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TOP TEN TRENDS
IMPACTING BANK TECHNOLOGY FOR 2021

By Jimmy Sawyers

"Most men seem to live according to sense rather than reason."

— Thomas Aquinas

Not one to consult on lending perhaps, but I find Saint Thomas Aquinas's quote from over 700 years ago to be applicable to our current state of banking and technology. Sense (feeling) trumps reason (logic) in many tech investments. We continue to see a survival of the fittest in our industry as the digital transformation evolved rapidly and resulted in a few extinctions for those companies that could not deliver what they promised. However, new and old found the need to pivot and adjust to market conditions never encountered before.

Fintechs and traditional banks learned from one another that perhaps neither side was all right or all wrong. As is often the case, the answer lies somewhere in between. The previous year simultaneously exposed greatness and crushed the pretenders in tech and financial services. Survivors are poised to make 2021 a year to remember (in a good way).

Bankers experienced events we never imagined and that were never part of any bank's pandemic plan, proving that the nimble and quick fare better in such times. Tough lessons were learned, but they are lessons we will carry forward to make more productive, digitally empowered, and ultimately, better banks.

With a sincere hope that 2021 is the year we fear less and dare more, I offer the following predictions:

PREDICTION #1

Digital Services Acceleration Blasts Banks' Business Process Constipation

The right technology without the proper business process is doomed to fail.

Many bankers are in the process of replacing their online account opening solutions, partly because of increased demand from consumers and partly because some current solutions perform so poorly with clunky interfaces and high abandonment rates. Layer on outdated compliance maxims and inexplicable business processes, and this new technology and incredible digital service is weighed down and cannot function effectively.

It should come as no surprise that mobile deposit transactions soared during the pandemic. Those banks that had their people, processes, and technology aligned were able to leverage this digital service and increase deposits, improve the customer experience, and position themselves as leaders in the digital space. Banks that let compliance and fraud concerns stifle progress in this area did irreparable damage to their brands.

For example, a large regional bank implemented a control that if the mobile deposit amount was greater than the account balance, the deposit would be automatically held for two business days. Keep in mind that one could walk in this same bank and make a deposit for ten times that amount and get immediate credit at the teller window. Plus, the bank obtained good funds quickly on the item because of same-day settlement with the bank on which the check was drawn. And, by applying some commonsense data analytics, the bank would know that the customer has deposited this same amount from the same checking account and same bank for many years. Instead, a good customer was denied the promised utility of new technology. Not exactly the way to promote digital services.

Such ill-advised business processes will kill a great digital service. Such is the case at many banks. It's time to review business processes and not leave these decisions to the compliance department or those who don't grasp the importance of the customer experience.

People who used DoorDash or Instacart in 2020 for the first time will expect the same level of service and delivery from their banks. Most banks hold the "digital vaccine" but don't have the people and processes in place to administer it.

CHALLENGE QUESTION

Are your bank's business processes as advanced as your technology?

PREDICTION #2

The Mobile Workforce Demands Access and Innovation

Productivity could not be quarantined in a pandemic, so banks' IT staffs were tasked with rolling out laptops en masse at a time when it was difficult to get delivery due to supply chain breakdowns. Most performed admirably in tough circumstances and transformed their tech environments to support workers who needed to serve customers and get their jobs done from home.

Those long denied the necessary tech tools to perform at a high level due to unfounded security fears of laptops, wireless, and remote access to network resources became empowered almost overnight to work anytime, anywhere. The mobile workforce is here to stay, and now that this tech genie is out of the bottle, productive bankers are not going back post-pandemic. Laptops are replacing desktops and wireless networking is becoming the norm.

Bankers will no longer allow their IT staff to deny reasonable requests for the tech tools that are needed to be productive from home and on the road. This is a healthy change for bank performance. This trend has also made bankers want more self-sufficiency and control of their own networks.

In 2021, expect bankers to continue this transformation and hire more tech talent to support mobile workers. "Boots on the ground" means jobs in the community. If community bankers want young people to stay in their towns post-graduation, then they should do something about it and offer high-tech jobs and career paths. Every bank needs a network admin or help desk specialist on-site. Our industry needs to do a better job of making banking appear more attractive as a high-tech career, which it very well can be.

CHALLENGE QUESTION

How will you better support your bank's mobile workforce to attract and retain the best talent?

PREDICTION #3

Video Kills the Unnecessary Meeting

Ever wonder if some people in your organization exist only to call meetings that are neither necessary nor productive? Long available but seldom used, videoconferencing solutions exploded in 2020 and will continue to be popular and necessary in 2021. We have all learned about the nuances that make such meetings more dynamic and productive...quality audio, adequate bandwidth, intuitive interfaces, and clear rules of engagement. We have also learned the shortcomings...the video fatigue, the fact that many now choose to simply turn their cameras off and make it an audio meeting, that pesky mute button that has frequently made us look like fish gasping for air, and all the other weaknesses of this medium that make it no substitute for in-person interaction. Yet, it is invaluable for the new world in which we live, and it's here to stay.

Videoconferencing solutions and use will continue to evolve in 2021, and a hybrid model will take hold that uses this channel more effectively. Expect some in-person meetings and events to be deemed irrelevant or unnecessary as a result.

The prophet, Donald Duck, had it right all along...in the future, there is no need for pants (on video calls).

CHALLENGE QUESTION

How will your bank use video strategically yet judiciously to increase employee productivity?

PREDICTION #4

Contactless Payments Demand Skyrockets

For those of us who have long been germaphobes, disgusted by having to stick our fingers where others' dirty fingers have contaminated surfaces, contactless payments are a welcome innovation, pandemic or not.

Upping the contactless ante, Amazon One connects a stored credit card with a palm print and allows customers to pay at checkout using the palm of their hand. This innovation was introduced in two Amazon Go stores in Seattle in late September 2020.

As bankers fight to preserve the payments franchise in 2021, they will focus on what matters, making the checking account, mobile, and the debit card the trifecta of digital services success. Contactless payments will play a key role in that success.

As mentioned last year, tap-to-pay was poised to be a popular advancement pre-pandemic, so it is especially welcome now. A Mastercard global consumer study published in late April 2020 found that 50% of U.S. consumers worry about the cleanliness of signature touchpads, with 72% preferring to forgo signatures altogether. This desire for contactless payments is driving consumers to move their contactless cards to top-of-wallet. Bankers that are first to market with tap-to-pay cards will increase the probability that the top-of-wallet card bears their bank's logo.

CHALLENGE QUESTION

Which contactless services will your bank offer, and how will these services be delivered?

PREDICTION #5

Cybersecurity Theater Is Exposed and Corrected

Too many cybersecurity measures in banks are more theater than substance…more drama and grandstanding than real and practical.

Excessive phishing testing without 24/7 monitoring of a network for intrusions is akin to harassing and scaring one's grandma with fake burglaries instead of buying her an alarm system. Expect bankers to truly assess such measures in 2021 and get more sophisticated in thwarting cybercrime.

Risk management will include scenario analysis of the most likely cybersecurity incidents. Would your bank pay the ransom if struck by a ransomware attack? How is your bank's network protected against intrusions into your debit card administrative platform, online banking systems, or wire transfer operations? Smart bankers will engage qualified firms to test such systems, and they will implement Cybersecurity Incident Tabletop Testing as well as other practical exercises to face the realities of cybersecurity preparedness in 2021.

Bank CEOs must take control of cybersecurity strategy from those who want to lock the bank down like it's a nuclear facility instead of a service business managing a risk-reward proposition. High-performing banks will strike the right balance and manage cybersecurity risk accordingly.

CHALLENGE QUESTION

Who provides your bank's cybersecurity preparedness advice, and has that person ever worked for or run a for-profit business?

PREDICTION #6

Fintech Banks Get an Education in Regulatory Compliance and Profitability

This pandemic should have been fertile ground for fintechs, those who have been schooling us for years on how to serve customers remotely and digitally. However, very few rose to the occasion and soared. Many sold or failed. Hard lessons were learned by both fintechs and traditional banks. The fintechs that succeeded did so by offering the right solution at the right time with strong management and execution.

The three fastest growing fintechs in terms of revenue in 2020 were Ant Financial, Stripe, and PayPal (3-2-1), all digital payments plays that have enjoyed incredible success. Growing customer numbers has proven easier than growing revenue for most.

This past year saw Varo Money become the first fintech granted a full-service national bank charter from the OCC. To experience Varo's onboarding process, I opened a low balance account at the fintech over one year ago. This summer I got a letter that Varo was closing my account if I didn't make a deposit within 30 days. I didn't make a deposit and they did close my account. I got the "Varo heave-ho" and it was probably justified from a business standpoint, but the abruptness of the forced exit didn't leave me feeling much love for Varo. Expect more customers to get the boot as fintech banks are learning the fundamentals of banking.

Like Varo, many fintech banks have found that having thousands or even millions of customers, most with low-balance or no-balance accounts, is not a sustainable business model. Fintechs have core processors too, and they must pay those core processors just as traditional banks do (e.g., typically on a per account basis). Paying for unprofitable accounts is not exactly disruptive or innovative. Next time a fintech bank claims to have millions of customers, ask what the average account balance is.

Now these banks will be subject to the same laws, regulations, and guidelines as traditional banks. They will undergo the same examinations and be subject to the same consumer compliance requirements. Some might not be prepared for the overhead.

At the same time, do many traditional banks over-comply and build layers upon layers of unnecessary paperwork and controls? Many do. One of my banks requires me to sign paper forms in blue ink. Why? Because they say they had a "bad compliance exam" one time and the examiner made this recommendation. This bank inconveniences the customer in the name of compliance, and e-sign be damned.

Traditional banks can learn a lot from fintech successes and failures.

CHALLENGE QUESTION

What can your bank learn from fintechs about streamlining the compliance function?

PREDICTION #7

Regulators Get Inked

A trend of concern is editorializing by examiners who are unwilling to put such off-the-cuff opinions in writing. Such casual recommendations often lead to bankers increasing overhead unnecessarily while not reducing risk as intended.

Verbal recommendations from examiners are not formal recommendations at all. Bankers must require examiners to put such recommendations in writing so bank resources are not wasted on implementing expensive controls based on one examiner's opinion rather than a law, regulation, or guideline. It's what you ink—not what you think.

CHALLENGE QUESTION

Does your bank implement unwritten, informal verbal recommendations from individual examiners that might be costly, wrong, or without merit, or do you require such recommendations be in writing and part of the formal examination report?

PREDICTION #8

Efficiency Rules as Bank Overhead and Tech Spending Is Managed More Stringently

To be more competitive in 2021, bankers must eliminate inefficiencies at all levels of the organization. Expect increased scrutiny of age-old business processes. As I often joke, what got me in trouble throughout my school years, I now do for a living. I ask WHY a lot. Too many bankers don't ask WHY enough. That will change as margins are squeezed, tech costs rise, and leaner competitors force traditional banks to re-examine their operations.

Remember this...just because the same company owns two applications does not mean those applications are integrated. An acquired application may never be fully integrated with existing solutions.

To make cost analysis even more difficult for bankers, bundled pricing is the new pig in a poke for many tech providers. As bankers become more aware of per unit pricing increases, some tech providers, including core processors, have flipped the book and introduced a new pricing model, an all-you-can-eat buffet of applications, some of which are not in demand and better belong on the "Island of Misfit [Tech] Toys."

Some Managed Service Providers (MSPs) lose their luster as bankers realize the ROI and performance promised never panned out and that many MSPs have not lived up to their disaster recovery or security claims. Some actually served as conduits for malware injections and ransomware attacks on banks. These stark realities have caused some bankers to break down applications into their individual categories to see who the best provider for each is. Email? Bankers are beating a path to the cloud with Microsoft 365 (formerly Office 365). Backup? Solutions from the likes of Barracuda have disrupted MSP offerings. Videoconferencing? Straight to Zoom, Citrix GoToMeeting, or Microsoft Teams for savings and better performance. Secure file transfer? Have a funeral for clunky secure email applications, long hated by lenders and bank customers alike, and go straight to Citrix ShareFile.

Tech decisions made five or even fifteen years ago might have been exactly right given the circumstances of the time. Recent advances in tech and bankers' desire for increased efficiency make 2021 a good time to re-assess current providers and the often sticky, one-sided arrangements that exist.

CHALLENGE QUESTION

Will the 30% efficiency ratio be the benchmark in the near future, and if so, how will you achieve it?

PREDICTION #9

Trusted Advisors Rise in Value

Got a circle of trust in terms of doctors, lawyers, accountants? Of course! We all do. Do you go with the cheapest or the best? The most convenient or the most trusted? Unfortunately, some bankers still award critical projects and solicit advice from the lowest bidder then complain about quality when they reap what they sow.

Even in the digital world, let's not discount the importance of trust. This is why I believe that traditional banks that leverage technology properly will be the winners, even in the face of digital-only competition.

Trust will remain the most important factor when customers choose their financial institutions, in the digital or physical worlds, and trust will also remain paramount as financial institutions choose those providers on which they will be dependent to deliver world-class financial services. This "TrustTech" will drive technology companies and their financial institution clients to a new level of performance as good businesses with stable and ethical management will thrive in 2021 and beyond.

CHALLENGE QUESTION

Does your bank engage the best and most trusted or the cheapest and most busted?

PREDICTION #10

PPP Loans Drive Digital Lending

Most community bankers demonstrated their value by hustling and working extremely long hours in the face of a pandemic so they could take care of their customers and process PPP loans. In many cases, this was a largely manual process with a lot of phone calls, emails, and PDFs. What was accomplished in a short period of time was nothing short of amazing. Bankers should take a bow.

While the job got done, many bankers were left with the thought, "There must be a better way." For the fintechs and digital lending applications that were sincere in helping banks, we will continue to see success. For those who saw this as an opportunity to poach traditional bank customers by forming the digital equivalent of a roach motel (one can check in but never check out), their run will come to an end.

Regardless, bankers who faced and met this challenge will assemble and make some monumental and lasting changes to the lending process for 2021 and beyond. Expect a digital makeover that will help more traditional banks meet and beat the fintechs.

CHALLENGE QUESTION

How did the PPP loan experience motivate your bank to adopt new methods of digital lending?

SUMMARY

Elvis Presley, the King of Rock and Roll, said it best: "Truth is like the sun. You can shut it out for a time, but it ain't going away." A new age of truth and reason has emerged. Bankers have helped their customers survive the pandemic, and in turn, have made better banks as a result. Expectations have risen. Proof is demanded. Performance will be rewarded.

Welcome to 2021...the end of old rhetoric and the new beginning of a long-awaited recovery and a fresh optimism seldom seen in our history. Bankers will administer the digital vaccine that brings health and prosperity to banks, their tech providers, and their customers.

Jimmy Sawyers is Co-Founder and Chairman of Sawyers & Jacobs LLC*, and is one of the most independent and informed voices in the industry. Leaders in Innovation-Risk Management-Cybersecurity-Technology through the firm's four brands.*

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