast forward nearly 30 years, and now everyone's life is touched (and in many ways, sustained) by the Web.

Cryptocurrency adoption is trending very similar to those early days of the Internet. Crypto has made its way into mainstream conversations with commercials and even naming rights to stadiums, such as Crypto.com Arena in Los Angeles, though the media seems hot and cold (often tied to the crypto market's dips and spikes). But, like the Internet, some people are adamant they will not participate, while others are jumping in due to severe FOMO (fear of missing out).

You might be among those who have been dabbling in crypto by buying small amounts of Bitcoin or checking your crypto exchange to see how much the market has fluctuated. No matter where you stand, there are several key questions your organization should be asking:

1. Do my clients want this product?

Consider a survey to see what consumers are already doing and interested in. Ask your employees about crypto to understand what internal resources are available. Check deposit outflows to major crypto players such as Coinbase, WeBull, Uphold, Gemini, and eToro. Looking at your ACH, card, and wires will give you some hard facts on how much money has already left the building.

We recently met with a large institution on this very topic. They estimated losses of approximately $1.5 million a month in outflows to crypto, equal to $17,000 in monthly revenue or over $200,000 a year. This trend will only grow. But there's good news, too, as research suggests that 46 million Americans own Bitcoin today, and 81% of those surveyed would prefer to buy crypto through their trusted financial institution.

2. What is the risk/reward to my institution?

Risks include continued outflows to exchanges, missed trading revenue, and the potential of being disintermediated by doing nothing. The same survey referenced earlier found that 70% of Bitcoin holders would switch institutions if they found one that offered Bitcoin-related products.

The rewards of offering crypto solutions include the opportunity to engage existing clients, the potential for more fee income, and a possible bump in new customers – if you are an early adopter. When Vast Bank in Oklahoma started offering crypto trading on its mobile platform, they saw a 25% increase in new customers in just one month.

Trading platforms are taking 150 to 300 basis points in trading fees. Imagine if your institution could capture just half of that outflow at the low end of that range.

Just like any other product you offer, it's worth evaluating.

3. What does it take to get crypto up and running?

You've done your research and you're ready to move forward. Before starting, make sure your institution has a clear roadmap and that the integration partners are chosen wisely.

The good news is that many solutions tie directly to your current tech stack. With cloud technology and API advances, you could be up and running in a few months, though it will likely take longer to come up with questions, find answers, and formulate a strategy than it will to implement the product itself.

The Bottom Line

Adding crypto solutions to your product portfolio may seem like a daunting endeavor, but more people are becoming increasingly comfortable with the concept. Adopting a strategy to adjust to the wants and needs of the market can serve as both an offensive tool (more revenue and client relationships) and as a defensive one (managing deposit outflows).

The key is to develop a thoughtful approach that is scalable over time. SRM's crypto advisory experts can help you craft a strategy, evaluate providers, and begin your journey into this fast-evolving business opportunity.

Patti Wubbels is Senior Vice President of Client Development and lead for our cryptocurrency advisory services at SRM (Strategic Resource Management), an independent firm that advises financial institutions in executing business strategies and strategic sourcing initiatives.

William Mills Agency is the nation's largest public relations and marketing firm serving the financial technology industry with an emphasis on fintech providers. The agency has established its reputation through the successful execution of media relations, marketing services and crisis communications programs. The company serves clients ranging in size from small start-ups to large, publicly-traded companies.

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