Bankers as BUYERS 2024

WILLIAM MILLS AGENCY

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Editor's Letter

April 2024

The Exploding Fintech Scenario, Invisible Technology and Actual Intelligence

I really enjoy hearing concepts that stop me in my tracks – the kind of thing that makes you say in your head, "Oh, I see what you did there!" We do try to have some fun with these reports; as such, we are exploring a few concepts that are centered around how leaders look at innovation.

While we want to appeal to CIOs and technologists, Bankers As Buyers is more about the creative application of technology and how people, namely financial industry leaders, are using it to achieve real-world benefits today and in the next couple of years. If you are looking for a silver bullet, this is not your report. However, if you enjoy a great conversation with people you trust, please read on.

So, what does the headline mean? In reverse order:

1. Actual Intelligence, not Artificial Intelligence (AI), is borrowed from a friend in the oil and gas industry and a nod to the value of people who know why things are done and how to apply their experiences, insights and technology for a better outcome. We believe people are the "tip of the spear" for any good transformation. Don't worry, we'll also explore where AI is working today and where we expect to see its impact.

2. Invisible Technology refers to when something is so well-designed and works like it should, it doesn't feel like wrestling with technology to get what you need…it just works. A friend says, "Experience is the product" and great experiences just feel good. As consumers, we know when we have a bad experience with technology, but understanding how to get to great requires a real effort and everything working as expected.

3. The Exploding Fintech Scenario came up in a small group discussion recently and means how do we manage or account for fintech relationships that, well, blow up. I was impressed when a community banker said he had implemented 18 fintechs in the last couple of years and that only two had failed. He continued to say that average would get him in the baseball hall of fame. Even so, how do we plan for and manage business/technology relationships knowing that not all will survive?

We hope you enjoy the report,

Scott Mills, APR
President & Editor
William Mills Agency

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

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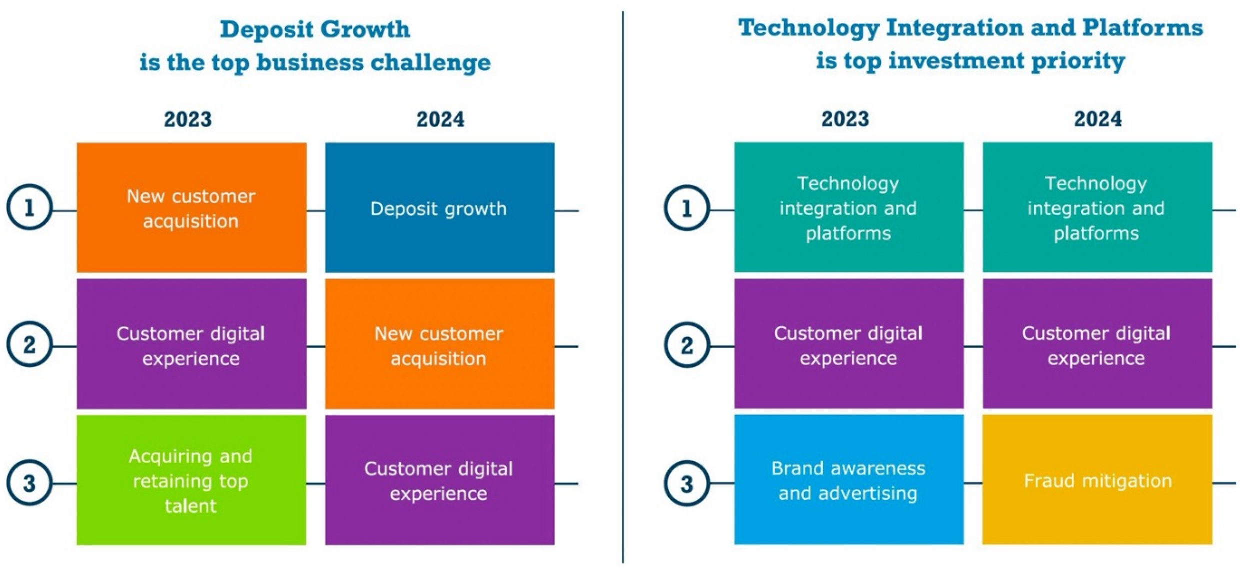
I. Introduction

Financial institutions headed into 2024 facing an expected reversal of the rising interest rate scenario of the last couple of years, though interest rate declines aren't expected until the second half of the year; the opportunities and threats offered by quickly evolving artificial intelligence; and ongoing compliance and competitive challenges.

"AI will be everywhere," said Marc DeCastro, IDC Financial Insights research director. "The use cases are just starting to be worked out. The majority of cases that we are seeing are more inwardly focused, like helping to fight fraud. Banks have been doing this for years, though AI was called different things."

Mortgage rates were above 7% earlier in the year meaning a continuing dearth of new mortgages. Rates for other types of credit were even higher, leading to higher delinquencies and increasing bankruptcies.

The above economic challenges are somewhat offset by rising wages and unemployment near historic lows.



Source: BAI

In this environment, bankers are looking to add any technology that will help them increase business, said Sam Kilmer, Cornerstone Advisors managing director, pointing to loan origination and deposit account opening solutions, which nearly one-third (30%) of banks are planning to upgrade this year.

What are your institution's three most important efficiency and cost savings priorities?

	Banks		Credit Unions	
	2023	2024	2023	2024
Streamline workflow for more efficiency	78%	72%	82%	71%
Improve efficiency ratio/become more efficient	66%	57%	57%	58%
Improve reporting to reveal operating costs and inefficiencies	43%	39%	38%	40%
Renegotiate vendor contracts for savings	18%	31%	30%	21%
Reduce reliance on paper throughout the institution	30%	18%	21%	15%
Reduce headcount	7%	17%	6%	13%
Reduce branch-related expenses	19%	16%	19%	15%
Defer new projects	12%	11%	12%	13%

Source: What's Going On In Banking 2024 - Cornerstone Advisors

Most of those technologies will have increasing elements of AI, with fintechs including elements of it in their solutions and some focusing on the AI technology itself.

"It's important for banks to continue to invest in expanding their digital presence looking at a comprehensive strategy, not just adding a capability here and another capability there," said Mike Nicastro, Coppermine CEO. "They have to think about the width and depth of their digital strategy. You need diversified technologies to compete."

For example, a bank focused on traditional deposits may be able to attract funds now, but when rates go down customers will move that money into investments, Nicastro explained. "So if you don't have a strategy there, you have a problem."

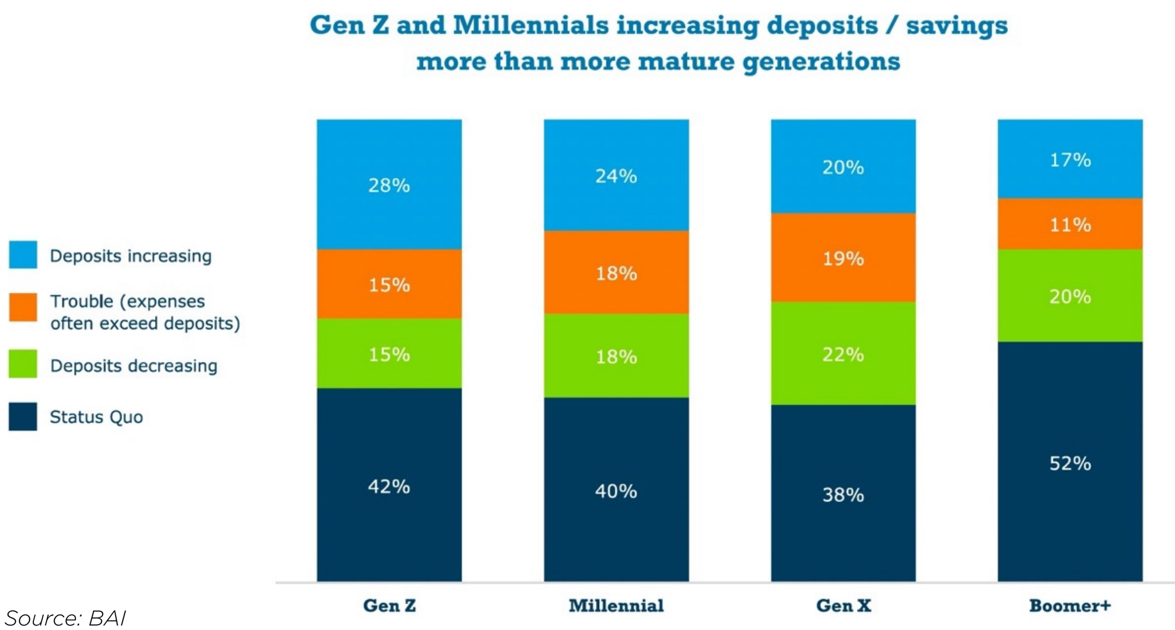
"Easier opening of deposit accounts has become more important for banks as they look for ways to build deposits without paying over-market premiums," said Tyler Brantley, Core10 vice president of revenue and marketing.

"They have to think about the width and depth of their digital strategy. You need diversified technologies to compete."

Mike Nicastro, Coppermine CEO

"There are banks trying to figure out how to work with a fintech partner to help generate new outside deposits. Others are looking to add digital account opening, so that they can better serve their core customer base," Brantley said.

All generations have less in deposits than six months ago



Source: BAI

Still other financial institutions are looking to fintech solutions not only to help with deposits, but also to go to the next level of transferring customer information to Treasury management for more complete service, Brantley added. "All of these approaches should be part of a holistic plan to grow funds at the bank. However, if you have different solutions for each, it can seem really disjointed."

The expected decline in interest rates is expected to lead to some increase in loan demand.

Jimmy Sawyers, chairman & co-founder of Sawyers & Jacobs LLC, expects many financial institutions to invest in technology to facilitate lending, which generates the majority of bank revenue.

"There have been a lot of fragmented solutions," Sawyers said. "I think bankers are going to work to coalesce those fragmented solutions (e.g., one for decisioning, one for spread analysis, one for documentation workflow, etc.) into an integrated process that will yield positive returns."

"While different fintechs offer different pieces of the puzzle, there is an opportunity for a fintech that can successfully connect all of these pieces in a seamless manner," Sawyers said.

"Fintechs have caused a lot of change in the industry," Nicastro said. "You can't ignore companies like SoFi. If you do, you do so at your peril. They have caused disruption."

Younger customers in particular prefer to do everything online, Nicastro added. “They don’t see a need for branch networks. Fintechs are here to stay.”

The fintechs are not only offering solutions to banks, but in some instances are competitors to traditional banks and are adding additional financial services like insurance and wealth management, according to Nicastro. Some of the latter fintechs are taking market share away from banks and brokerages.

But others see bank partnerships as the optimal business strategy.

“Banks will continue to pursue ways to create more efficiencies, better productivity and more profitable relationships,” said Charles Potts, executive vice president and chief innovation officer for the Independent Community Bankers of America (ICBA). “Banks will continue to invest in tools, service and solutions that help them better serve their customers. They continue to look at where they can remove friction from the transactions and experiences that their customers may encounter.”

According to Adrian Moise, founder and CEO of Aequilibrium, seven clients are deploying a new digital banking platform designed to remove friction for customers.

“Many banks have a mix of new technologies, such as state-of-the-art mobile apps, but older branch technology or a decade-old IVR system,” according to Bob Meara, Celent, principal analyst. “Those financial institutions will be looking to upgrade their legacy technologies in 2024 to give customers a more consistent experience.”

Beyond improving revenue generation through easier account opening, “…better identification of revenue opportunities and improving efficiencies, bankers will add or upgrade technology designed to help manage risk and meet the growing compliance burden,” predicted Potts.

Even as bankers pursue AI and other technology to improve revenues, cut expenses and enhance the bottom line, the human element of banking can’t be ignored, several experts pointed out.

“You have to let technology be complementary, not necessarily 100% disruptive,” Sawyers said. “Banks still need people to make sure people have a good customer experience. At community financial institutions, people expect to be able to deal with people at some point.”

Some technologies can help with the customer experience by enabling bankers to provide personalized messaging and offers to customers, said Dr. Melissa Sassi, venture partner with Machinelab Ventures. “Being face-to-face isn’t the only way to build a personal relationship.”

“Even multibillion-dollar credit unions need to have a start-up mentality in order to have the most success,” said Brit Barker, Origence vice president of sales. That means being forward-thinking, and not being afraid of fintechs and the megabanks. Those forward-thinking credit unions will be looking for technology to empower their ability to aggressively grow and compete with what is offered by the megabanks and the fintech providers.

That means modernized core systems and lending systems that enable a credit union to present its members with the offers most likely to be pursued, as well as technology to speed approval and funding of loans, according to Barker.

“There’s a balance between off-setting fraud and being innovative,” said Barker. “That’s where creativity comes into play for 2024. How can we be creative with our solutions, mitigate fraud, and continue to grow our market share?”

The larger the credit offered, the stronger the fraud protection must be, Barker adds. So a credit card with a low credit limit might have relatively simple fraud protection, but a home equity line of credit would have several layers of fraud protection.

Similarly, cybersecurity is a top concern, according to Potts. “That only becomes more complex and complicated, so addressing that is always top of mind for banks.”

II. Artificial Intelligence

Ever since Microsoft announced its investment in ChatGPT in November of 2022, AI, particularly generative AI, has caught the attention of fintechs, other technology providers, financial institutions, regulators, other industries and the public at large.

“There’s definitely a lot of hype around AI,” said Mac Thompson, White Clay founder and CEO. “There is a collection of 15 types of technology that we group as AI, but they’re all at different levels of maturity.”

While ChatGPT and generative AI competitors receive all of the attention today, the more mature AI technologies are those deployed for fraud monitoring and technologies like robotic process automation (RPA) used to advance processes.

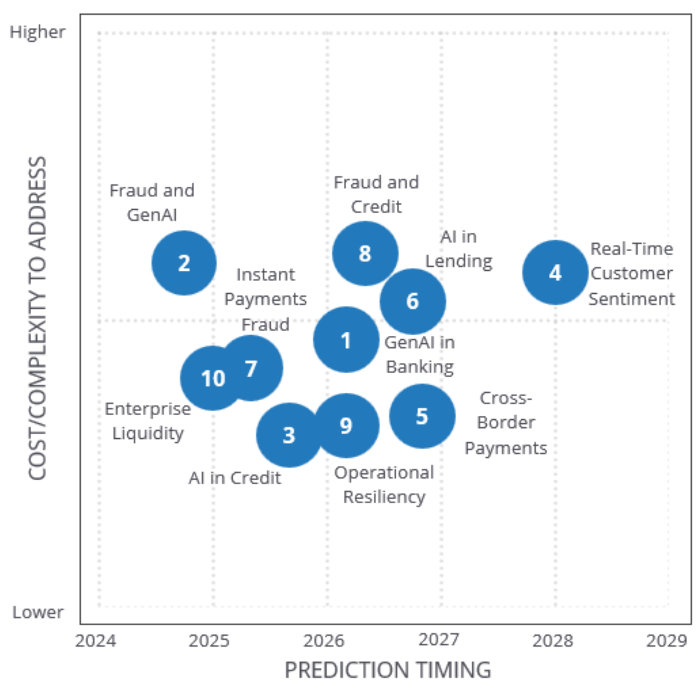
The AI solutions all take advantage of machine learning, meaning they continue to learn. In most cases, this means they continue to improve performance. However, if they were trained incorrectly from the outset, they will become increasingly problematic.

“Today’s AI technology gives bankers the ability to quickly comb through a much broader, and more complex, set of data than what was possible years ago, enabling financial institutions to make better decisions about a loan applicant’s creditworthiness, leading to more accurate and fairer lending,” according to David Benskin, CEO and founder of Wealth Access. “Manual reviews of that much data would be impossible.”

AI also is being used in robotic process automation, DeCastro adds. “Generative AI will take that process and generate an outcome that wasn’t there before or that wasn’t thought of before.”

Generative AI is included in two of the 10 IDC FutureScape Worldwide Banking 2024 Predictions. The research firm predicts that half of the top 100 banks will hyper-personalize customer rewards and loyalty programs by 2026, with generative AI as the primary driver.

IDC also expects that fraud solutions will need to identify the use of generative AI in fraud schemes this year.



Source: IDC FutureScape: Worldwide Banking 2024 Top 10 Predictions
Note: Marker number refers only to the order the prediction appears in the document and does not indicate rank or importance, unless otherwise noted in the Executive Summary.

"AI technology costs continue to present a barrier for leaders looking to incorporate these tools," said Benskin. "As a result, there is immense interest for fintech and other business partners to deploy the technology economically and efficiently."

How financial institutions prioritize AI and other technology investment priorities depends on a bank's business strategy, DeCastro said. "You need to set your business priorities for the next 2-3 years, then figure out what technologies will bring those priorities to fruition. It's not always about the technology; it's about the process. Sometimes it's also about improving the employee experience and the customer experience."

Peter Major, VP of fintech solutions of Member Driven Technologies (MDT), agreed. "Just because the bank or credit union down the street is using this vendor or this technology, that doesn't mean it ties back to your strategy and you should get it."

Fintechs will enter the AI arena in a few different ways, according to John Best, CEO and founder of Best Innovation Group. Some will use AI to enhance their solutions. Others will leverage generative AI to offer unique services such as financial advice and to offer "autonomous banking" – banking services in a much more frictionless way than is done today. Others will focus on providing AI-backed services for cybersecurity.

But before deploying AI, a financial institution needs to determine what it wants the technology to accomplish. According to Thompson, "You can't just say: 'AI, I have a problem, solve it.' "

AI, like any other technology, is a tool that bankers can use for clearly defined purposes, Potts said. "You need to make sure that these tools have real value and real practicality. Otherwise, it's like handing someone a hammer – you can either build something or tear something apart."

Instead, a financial institution needs to determine the type of outcome it is seeking, such as a relationship report, then work with a tech provider to build and train the model to produce that report.

"You have to be able to pull together all of the data in a consistent way to feed the model and you need to have an idea of what a relationship review looks like in order to train the model," said Thompson. "Without proper design and training, the AI output won't help, and could hurt the financial institution." For example, if a technology isn't trained to produce good PowerPoints, all it will do is produce bad ones because that's how it was trained.

"You also have to be 100% certain that what you are going to produce is going to be compliant with statutes and that AI isn't going to do anything odd or hallucinate," Thompson said.

There have been several published articles about generative AI fabricating information when it can't answer a question.

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Charles Potts, EVP and Chief Innovation Officer, ICBA

“There are no magic bullets,” Thompson cautions. “The first thing is to move to the business side and figure out what you are trying to do. But most people skip this step.”

The promise of what generative AI will be able to do for users is still in the future, Thompson added. “AI is starting over everything, but it will be a while before it does that.”

“Bankers, not technologists, need to lead AI acquisition and provide concepts for implementation,” according to Potts. “They know how banking works and understand which of these tools can be applied. Otherwise, you have technologists with AI tools trying to solve problems that may not exist within banks. They don’t have any actual intelligence experience about how a bank works. The gap between the power of the tools and the people who know how to use the tools is a real issue. It’s like the difference between putting a high-powered Formula One car in the hands of a skilled driver versus someone who has never driven before.”

“There’s been a lot of fearmongering going around and lots of assertions about AI,” Meara said, referring to the concerns over massive hallucinations and potential job losses. “I’m highly skeptical of both of those claims.”

“AI has advanced quickly in the last year, challenging financial and other technology firms to incorporate the benefits of the technology into their own solutions,” according to Stephen Curry, CEO of Endurance Advisory Partners. “While the largest financial institutions are already using AI to normalize data, correct data inaccuracies and to help operate back office operations, most smaller financial institutions are moving very cautiously in their uses of AI,” echoing the thoughts of several others.

“A lot of banks are trying to figure out how to use it to do practical things more effectively; today with AI while the broader applications are further refined; to give their own internal team members faster access to a knowledge base; and how to support customers more effectively,” Brantley added.

AI could help drive down the cost of core processing, according to Curry. “That’s something that all banks should be focused on when they are renewing or extending their agreements with their core providers.”

“While chatbots will never be a complete customer service solution, they can correctly handle more customer service requests with improved AI,” said Curry.

Similarly, while commercial lenders use AI for some basic processes, in the next couple of years, Curry expects the technology to be used to extract data from scanned documents, load that data into other systems, add a credit applicant’s historical financial data, then use analytics to compare that information against data from similar clients to better spot potential risks.

“Bankers need to continuously test, evaluate and monitor systems and practices to guard against bias,” said Potts. “As generative AI becomes more ubiquitous, its use by financial institutions will come under increasing regulatory scrutiny.”

However, to help those people, financial institutions need the data to understand the potential opportunities and risks. Digital, automated advice has been a staple of many providing wealth management advice for years, recommending rebalancing of assets each month, quarter or year and other investment advice.

While AI can help analyze that data, financial institutions still need people to make the strategic decisions, Benskin added. “AI doesn’t replace the relationship, it enhances it, and provides bankers with insights from their own data to better advise their customers achieve their goals.” This not only creates efficiency for both the banker and customer, but also frees the banker to advise customers about market volatility, trends, etc., and ensure that customers’ risk profiles are aligned with their goals.

Automated wealth advice is susceptable to the impacts large economic swings. For example, there was a tremendous sell-off during the early weeks of the Covid-19 pandemic, Benskin added. “If it was just up to a robot or a novice investor, the easy thing to do is to push the button and sell everything. But if you have a diversified portfolio, you think about things for the long term and hang in there. Then we had one of the strongest recoveries and bull markets that you’ve ever seen.”

Curry, who foresees AI becoming more impactful in investments, said, “I can see a future where you no longer trade by mutual funds; you buy a trading algorithm. Mutual funds are just going to be running algorithms. This is already happening, but consumers don’t know it. That whole industry has already been impacted by the evolution of ETFs. This could evolve even further with AI’s presence in the mix.”

In one of the more recent developments in this area, Praxent partnered with WealthBlock in late October to create custom digital experiences for those looking to raise capital.

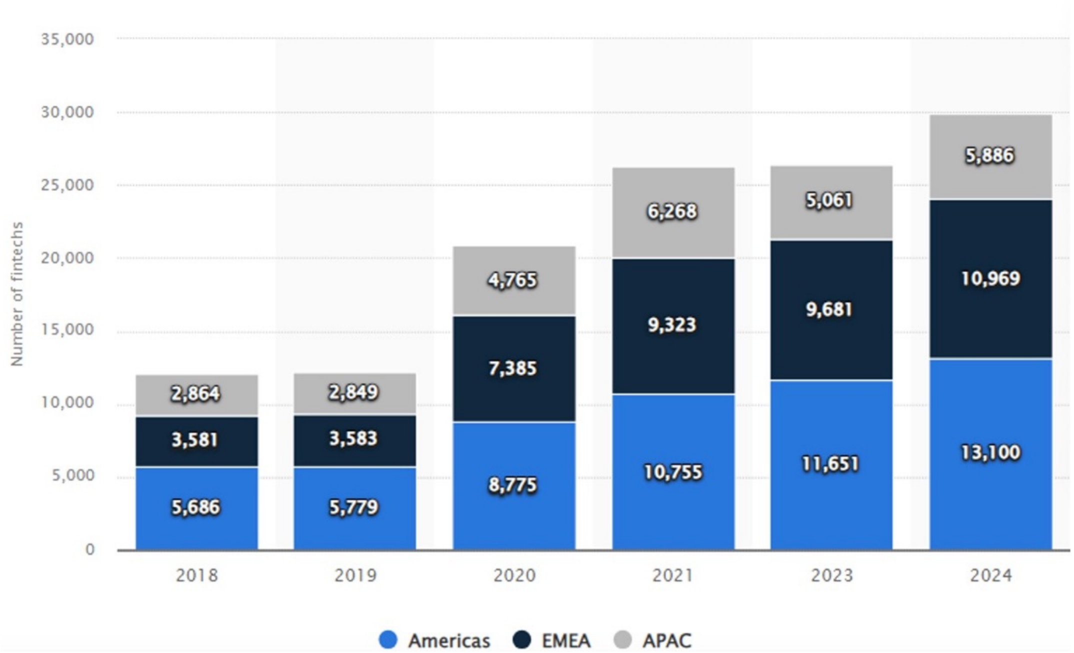
“AI doesn’t replace the relationship; it enhances it and provides bankers with information so that they can provide the advice to help their clients achieve their goals.”

David Benskin, CEO and founder of Wealth Access, Inc.

III. Fintechs

According to Statista, there were nearly 30,000 fintechs worldwide at the start of 2024, up from just over 26,000 a year ago and a little more than 12,000 in 2018. U.S. firms continue to dominate the industry, with 13,100 fintechs in 2024.

Number of fintechs worldwide from 2018 to 2024, by region



Source: Statista

"The maturity and engagement between community banks and fintechs has grown over the last 6-12 months," said Joshua Jordan, Jack Henry digital engagement director. "The successful engagements have come between financial institutions and fintechs that were filling bank technology needs. Filling those needs provided the fintechs with revenue, which became more important as venture capital left the market."

"Those fintechs that solve for the needs of customer primacy, non-interest income, or customer growth are getting more and more penetration into the community bank space," said Jordan. "I think we're going to see that continue."

Jordan also expects to see continued growth of fintechs offering certain wealth management capabilities, such as the ability to buy fractional shares of companies.

"It becomes incumbent on core providers, Jack Henry included, to be very dynamic and open to those fintech relationships," said Jordan. That means providing APIs or SDKs that fintechs can work with. "We have a strategy of not just considering banks and credit unions, but also fintechs as customers."

More than just providing APIs, Jack Henry's strategy is to collaborate with fintechs in providing their services to financial institutions, according to Jordan. Doing so improves the speed of innovation enabling banks to provide the benefits of the new technologies to customers more quickly.

"Banks need fintechs as well as core providers," Jordan added. "There are technologies we are developing and will deliver to market, but that does not include every feature out there; fintechs fill in the gaps."

"Fintechs have the luxury of taking a single piece of business, like an augmented mortgage application that revolutionizes the process by using a new piece of technology," said Best. "They don't have any technical debt or regulatory issues to start from."

"A few years ago it was more difficult to launch a fintech due to the data resources needed. But cloud infrastructure from AWS, Azure and others to provide the data processing power, security and scalability has made launching a fintech much more affordable," Best said.

Fintechs are getting involved in the data arena as well. In December, Praxent announced it was partnering with Ft. Lauderdale, Fla.-based Locality Bank to build a data warehouse and business intelligence system to streamline customer data.

"We are proud to build a solid centralized data foundation layer for this community banking leader, leading to stronger relationships and better business decisions," said Tim Hamilton, Praxent founder and CEO, said at the time of the announcement.

Though the technical resources are easier to come by, financing isn't, Major said. "There is declining investment from venture capitalists. Fintechs are under pressure to ensure profitability versus growth. Community financial institutions are under pressure to innovate, but there is also a very strong desire to ensure that you are partnering with the right people."

With venture capital leaving the market, some fintechs are "zombie companies," according to Nicastro. "They've continued to survive by slashing expenses, but to survive this year, they will need additional capital or will need to be acquired."

Financial institutions need to ensure the financial technology partners they choose are well vetted and set up for success, not just for the short term but for the long term, and that they're trusted advisors, Major added.

Some small companies can innovate more quickly than larger ones, but small fintech operators also need experience and the right relationships to be successful, Major pointed out. In the best partnerships, the banks and credit unions provide the financial industry experience and relationships, while the fintechs provide the innovation.

Yet establishing the right partnerships can be challenging for financial institutions, Major added. "That's where MDT comes into play. We're here to guide community financial institutions and credit unions through the process to help them ask the questions that need to be asked in order for them to be successful. You hear from a lot of fintechs that their systems are plug and play; that's just not true. Things have become more complex, requiring you to dive down into the integrations to figure out what is really going on."

Since those partnerships are challenging, some community banks wait for leading edge, larger banks to have success with a fintech before adding the technology themselves, according to Jordan.

"You hear from a lot of fintechs that their systems are plug and play; that's just not true. Things have become more complex, requiring you to dive down into the integrations to figure out what is really going on."

Peter Major, VP of fintech solutions of MDT

Major added that community financial institutions will need to rely increasingly on third-party partners like MDT to ensure fintech solutions work as expected.

Fintechs need advisors as well, Dr. Sassi said. "One of the big things that we've focused on is how to demystify selling to a bank." The company advises fintechs on privacy, security, compliance risks and other intricacies of partnering with financial institutions.

"The approach that I see is trending is the ecosystem actually vetting, facilitating and managing vendors," said Jeff Ostheimer, Strategic Resource Management (SRM) director of fintech advisory services, which helps financial institutions evaluate fintech relationships. "The ecosystems are putting pre-integrated, vetted vendors into those environments. That is a way to manage fintech relationships before deciding to go to best of breed, where they (financial institutions) manage the entire relationship from start to finish."

Ostheimer added that bankers should have strategic plans, policies, procedures and vetting practices in place before looking at fintech partnerships.

The marketplace offers several vetted providers with pre-integrated solutions for different types of fintech needs, added Mike Langenkamp, SRM director of resource management. Bankers need to avoid being impressed by "the shiny new tool," and looking at the functionality of the fintech technology, the vendor risk and price among other considerations.

The nimbleness of a financial institution's technology stack is important as well, Langenkamp said, cautioning against "spaghetti integration," with several different fragile, potential points of failure.

With proper vetting by the financial institution, fintech-bank partnerships can be very beneficial for both parties, though there have been some notable failures. The fintechs gain the business from the financial institutions, while the financial institutions can provide the benefits of the technology to their customers without their own in-house staff to develop and operate it.

Banks will continue to seek out fintechs that can demonstrate they can bring in additional business, Kilmer said. "The 'I have a great idea' fintech is much less likely to do well now."

Fintechs under regulatory scrutiny will be shunned as well.

The most successful fintechs are those that can draw in new business for financial institutions offering the solutions, according to Best. For example, remote deposit capture took off quickly once it debuted and quickly became table stakes for financial institutions. But, with the exception of the largest banks, financial institutions didn't have the resources to develop such a solution on their own.

"The compression of margins is putting institutions in a position where they not only are looking for fintechs that support their customers, but they're also looking for fintechs that support their back-office services," said Kris Kovacs, Constellation Digital Partners president and CEO. There is a growing number of fintechs offering solutions for account opening, and underwriting – especially for consumers and businesses without stellar payment records, as well as for automation of internal processes.

Ostheimer added that different pricing models are emerging, with financial institutions renting out some of their capabilities.

"Bankers are looking to process loans more efficiently, process irregular underwriting requests on a more consistent basis and for other solutions that will help them be more efficient," Kovacs said. "Everybody is trying to do more with less."

Brantley adds that the fintechs performing the best are those that engage with their financial institution partners over the long term, rather than simply selling a product or service.

"Treating your fintechs as an extension of the bank team to help you solve problems is one of the ways that financial institutions and fintechs are getting the best outcomes," Brantley added, saying that regulators frown on fintechs that are looking for profits, but not the subsequent responsibility.

"But ultimately, whatever fintechs a bank chooses to engage, their products and services must align with the bank's strategic priorities for it to be a strong partnership. If not, the institution won't get the return out of the investment," Brantley cautioned.

"Treating your fintechs as an extension of the bank team to help you solve problems is one of the ways that financial institutions and fintechs are getting the best outcomes."

Tyler Brantley, Core10 vice president of revenue and marketing

"What has made many fintech solutions successful has been that the providers went out of their way to add it to the mobile apps of financial institutions, it wasn't a secondary feature," said Best. "Beyond remote deposit capture, other fintechs that have been successful are ones that help financial institutions operate their front offices and back offices more efficiently, as well as some offering personal financial management tools."

"There have been a lot of innovations in fintechs over the last couple of years," said Alex Johnson, founder of Fintech Takes. "Fintech companies have built much better solutions for customers, whether those are consumer customers or business customers."

As a result, fintech firms have provided better value delivered to the end customer, according to Johnson. Some will try to make it on their own, at least initially. However, most of those fintechs cannot scale those products themselves, leading them to partner with financial services providers, rather than going it alone, though there are notable exceptions.

Half of all fintechs were profitable in 2022, according to McKinsey & Co. Banks have had success with fintechs in many areas, but sometimes even large financial institutions with large staffs to review potential partnerships fail to identify potential issues with the partnerships. The most notable example was JP Morgan Chase's $175 million acquisition of the student financial aid startup, Frank.

That failure highlights one of the challenges still facing financial institution-fintech partnerships.

McKinsey's research (also) shows that revenues in the fintech industry are expected to grow almost three times faster than those in the traditional banking sector between 2023 and 2028.

So carefully reviewing financials and other due diligence is critical, Ostheimer said. "Beyond the internal due diligence, leverage partners, such as firms like ours to help with the contractual commitments."

A communication plan covering different aspects of working with a fintech partner is also essential, Langenkamp added.

"Fintechs have had a harder time raising capital during the high interest rate environment, driving some out of business and moving some to consolidate," added Curry, who expects that trend to continue through the remainder of 2024.

Abrigo has been an aggressive acquirer of other fintechs. Among the most recent consolidations is CSI's acquisition of Hawthorn River, announced at the end of 2023.

In addition to carefully evaluating a fintech's financials, bankers need to ensure that they also have due diligence packages and ready responses during the initial negotiations, Brantley said. References from other bankers are also important, as are continuity/succession plans in the event the fintech is acquired.

ICBA has run an accelerator for community bank-focused fintechs for six years, providing an environment for fintechs to develop to the point they can have win-win relationships with financial institutions. Likewise, ICBA bank members can more easily enter into fintech partnerships with companies that are prepared to work with and are attuned to community bank challenges and opportunities.

In mid-February, ICBA announced the opening of its new Center for Innovation in Atlanta, establishing a permanent home for its world-class community bank innovation initiatives.

The site provides a permanent home for ICBA's Innovation team and programming, which includes its ThinkTECH Accelerator program, ThinkTECH Connect, Solutions Forums, webinars and other events designed to engage and advance community banking innovation.

Brantley credited ICBA for providing "some amazing guidance" when Core10 was part of the accelerator program.

Some larger banks use "boot camps" to prepare fintechs to work with financial institutions, while also providing the banks the opportunity to vet the technology providers and their solutions, according to Best.

"To be successful, fintechs need to offer solutions that financial institutions can tweak to meet their own needs," Moise said. "Most financial institutions don't want something that is out of the box. If they can afford it, they will tailor those solutions to meet their needs."

"The more tailoring, the more expensive the solution becomes," said Moise. "So, the most successful fintechs offer solutions that fit directly into the bank's architecture or that offer simple, non-intrusive configuration options. If the bank needs to customize the solution too much, it may not be able to easily upgrade to a new version of the solution when one is available."

"We advise fintechs and credit unions on what level of customization provides the best return on investment," said Moise.

"If a fintech solution isn't built on an open platform that allows for future adjustments, then it becomes a 'walled garden' to other solutions," Best added. In those situations, the solution may never become fully integrated with the bank's systems.

IV. Lending Systems

Interest rates are expected to drop in the second half of the year, which should boost demand for various types of credit, Barker said. “It’s the best time for an institution to evaluate its workflow, people, processes and technology. Doing so will show where improvements can be made, changes that should be made now before rates drop so that staff isn’t swamped by a sharp increase in business.”

With the expectations for a drop and a resulting increase in lending, industry experts expect a growing financial institution investment in lending technology to handle the expected influx of business.

Some lenders are upgrading loan origination and other lending technology now, Brantley said. “It’s encouraging that banks are expressing that they don’t want to get caught flat-footed again.”

“Those proactive lenders know this is the right environment to improve their lending technology so they can meet the demand when increased volume comes,” said Brantley. However, there are still those that will wait until the increase in demand actually starts.

Curry added that AI could help lenders accelerate digitization of mortgages so they can handle expected growth in demand without having to hire as many people.

Origence’s technology, for example, integrates document process automation for indirect lending, as well as leverages machine learning and AI to ensure all the necessary information is present for approval and funding. “The technology speeds loan approval and funding and enhances dealer-customer relationships, said Barker. “While the auto process still depends heavily on the dealership and involves humans, there has been a shift toward completing these purchases online. It’s important for credit unions to ensure they have the solutions necessary to support these preferences, as well as emerging car-buying models like direct-to-consumer.

“Innovative lending technology can help financial institutions profitably enter lending businesses they may not have targeted in the past,” according to Moise. “One credit union had successfully offered payday loans, using AI to process and improve requests within minutes. The benefits were two-fold: the credit union won additional business, and members weren’t exposed to predatory payday loan offers.”

V. Payments Technology

The payments arena continues to evolve, with the most recent change being the introduction of FedNow, the Federal Reserve's instant payment system, which launched in July. 2023 Just under 500 financial institutions had joined the FedNow network as of early February, according to NerdWallet.

The FedNow Service is a flexible, neutral platform that supports a broad variety of instant payments. The service provides interbank clearing and settlement that enables funds to be transferred from the account of a sender to the account of a receiver in near real time and at any time, any day of the year. Depository institutions and their service providers can build on this fundamental capability to offer value-added services to their customers.

According to the Federal Reserve, the FedNow Service is designed to maintain uninterrupted 24x7x365 processing with security features to support payment integrity and data security. The service has a 24-hour business day each day of the week, including weekends and holidays. End-of-day balances are reported on Federal Reserve accounting records for each participating depository institution on each FedNow Service business day.

FedNow and other advances in real-times payments will result in 15% of cross-border payments settling in real time by 2026, according to IDC. Best expects those developments to drive growth in the number of fintechs offering same-day payment solutions. "Real-time payment processing has always been a little bit outside of the reach of mid-sized and regional financial institutions, so they've always looked to outsource those things."

Real-time payments are still relatively new, so security precautions don't have a long history, Ostheimer cautioned. "Real-time payments equal real-time fraud."

"In the long term, real-time payments is going to have a huge impact on the industry," said Major, who recommends that banks and credit unions start by adding the technology to accept real-time payments.

Moise expects online account opening to evolve because too many of the current fintech solutions still require a prospect to go to a branch to complete the process. Customers want to be able to open a financial account as easily as they order an Uber or open a Netflix account.

> **"In the long term, real-time payments are going to have a huge impact on the industry...(it also means) real-time payments equal real-time fraud."**
>
> **Jeff Ostheimer, Director, Fintech Advisory Services, SRM**

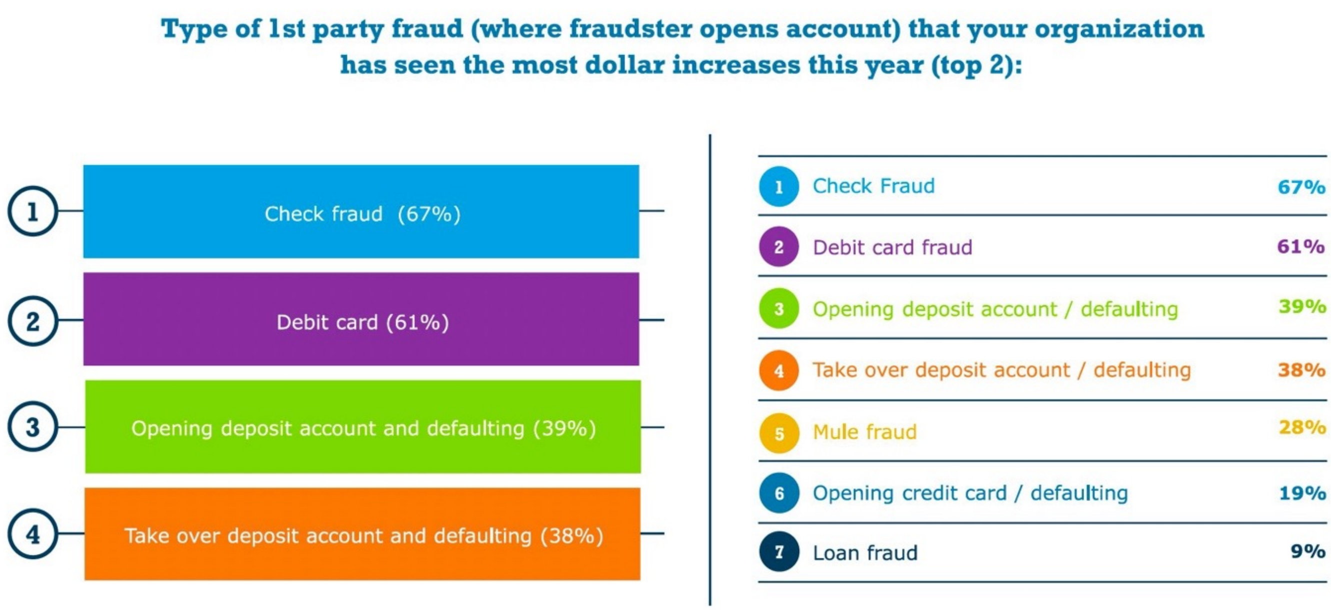
VI. Anti-Fraud Technology

Anti-fraud technology will rely increasingly on the latest innovations, like generative AI, to keep ahead of fraudsters, who are using generative AI themselves as well as non-technical social engineering to attempt to access account information to steal funds, identities, or both.

“AI-based systems are constantly learning, so they are adapting to new fraud tactics,” said Benskin. “As anti-fraud AI evaluates an increasing number of data points, it also becomes more predictive and accurate in recognizing fraud attempts. They can recognize connections between different accounts and transactions to recognize complicated fraud schemes involving multiple entities,” according to Benskin.

The fraud-fighting technology sits in the background, with customers only becoming aware of it if they are notified about a questionable transaction on their payment card or if a data breach has occurred.

Fraud that bankers cited as the most dollar increase this year



Source: BAI

Financial institutions reported more fraud occurring at brick-and-mortar locations than online, according to the Experian 2023 U.S. Identity and Fraud Report: "Preying on the good nature of helpful branch employees, criminals are taking risks by showing up in person to open accounts, pass bad deposits and try to work their way into other financial products."

The fraudsters continue to refine their technologies and methods, forcing financial institutions to do the same, Kilmer said. "These improved systems are being deployed at almost the same rate that they are being planned. Banks are treating these systems as urgent."

A related behind-the-scenes technology, but one that many customers are aware of is controls for payment cards, enabling the user to set notices for transactions over a certain amount, low balances, payments due, etc., Kilmer said. "That's where the banks have empowered the customers to protect themselves against fraud."

A quickly emerging area of fraud is the use of deepfakes – extremely realistic audio and video – along with AI-driven phishing schemes are increasing the sophistication of hacker attacks, so financial institutions and fintechs will be evolving their own AI-fueled solutions to battle the emerging threats, according to Best.

VII. Invisible Technology

Invisible technology sits in the background but is the oil that makes the visible technology operate as expected. Consumers and businesses expect financial mobile and online apps to work as smoothly as ones from Amazon, Google and other high-tech companies. If there is too much friction, it can drive a customer to a competitor, particularly for any new business.

"It used to be that functionality of the technology was enough," said Erin Wynn, executive director of product management for digital banking at NCR Voyix. "But in 2024, bankers are concerned not only about functionality, but also about the end user experience and the customer journey."

Banks want digital technology that presents data and web pages in a more user-friendly format, Wynn explained. "It's reframing functionality to be more like a human interaction, using terminology that a customer would understand and framing questions in a way that the customer would understand exactly what you are asking for. The terminology that bankers use isn't what the everyday customer uses."

For example, bankers understand what a MICR line is, but not most customers. So rather than asking for the numbers on the MICR line, it's more customer-friendly to ask for the numbers at the bottom of a check, or show the image of a check and highlight the needed numbers.

"It's what some people call humanizing digital," Wynn said, adding that banks should consider that ability when evaluating fintech solutions. "When you're evaluating technology, think about it from the lens of the user."

"To provide customers with applications that are more user-friendly, an increasing number of fintechs, like NCR Voyix, are establishing customer focus groups," said Wynn. "Banks could do the same thing. They all have customers who would love to share their opinions. Why not have a 5-10-member user focus group?"

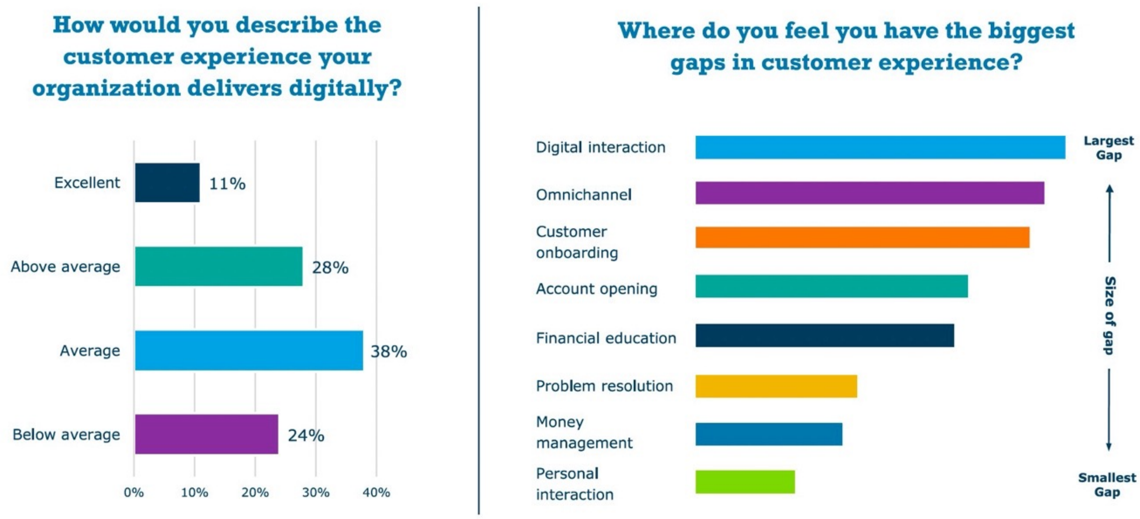
Banks are also looking for fintech technology that provides enhanced functionality, like account opening apps that include check and debit card ordering, offer transfers of direct deposits, etc.

"The invisible technology, when designed and deployed correctly is good at making more visible technology much better," said Kilmer. The more a system can complete data entry, the quicker the bank can add additional business. So if a customer is applying for an additional account, the system would complete the rest of the application shortly after the customer starts typing, similar to the way a consumer needs to add only the security code from a credit card that is stored in Google Chrome.

VIII. The Human Factor

The human factor is also important when evaluating chatbot and other automated solutions, Kilmer said. "The bank has to empathize with what are likely to be the next actions. That's why you are seeing the rise of the chief experience officer and similar leaders at financial institutions."

Largest CX gaps is in digital interactions according to bankers



Source: BAI

Yet Sawyers talked to one bank executive who considered closing branch drive-up windows, replacing them with interactive teller machines. As much as those devices have evolved, there are certain things they can't do. "People live in their cars. McDonald's derives more than 60% of its revenues from drive-through traffic. An ITM can't offer your child a lollipop or your dog a treat. You would be losing an emotional connection to the customer. Customers would perceive this as less service, not self-service. You could lose customers as a result."

However, ITMs in branches can help reduce staff and alleviate long lines, while offering customers the service of a human teller when necessary.

Similarly, while neobanks may offer a "cooler," more frictionless experience, they lack the people factor and associated trust of more traditional financial institution, Sawyers said. "That trust factor is weighted along with convenience when people choose a bank."

Benskin agreed, "One of the most important things about banks is the relationships that they have, especially the regional and community banks. They have to know the market and they have to be able to help people."

"Many successful financial institutions focus on particular market sectors, then add staff that specialize in those sectors," said Moise.

Barker agreed, though LOS, decisioning and other automated systems can process mortgages more quickly, banks need knowledgeable mortgage professionals to help guide prospective applicants when they are choosing among fixed and various variable rate options.

“People trust people; they don’t necessarily trust technology,” Major added. For example, when a deposit is missing, customers want to talk to a banker to resolve the issue. “People are going to rely on people for complicated service questions.”

Meara said, “Banks are moving very purposely toward architecting journeys that can and should be human-to-human without forcing customers to engage with bots.”

“People trust people; they don’t necessarily trust technology.”

Peter Major, VP of fintech solutions of MDT

Banks also need humans to help customers when they have difficulties using some of the newest technologies. Meara said screen-sharing is a valuable customer assistance tool, but one that some banks and contact centers have yet to employ. Conversational AI, particularly with “co-pilot” functionality on the agent side, can help as well.

Newer technologies can challenge veteran bankers as well. Cornerstone’s What’s Going on in Banking 2024 report cites finding employees with expertise in machine learning, conversational AI and generative AI as the top challenge for financial institutions for the next decade.

With indirect lending, account opening and other systems designed to provide the needed service without employee intervention, the financial institution needs to have the design sensibility to think through the potential approvals and rejections as well as how changes, like the increase in income in a loan application, will affect the decision tree, Kilmer said. The more smoothly that technology works, the less contact center or branch employees need to be involved in guiding a customer through the process and the more they can concentrate on generating additional business.

“Commercial lenders who have the best networks and contacts will become even more valuable to the banks that employ them,” Sawyers said. “People are still important, lenders are still important and the tech tools they are using are getting more sophisticated. Lenders just need everything to be linked in one continuous process to become more productive and competitive.”

IX. Importance of Diversity

Another important consideration with the human factor is diversity, which is an increasingly important factor when customers decide who to do business with, according to Elizabeth McCluskey, Director of the Discovery Fund for TruStage. “Over the past decade or so, consumers have experienced a proliferation of choice with respect to where they do business. You no longer you have to go to a Bank of America or Chase to open an account; you can increasingly go to a bank that specifically serves your affinity group. So whether you’re a woman, a person of color, part of the LGBTQ community or even Gen Z, there is a fintech or an offering from a mainstream financial institution that is catering to you.”

Financial institutions need to serve the needs of these diverse groups, McCluskey added. “You have to represent the demographics of the U.S. if you want to remain competitive. The leadership of the industry has to reflect the changing community of the U.S.”

Many firms in and outside of financial services have signed diversity pledges. Firms that sign these pledges and stick to them can draw additional venture capital, McCluskey said. “Investors are increasingly including this as part of their due diligence.”

McCluskey expects continued incremental progress in terms of diversity. Technology could help or hinder these efforts, particularly when it comes to lending. She cautioned that credit scoring and decisioning tools need to be stress-tested and monitored to ensure they don’t increase bias in credit awards.

“It is very important that financial institutions do their due diligence not only on the solutions that they are implementing; but also on the teams that have built those solutions. Make sure that they are mission-aligned and dedicated towards the same outcomes that you are.”

X. Contributed Articles

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Streamlining Cash Operations and Elevating Employee Experience for Improved Bank Performance

By Joe Alexandre, Vice president of Product Operations, Avivatech LLC

Despite the rise in digital payment options, cash persists as a payment method in the United States. Between October 2019 and October 2021, circulating currency in the United States increased by $423 billion, according to the Federal Reserve Board of San Francisco. Also, cash accounted for 20% of all payments and continues to be a primary option for a substantial portion of the population.

Even as cash continues to be a vital payment tool, handling it is a headache for banks. Branch managers manually count, log, and balance cash, which leaves banks vulnerable to safety issues and leakages of cash from criminal activity or miscalculations. As our economy faces headwinds concerning the economy, bankers must evaluate their cash management processes to save time and money.

The Challenges of Cash Management

What is often overlooked, or taken for granted in the cash management process, is the time it takes to move, count, and manage cash. Whether from the vault to the teller, teller-to-teller, or teller-to-vault, each time cash moves it must be counted and balanced. If even one dollar is missing, these mistakes can cause hours of staff time counting and recounting. According to a McKinsey & Company, Inc. report, cash handling costs are rising and are estimated to account for 5 to 10% of bank costs, even as cash use declines. Why? Cash distribution, maintenance, and processing require expensive manual labor.

Take a step back and look at the various stages for accurate and secure cash handling in the branch. Depending on the institution, a single branch will need to handle hundreds of transactions and teller-to-teller exchanges per day and, of course, opening and closing counts of cash. From cash vault to end-of-day tally, the process relies on the precision and accuracy of each count. Say your branch has a counting error. This single error from manual labor can add significant time to your staff's day. Also, manual cash handling is vulnerable to counterfeit currency, tracking errors, and theft – concerns that threaten a bank's short- and long-term goals.

Creating Efficiency for Better Staff Retention

Rising cost of living, record-low unemployment rates, and rising interest rates have created a complicated economic outlook. In light of these factors, assessing your technology budget and balance sheet to ensure your investment goes as far as possible is critical. There are many cash counting and handling processes that banks implement. However, these solutions often oversee one part of the overall cash management process because of the proliferation of hardware and software solutions. Banks also often have outdated technology, which is vulnerable to outages or cannot automate simple tasks. Harnessing technology can eliminate redundancies, automate manual processes, reduce labor expenses, and streamline workflows.

These changes also improve staff retention, a huge issue for banks. In 2022, the turnover rate for front-line bank staff was nearly 24%, and as of this year, job openings in financial services are increasing, according to data from the U.S. Bureau of Labor Statistics. In this low unemployment environment, eliminating inefficiencies and creating a positive work environment is a priority for those FI's looking to retain staff. Rather than counting cash by hand or dealing with an unexpected recycler outage, FI leaders should seek solutions that enable their tellers, front-line branch staff, and regional managers to worry less about cash management and focus more on customer experience.

Due to the uncertain economic environment, banks need to make tough, cost-cutting decisions. To meet employee needs, banks should transform each level of branch operations, especially in the cost centers, such as cash handling. Additionally, Forrester Research, Inc. predicts that banks are cutting costs this year but are investing in operational efficiency and aligning innovation around . Reimagining branch operations and improving the employee experience and bank operations through automated technologies can help unlock new workflows and solutions.

Fortunately, strategic investments in high-return technology with advanced capabilities can offer immediate benefits to banks. Automating labor-intensive processes and increasing cash visibility at the leadership level enables banks to save time, leverage scarce resources, and focus on creating unique customer experiences, while eliminating pain points and redundant work. As automation continues to replace mundane tasks, banks can optimize staffing levels and maximize profits, all while better serving customers. By implementing specialized technology to count, dispense, and manage cash, improve accuracy, and reduce the costs associated with manual cash handling, bank personnel can ensure they're using both procedures and technology that best meet their clients' needs with the greatest efficiency.

Joe Alexandre has more than 25 years' experience in product development. He has held leadership roles within the software product development life cycle in the retail, payments, hospitality and banking industries. Joe and his team are responsible for building and overseeing all go-to-market solutions. Living the Dream: Enjoys long runs in the early morning hours and spending time with family and friends.

Why You Should Sweat the Inverted Yield Curve

By Christopher Aliotta,
Co-founder and CEO, Quantalytix

Introduction: A Lesson from the Past

In 2006, I embarked on my career as a banker, freshly armed with insights from experts such as Nicholas Souleles of the Wharton School of Business. I read an article by him entitled "Don't Sweat the Inverted Yield Curve: No One Really Knows What It Means," which published shortly after the yield curve inverted for the first time in five years. In it, he quoted a Wharton finance and management professor as saying, "I think [the inverted yield curve] sometimes portends a recession, sometimes not." The general consensus of the article: economic activity looks positive, don't worry about the inversion.

Yet, within mere months, the world was plunged into the depths of the "Great Recession."

The Yield Curve Explained

The yield curve is a graphical depiction of interest rates for bonds of the same quality but varying maturities. A normal curve often suggests growth, while an inverted one frequently heralds a recession. It's a tool used to gauge market expectations of future economic activity.

The shape of the yield curve is often thought to reflect market expectations of future interest rates, and this idea is commonly known as the "expectations theory." This theory can give clues about future interest rates and economic activity.

Recent Developments And Their Implications

March 2022 marked the first yield curve inversion since 2019. Currently, the curve shows nearly a 100 basis point difference between the shortest- and longest-term rates, against a backdrop of the Federal Reserve significantly reducing the M2 money supply.

Unlike 2006, when bad credit underwriting and fraud ignited a recession, I believe the next downturn may stem from a banking liquidity crisis. Rising consumer debt, restarted interest accrual on federal student loans, burgeoning business costs and a fragile commercial real estate sector might fuel this crisis.

The Warning Signs

The most recent New York Fed Household Debt and Credit Report shows that student loan debt currently stands at $1.57 trillion dollars and total household debt rose by $16 billion in Q2 2023 to reach $17.06 trillion. The report notes that "Credit card balances saw brisk growth, rising by $45 billion to a series high of $1.03 trillion," indicating that consumers are in trouble.

Moreover, with over $3.2 trillion in loans linked to fluctuating short-term secured overnight financing rates, businesses now face substantially higher interest payments than in previous years. This escalation not only tightens available cash for investment and hiring but also strains operating budgets.

Compounding these financial pressures, the average price of electricity per kWh has risen sharply by 20-30%. This surge in energy costs threatens to drive up prices across the board, impacting food, goods and services, and placing additional burdens on both businesses and consumers.

A Stark Prediction

What this means is that banks are in trouble.

The financial landscape is currently riddled with warning signs that point towards potential liquidity issues for banks. An inverted yield curve, historically a precursor to economic downturns, suggests that short-term borrowing costs for banks could soon outpace the returns from long-term loans, squeezing profit margins.

Compounded by a shrinking M2 money supply, banks face challenges in lending and maintaining liquidity. Soaring consumer and student loan debts, coupled with vulnerabilities in the commercial real estate sector, further threaten banks with higher default rates and potential write-downs.

Businesses, strained by mounting debt and surging energy costs, are at risk of missing loan repayments, exacerbating banks' liquidity concerns. The recent collapses of major banks highlight the fragility of the sector, with the potential to trigger panic withdrawals and further liquidity strains.

This confluence of factors paints a concerning picture of the future solvency of the banking industry.

Reading Between the Lines

Don't be misled by pieces that downplay the importance of the yield curve. Such articles often overlook a critical point: An inverted yield is an anomaly. Its very occurrence contradicts the fundamental principle of the time value of money, which emphasizes the greater utility of possessing money now rather than later.

The collapses of Silicon Valley Bank, First Republic and Signature Bank may be harbingers of what's to come. The inverted yield curve might be warning us that more bad news lies ahead. I sincerely hope I am wrong, but the signs are troubling.

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

Leveraging AI to Strengthen Data Management and Customer Relationships

By David Benskin, CEO and Co-founder, Wealth Access

Artificial Intelligence (AI) has revolutionized the financial services industry and is poised to have significant, long-term effects on the role of bankers. Its transformative effects are evident in data management, optimizing how financial institutions (FIs) handle, analyze and derive insights from extensive datasets. By adopting AI technology to enhance data efficiency, banks can deliver personalized customer experiences and drive growth strategies across the institution.

Enhancing Data Analysis Capabilities

Accessing and analyzing extensive data sets can be an arduous and time-consuming process for bankers that diverts attention from revenue-generating activities. AI-powered software empowers bankers to vastly accelerate this process by conducting rapid analysis, recognizing patterns and extracting valuable insights efficiently.

The advanced technology not only fast-tracks data management but also enriches analysis capabilities by capturing data relationships often overlooked by human examination. AI can identify complex patterns and trends within account holder information by clustering similar data points. This allows bankers to garner comprehensive insights that enable enhanced customer segmentation. Real-time data insights and predictive analysis also enable greater anticipation of both current and future customer behavior trends, fostering a deeper understanding of customer needs.

By simplifying data operations, AI technologies overcome the limitations of traditional analysis methods, delivering insights that power bankers with a more holistic view of their account holder base and comprehensive analysis to better inform decision-making.

Driving Customer Relationship Success

Improved data management profoundly impacts the customer experience by enabling enhanced personalization capabilities and streamlined processes like expedited loan approvals, account openings and fund transfers.

Today's account holders value multi-channel capabilities when interacting with their bank – granting opportunities to engage through online banking, mobile apps or in-person exchanges. Effective data management ensures a seamless experience with smooth transitions across each channel without loss of context.

For example, suppose an FI customer is exploring lending options through a mobile app. In this scenario, AI software can ensure that if they transition to a web-based portal, their data automatically transfers to this channel, enabling them to continue their journey without interruption. Similarly, if the account holder chooses to visit a branch in person, the staff will be able to readily locate their account information and the dialogue in which they were already engaged to offer guidance on lending options.

Leveraging AI technology allows bankers to promptly resolve questions or issues during single interactions, which enhances overall customer satisfaction. AI streamlines access to detailed customer records, empowering support representatives to quickly understand and get a clear picture of the account holders' needs and then deliver relevant solutions. In place of human assistance, AI-powered virtual assistants equipped with customer insights can handle outreach inquiries on a 24/7 basis to enhance the institution's accessibility and responsiveness during off hours.

With deeper insights into each customer's needs and financial behavior, FIs can deliver tailored financial advice, customized services and targeted promotions that align with each customer's unique profile.

As another example, imagine the FI has an account holder who values sustainable initiatives. In this case, AI can analyze their financial behavior and preferences to offer relevant suggestions such as personalized investment recommendations focused on ESG funds or green bonds. Consistently meeting account holders where they are enables bankers to strengthen relationships and foster greater loyalty.

How AI Propels Banker Capabilities

Despite common concerns surrounding AI's ability to replace bankers, human judgment remains crucial for interpreting results and delivering personalized financial expertise. AI-powered technology instead amplifies bankers' capabilities by accelerating internal processes in real-time. This increases efficiency and offers FI leaders greater bandwidth to focus on increasing the bottom line.

AI primarily handles any routine activities requiring little manual intervention, which could include process automation and data analysis. AI-powered assistants can also provide automated financial advice using account holder profile insights; however, bankers must leverage those tools and their expertise to craft tailored financial plans.

Additionally, adopting AI empowers bankers to embrace forward-thinking strategies, quickly adapt to the shifting market and respond to evolving customer needs. This positions them to maintain competitive agility and intuitively conceive innovative financial products and services that can drive significant impacts within the institution and the industry at large.

Rather than eliminate the need for bankers, AI extends their capacity to address complex customer needs, cultivate meaningful relationships and devise strategic growth plans to propel the institution's long-term momentum.

Looking Forward

By leveraging AI-powered technology, bankers can tap into a wealth of data-driven insights, streamline and automate traditionally time-intensive data management processes, enhance customer relationships through tailored banking experiences and ultimately position the institution with distinct competitive advantage in the rapidly evolving financial landscape.

David Benskin is the founder and CEO of Wealth Access, Inc., a Nashville-based financial technology company launched in 2011. Under his leadership, Wealth Access empowers financial institutions to unify their account holder data to generate deep insights that power hyper-personalized banking and wealth management experiences.

Creating Digital-First Strategies: Five Principles for Banking Modernization

By Tyler Brantley, Vice President of Revenue and Marketing, Core10

In a rapidly evolving technological landscape, industry pioneers are consistently striving to uphold a modern digital presence. The approach should be two-pronged, focusing on both growing the business and satisfying customers. By leveraging digital strategies, CEOs can accomplish this while staying competitive and relevant in the banking space.

Drawing insights from the experiences of digital-first companies or leadership in formulating new business strategies can provide valuable guidance when contemplating how to modernize your banking tech infrastructure.

The following five suggestions are considerations for any Chief Technology Officer (CTO) or Chief Innovation Officer (CIO) looking to upgrade their current strategy to align with the demands of the digital era.

1. Customer Experience

First impressions are everything when a customer begins interfacing with a business. Their initial experience, especially in a digital space, will largely determine if they depend on and continue engaging with the institution. Providing customers with a seamless, personalized, and user-friendly banking platform can foster greater brand loyalty and sustained use.

Having more automated processes enables institutions to provide a better customer experience. CTOs should prioritize leveraging technology that can efficiently integrate systems, automate workflows and digitize all data to ensure a more intuitive environment for the bank staff and its customers.

2. Innovation and Technology

Initially investing in innovative technology, although it does involve considerable expenses, can be one of the most rewarding long-term strategies for banking CTOs. When considering enhancements, exploring options like API integrations, account opening solutions or digital lending technology can significantly bolster efficiency, security and data analytics.

Technology solutions that facilitate seamless integration between the bank's core system and key fintech partners are paramount. Ideally, the bank's loan origination system, digital banking platform, treasury management tool and CRM should work together for optimal efficiency and ease. Prioritizing investments in modern software and product development is essential to maintain a competitive edge in today's dynamic market.

3. Data Privacy and Security

Effective digital strategies should improve the customer experience and reinforce trust in the bank, rather than instilling fear regarding the safety of entrusting funds to the institution. It is crucial to address potential data privacy and security risks that may accompany digital solutions before you undergo a system upgrade.

Taking proactive steps to prevent any potential data leaks and safeguard the bank's assets and/or customer data will cultivate a positive experience and establish a trustworthy reputation for the institution.

4. Regulatory Compliance

In a banking landscape with rising regulatory scrutiny, a thorough understanding of laws, regulations and industry standards is essential for an effective digital-first approach. For example, he introduction of Rule 1071, required banks to collect and report more detailed data regarding small businesses and their owners. Having the necessary structures in place to ensure digital banking platforms and operations are compliant with these laws is essential to a financial institution's ongoing operations.

According to the "What's Going on In Banking" report from Cornerstone Advisors, fraud and cybersecurity are top concerns for bank executives. Non-compliance with regulatory standards carries severe consequences, impacting both banks and customers. Seek digital solutions that facilitate compliance without overwhelming their staff.

5. Managing Risk and Securing Business Continuity

Making prudent business decisions that mitigate risk and ensure business continuity is essential. Taking calculated risks to gain a competitive edge requires maintaining a keen focus on risk management, compliance and ensuring seamless business operations.

Understanding the potential impact of digital solutions on all aspects of the business is crucial. CTOs must possess a deep understanding of how all solutions interact within the tech stack and their potential effects on the bank's operations, as this will be critical for mitigating future risks.

Looking Forward

Being a successful bank leader requires dedication to advancing the interests of customers and ensuring the long-term success of the institution. Integrating new digital strategies and seeking innovative solutions to improve the customer experience can be an exciting yet challenging endeavor for the financial institution.

In transitioning to a digital-first strategy, leadership should cultivate relationships with a diverse range of fintech partners capable of fulfilling the needs of the bank and its customers. This collaborative approach fosters a holistic strategy that will enable the institution to better align with the ongoing shift towards digital delivery across all industries.

Tyler Brantley is the VP of Revenue Operations at Core10, a leading U.S.-based provider of lending, account opening, and BaaS products, as well as software development services. The company's Mesh middleware layer gives banks a flexible, modern infrastructure to connect their entire technology ecosystem with their core. Core10 also delivers the Accrue product, an omnichannel digital lending and deposit account opening solution to help elevate and streamline banking operations.

Disappointed in marketing ROI? Try Embedded Finance

By Dave Buerger, Co-founder and CEO, Union Credit

Millennials are the largest generational group in the United States, with an estimated population of just over 72 million people. However, most millennials, and the emerging generation behind them, Gen Z, don't bank with community financial institutions. Although community financial institutions offer competitive, seamless, and intuitive products and services, they aren't the first choice for younger generations. Why the disconnect?

The answer is simple: community financial institutions cannot compete with the marketing and advertising budgets of many of their competitors, so their superior suite of services is less often presented as a financial alternative to prospective customers or members.

How can consumers be expected to choose offers from community financial institutions if they don't even know they exist? To complicate matters, these institutions continue to engage in traditional marketing tactics like word of mouth, local events, or mail campaigns, which are time-consuming, expensive and show little results. According to a Union Credit client, the average response rate for their mail campaign is a slim 0.5%.

Meanwhile, digital banks like Varo and others are targeting Millennials and Gen Z where these prospects spend much of their time – social media, gaming, streaming services, etc. – acquiring not only their business, but also their hearts and minds.

To appeal to and acquire a new generation of customers and members, community financial institutions should consider investing in an embedded finance strategy. Some 80% of Millennials now do most of their shopping online, up from 60% in 2019, while 96% of Gen Zs in the United States reported shopping online at least once a month in 2023. Both demographics mostly use embedded finance to complete their purchases.

The banking-as-a-service (BaaS) model helps embed community financial institutions' brand into the minds of consumers by integrating credit options directly into e-commerce platforms. This brings competitive offers and rates directly to credit-worthy consumers as they shop at the point-of-sale, making them a viable financial alternative. Consumers don't have to leave the e-commerce platform to complete the purchase or go through their financial institution's online banking app. They simply need to select the community financial institution offer that best fits their needs and complete the purchase. This fast, simple, and convenient experience, appropriate for today's digital-savvy consumer, will make a remarkable first impression.

An embedded finance approach can be a less costly, faster, and more effective marketing strategy for community financial institutions, enabling them to extend their advantageous offers to consumers outside of their markets and reach new and younger audiences. This will help elevate their brand, increase loan volume, and truly compete and differentiate a bank or credit union in the industry. Most importantly, this approach allows the institution to still provide the personalized support they are known for, when needed.

This strategy can also reroute traditional banking in ways that can be more equitable, inclusive, and empowering for the customer. For instance, embedded engagement reveals to Americans in need of affordable credit necessary transparency into their own buying power while shopping. They're empowered to pick the best rates on offer for them and choose to accept or decline a loan offer for a product they need and already connect with. This is different from traditional marketing efforts, which might focus on offerings that financial institutions are trying to sell at a particular time, e.g., personal loans, credit cards etc., rather than directly linking finance to a product that prospective customers or members pursued on their own accord and are ready to drop into the virtual shopping cart.

The future of open finance lies in giving consumers easy access to information and opportunities that suit their needs, rather than requiring them to actively seek out their local financial institution and complete potentially lengthy and complex applications without guarantee of approval. Once they've acquired new customers or members through embedded finance, community financial institutions can then work on communicating the value of their products and services to help deepen and retain those relationships and increase their lifetime value.

Embedded finance presents a viable alternative to high-budget, less-effective campaigns via SEO or Facebook ads, for instance, or what many believe are outdated marketing tactics like mail campaigns that deliver little return.

Instead, embedded finance offers a reliable, efficient, and cost-effective solution that elevates community financial institutions' brand across different communities and audiences and increases loan volume. It also makes community financial institutions more appealing to younger demographics by offering a competitive financial alternative. Continually modernizing methods to meet consumers within the digital experiences where they spend most of their time is the best way to keep the community financial institution movement alive.

Dave Buerger is co-founder and CEO of fintech startup Union Credit, the first marketplace for credit unions to make firm offers at the decision of purchase. He previously co-founded CuneXus, where he served as CEO for over 15 years, and has worked within the credit union movement across several decades. Buerger's companies focus on providing consumer lending automation and loan acquisition technology to financial institutions and have been recognized for excellence in fintech innovation by organizations such as NAFCU, KPMG, Fintech Breakthrough, American Banker, LendIt (now Fintech Nexus), and more. For more information, or a demo of the technology, please visit https://www.unioncredit.app/

Building Relationships Through Successful CRM & Third-Party Integrations

By Lee Farabaugh Co-founder and President, Monarch Professional Services Group (Monarch)

Building relationships and closing deals are critical to the success of financial services firms and financial institutions, specifically in the areas of lending, treasury, and wealth management. The most efficient and effective way to build relationships is with software tools that streamline work and improve success rates. As technology continues to evolve, bankers, wealth managers, and lenders need to stay up to date with the latest software tools to remain competitive in their fields. Thanks to data providers and CRM tools, FIs can source and manage deals, analyze financial data, manage portfolios, and communicate and collaborate with team members.

With more financial services firms investing in software tools, many data providers find themselves overwhelmed by the numerous organizations wanting to integrate services with their CRM systems. With all these options, there is a critical need for integration services to help data providers quickly and seamlessly integrate new clients.

Low Growth for Deal Activities in 2024

In 2022 and 2023, global factors had a significant impact on economic growth. According to Goldman Sachs economics research, they expect global growth of just 1.8% in 2024 as we continue to navigate recession conditions and countries reopening after the pandemic.

Deal pipelines slowed last year, and we could see this continue in 2024. Amid inflation and rising interest rates at the end of 2022 and through 2023, banks slowed the process to all the deals they oversee thanks to increased due diligence. It is crucial for banks and financial service firms to establish strong relationships with their clients to lead to successful expansion of services for those clients, including increasing deposits. This is where technology comes in handy.

Your SaaS CRM and Single Source of Truth

Previously, many firms viewed their CRM platform as simply a tool to record company and contact information. They didn't fully utilize the platform's capabilities to extract valuable insights to make significant decisions. Now, banks and financial services firms are increasingly searching for a unified platform to manage their business operations effectively. Specifically, banks are seeking tools like DealCloud and Salesforce to streamline their relationship management processes and optimize their workflow.

For banks, CRMs are a reminder to connect with prospects and customers to uncover potential for new and expanded relationships. Customer interest, spending patterns, and other factors can lead to additional ways to meet retail and commercial customers where they are with new banking products and services, leading to increased revenue and deposits for the institution.

AI-powered relationship scoring is a powerful tool used in these CRMs to identify top-performing relationships. By consolidating and analyzing data from various sources, these CRMs help banks prioritize deals by aggregating all information into one place. This functionality, combined with AI assistance, enhances the decision-making process and helps firms and banks optimize their workflows.

Data providers and data analytics experts play a critical role in this transformation by easing the burden on financial services providers. By integrating their offerings with the CRM, data providers offer essential information that can help banks make informed decisions.

The Case for Connecting Your CRM With Data Providers

Many data providers offer subscription services that provide financial services firms and FIs with extensive data on customers, companies, personnel, and revenue. This data can then be integrated into the CRM platform to streamline lead generation and provide deeper insights. Powerful tools, such as Segmint, Lumio Insight, Accrue, Fintel Connect, and Digital Onboarding, provide critical data and analytics about bank customers, both retail and commercial. When this data is integrated into the CRM, it can become more actionable to help source and manage opportunities.

Your CRM should be your single source of truth. To maximize the use of the CRM, we'd recommend integrating third-party solutions like data providers to drive deal sourcing and management.

Here are a few things to look for when integrating a third-party solution to your CRM.

- **A dedicated team of API experts.** You want a team of API experts specifically trained to integrate and configure software to make your adoption process simple and smooth.
- **A build schedule.** No one wants to be on a waitlist for software solutions they needed yesterday. Third-party solutions who partner with integration service companies offer quick and successful implementations, leaving you confident with your integration.
- **CRM configuration capabilities.** Before building your integration, configure your CRM with admins dedicated to that type of service.

Integrating Your CRM and Data Provider

Don't sweat it if you don't have the bandwidth or expertise to build the integration between your CRM and data provider. Finding a partner that has extensive CRM experience, is well versed in regulation and compliance, understands FIs and financial services firms, and offers U.S.-based talent can be the key to building deeper customer relationships.

The demand for top software products is real. If your internal resources are maxed out or you need integration expertise, optimizing your SaaS implementation and integration is one solution that can streamline your business processes.

Lee Farabaugh is the co-founder and president of Monarch Professional Services Group (Monarch), a new division of Core10 that provides implementation and customer success services for leading financial service CRM and SaaS platforms. In her role, Farabaugh oversees operations, services delivery, community relations, business development, sales, strategic account management, and marketing.

How Strategic Planning Impacts Third-Party Risk Management

By Zach Duke, CEO and Founder, Finosec

In the ever-changing fintech and banking world, strategic planning can become the critical navigation step, cutting through the perceived complexities of innovation and digital transformation. This proactive approach goes beyond mere cost-cutting and operational fixes – it's about foreseeing the future and shaping it, particularly in the critical area of reducing risks associated with third-party collaborations.

Strategic Planning

Strategic planning acts as a guide for financial institutions (or any business) to achieve their long-term goals, preventing them from getting lost in daily challenges. It's essential for shaping the future of your organization, moving from being reactive to proactive. Benefits include better decision-making, team unity, and flexibility in change. Start by envisioning your ideal future – like painting on a blank canvas – considering what your business should ideally offer and provide. Here are a couple of areas to focus on:

- How should you interact with customers? What challenges does your team know about your customers that should be addressed? What feedback do you have directly from customers? Is your organization customer curious, finding ways to better understand the customer needs?
- What are the manual processes that your team leverages today? By empowering your team to get out of labor-intensive and time-consuming tasks can not only create efficiency but also expand the impact and perception of innovation internally.
- Tailor your strategic planning to fit your unique business and timeline, is it better to think years ahead or is next year enough? The farther out the bigger the change can be for your organization. By leveraging the ideal state in the future, it allows your team to get out of the current challenges and barriers and to truly be strategic.
- In the banking world, we have to keep up to speed on regulations and have documented governance, examiners are clearly focusing on third party risk management and finding ways to integrate these into your action plans going forward will have material impact on the strategy execution.

The Importance of Third-Party Risk Management

The Interagency Guidance on Third-Party Relationships: Risk Management provides a framework for financial institutions, underscoring the necessity of sound risk management practices. It highlights the significance of assessing, understanding, and mitigating the risks associated with third-party engagements, which are integral to maintaining operational integrity and achieving strategic objectives.

Aligning With Strategic Planning

Strategic planning and third-party relationships are intrinsically connected, especially as banks and credit unions increasingly rely on third-party technology solutions to execute their strategic plans. These partnerships allow financial institutions to leverage cutting-edge technology and expertise that they may not possess in-house, providing a competitive edge in the market. By aligning risk management with strategic planning, institutions can ensure that their objectives and resource allocation effectively address third-party risks. This alignment fosters improved decision-making and team cohesion, making risk management an integral part of the strategic agenda.

Actionable Steps and Best Practices

To integrate third-party risk management and address regulatory expectations into execution of your strategic planning, consider the following steps:

- Develop policies for selecting solutions and engaging with both solutions and third parties based on their risk profiles. Online Account Opening's risk is going to be different than a back office efficiency gaining solution like simplifying the review of user access in banking applications.
- Conduct tailored due diligence and ongoing monitoring of third-party relationships based on their risk. Does the solution have these capabilities? Financial transactions, access to non-public customer information, customer facing or back office, and of course, all of the well documented risks including: operational, compliance, reputation, strategic, credit, concentration, and legal risk.
- Review effectiveness of information security and cybersecurity controls. Over the last 12 months there has been a steady increase in attacks at third party service providers (and their vendors, i.e., 4th party risk) in the industry. Understanding and risk rating the impact to attacks like ransomware, data exfiltration, and even financial transactions need to be included. A great reference on ransomware risk is the updated Ransomware Self Assessment Tool from the Conference of State Bank Supervisors:

A Call to the Banking Technology Community

As banking technology providers we have a unique opportunity to impact the industry by understanding the regulatory expectations of our customers, and enabling them to be more effective and efficient at third party risk management. The TPRM guidance is a prescriptive guide for how we can proactively embrace simplifying the risk management and documentation. Some questions to think about:

- Who on your team has reviewed the updated Third-Party Risk Management Guidance? What has or should be implemented?
- How do you stay up to speed on additional examiner expectations like the expanded and updated authentication access guidance from the FFIEC? How do your customers report and validate that they are managing permissions to the least privilege? At Finosec, we are on a mission to make that process easier for both banking technology companies and financial institutions.

In the intricate dance of fintech and banking, the steps we take today lead the paths of tomorrow. Strategic planning allows us to streamline innovation and regulation with grace. We can craft a future where risks, particularly from third-party collaborations, are not just managed but mastered. Let's work together as a banking technology community towards a future where we create not only a robust defense against risks but also an environment where innovation thrives. Together, we can turn the complexities of today into the successes of tomorrow, ensuring our collective growth and continued relevance in the ever-evolving financial landscape.

Zach Duke is CEO and Founder of Finosec. Finosec's mission is to change the way information security and cybersecurity governance are managed in banking. Finosec's Governance 360 platform automates and simplifies the tedious manual processes and labor-intensive tasks of managing information security.

Empower Business Clients with a Modern Commercial Credit Card Solution

By Anil Goyal, CEO, CorServ

In the dynamic landscape of B2B payments, commercial credit cards have become increasingly indispensable for businesses. Commercial credit cards are sophisticated charge card products that have grown in demand by medium and large companies for their employee's expenses and vendor payments. Many community and regional banks don't offer this product in their treasury management offering and even when they do, it's typically not modern or full-featured to compete with commercial card offerings from the national issuers. As a result, most local companies tend to go to national banks or fintechs for commercial credit cards.

With the recent advancements in digital commercial credit card technology now available through CorServ, community and regional banks can leapfrog to provide the most modern and comprehensive capabilities to their commercial customers.

Enhanced Efficiency and Control for Businesses

Commercial credit card programs bring a whole new convenience to business customers. With turnkey solutions powered by modern technology, banks can launch and own credit card programs in 120 days or less without having to hire an employee or invest in implementation costs. CorServ enables community and regional banks to offer a feature-rich product to their business customers, where each business customer has internal business administrators that use a self-service portal to manage their accounts, including spend controls, virtual cards, fleet cards, employee-level credit limits, billing at a consolidated level or individual level and built-in expense reporting and appropriate approvals. Adopting commercial credit cards brings significant operational efficiency and financial control for businesses.

1. Expense Management: Commercial credit cards simplify the tracking and categorization of expenses, enabling organizations to gain comprehensive insights into their financial activities. With customizable spending limits and detailed transaction data, businesses can exercise tighter control over expenditures.

2. Streamlined Procurement: Purchasing cards streamline the procurement process by digitizing vendor payments and eliminating manual paperwork. Virtual and ghost cards enable secure and efficient electronic settlements, reducing the administrative burden associated with traditional payment methods.

3. Optimized Cash Flow: By providing access to credit facilities with favorable terms, commercial credit cards help organizations manage cash flow effectively. Flexible payment options allow businesses to optimize their working capital and seize growth opportunities without undue financial strain.

4. Cash Rebates: Commercial credit cards offer the ability to get rebates based on spend volume. These financial incentives not only optimize cost management but also contribute to the overall profitability of businesses.

5. Enhanced Security: With advanced security features such as single-use virtual card numbers and extensive spend controls, commercial credit cards mitigate the risk of fraud and unauthorized transactions. This ensures that businesses can confidently conduct transactions, safeguarding their financial interests.

Range of Commercial Credit Cards to Serve All Needs

CorServ's commercial credit card offerings cater to different aspects of business operations, providing tailored solutions for various needs:

Corporate Cards

Designed for medium and large companies, corporate cards offer flexible payment options and may include rewards programs. These cards facilitate expense management for business-related purchases and corporate travel.

Purchasing Cards

Experiencing rapid growth, purchasing cards are instrumental in streamlining procurement processes. They enable all types of organizations, including non-profits and municipalities to manage vendor payments efficiently, with features like virtual and ghost cards supporting electronic payables for invoice settlements. Additionally, the rebate feature provides a financial incentive for businesses, further optimizing cost management strategies.

Fleet Cards

Crafted explicitly for organizations with vehicle fleets, fleet cards offer specialized functionalities tailored to fleet management needs. These include mileage tracking at the pump and detailed transaction data capture, facilitating efficient monitoring and control of fleet-related expenses.

By leveraging the diverse range of commercial credit card solutions, businesses can optimize their financial management practices and position themselves for long-term success in today's competitive marketplace.

Banks Deepen Relationships and Earn High Profitability

Investing in programs that are going to meet their needs and add value to their banking experience will continue to build the trust and loyalty bankers should be aiming for. As a result of offering a modern commercial card solution, banks will deepen relationships in their communities. It is proven that customers who have more financial products with a bank show improved retention with more activity across the products leading to higher profitability. Many banks that use relationship data in underwriting for credit cards have higher approvals and lower loss rates. Furthermore, across all credit card products, commercial credit cards present the highest profitability for banks. Commercial card spend volumes are substantially higher in comparison to consumer cards. Higher volume combined with higher interchange rates result in high non-interest revenue for the bank. Since it is a pay-in-full, non-revolving product, commercial cards also experience significantly lower loss rates.

All banks should consider offering commercial cards in their markets to benefit the business customers in their communities and to enhance the value of their banking franchise. Local businesses look to their local banks to provide competitive payment products. CorServ provides financial institutions with industry-leading card-issuing programs nationwide.

Anil Goyal is the CEO of CorServ, a company that provides innovative payment card issuing solutions to banks and fintechs. CorServ's offering combines deep credit, compliance and marketing expertise with modern API-based technology to quickly build and manage a successful card-issuing program.

Capturing Deposits Through Bank-Healthcare Partnerships

By Jeff Grobaski, Founder and CEO, Epic River

In 2024, community bankers find themselves at a critical juncture amidst intense competition for deposits, exacerbated by the 2023 bank failures and rising interest rates. Despite bank leadership efforts to bolster interest rate resilience and enhance efficiency, the most urgent need for innovation centers around identifying and acquiring deposit accounts. Many bankers have identified increasing deposits within the rapidly expanding digital landscape as their top business priority for 2024.

Community banks today are challenged to effectively reach the right customer base to achieve results. Rather than competing directly with larger banks and agile fintech companies for deposits, smaller regional banks can explore growth opportunities by focusing on local community businesses, particularly within the healthcare sector.

Hospitals and healthcare facilities currently grapple with the challenge of effectively collecting payments on internal payment plans, presenting a key opportunity for community bankers to contribute to their own organizational growth, as well as the community's financial stability.

The Healthcare Dilemma

In recent years, the escalating cost of healthcare has emerged as a pressing concern for individuals, families, healthcare providers and entire communities. The financial strain experienced by patients often results in delayed or incomplete payments, with more than half of all medical bills typically remaining unpaid.

Many insured patients do not have enough savings to pay off average deductible costs. To assist with affordability concerns, many healthcare providers have implemented internal payment plans. However, these arrangements often fail to significantly lower monthly payments enough for a patient to afford their bills.

To ensure the financial stability of local healthcare systems, it has become imperative to make healthcare payments more manageable for patients. Finding a solution to this dilemma would positively impact both the patients' financial well-being and meet the fiscal needs of healthcare providers along with the communities they serve.

Fortunately, there is a symbiotic collaboration opportunity for healthcare providers and community bankers. By facilitating easier access to financial services and payment options for patients, bankers can harness technology to establish mutually beneficial relationships.

Finding the Mutual Solution

Community banks can play a pivotal role in alleviating the current healthcare financial strain by introducing patient lending options. By employing end-to-end digital lending systems, community banks can effectively extend financial support to local healthcare entities and enable providers to offer patients an affordable payment option, thereby reducing the risk of unpaid bills and ensuring a stable cash flow.

Patient lending empowers bankers with a valuable opportunity to enter the Lending as a Service (LaaS) market while also securing the financial strength of local healthcare systems. This partnership model yields several mutual benefits, such as increasing the community bank's deposit base, as well as uplifting the financial well-being of healthcare providers, their patients and the community.

To fully meet the needs of local healthcare providers, community banks must be able to offer a solution that:

- Improves the collection rate on hospitals' outstanding internal payment balances,
- Provides upfront or timely payments to hospitals, and
- Delivers services at minimal or no cost to healthcare providers.

While there is clear partnership potential, some community bankers may have concerns about lacking the staffing levels or in-house expertise necessary to seize this growth opportunity. However, fostering strategic relationships with fintech partners can mitigate these challenges. Leveraging fintech resources and expertise allows community bankers to smoothly integrate new lending technologies, improving back-office processes and operational efficiency. These vital relationships empower the bank to become more agile and better equipped to build strong healthcare partnerships and expand its footprint in the local community.

Growth Benefits of Bank-Healthcare Partnerships

Providing financial support and LaaS technology to healthcare providers not only enhances the financial resilience of local hospitals but also enables the bank to achieve sustained business growth. This initiative positions community banks as primary banking partners for essential local organizations and a crucial pillar of support for the community's economic health.

Additionally, the advantages of bank-healthcare partnerships for community banks can include:

- **Increased loan portfolio:** By working with healthcare organizations that serve large patient bases and possess a strong financial standing, community banks can significantly augment their portfolio with high-quality loans and gain an additional source of interest income.
- **New deposit relationships:** Community banks can extend their loan services to an expanded customer base through hospital partnerships. As more patients take advantage of the lending program, the bank will establish and nurture new deposit relationships.
- **Strong community business relationships:** By actively contributing to the stabilization and growth of local businesses, the bank increases the likelihood of community healthcare organizations expanding their partnership with the institution.
- **Contribution to community economic stability:** Patients are more likely to visit healthcare facilities when they can afford care. Attainable healthcare leads to increased service demand and, subsequently, steady revenue flow for healthcare providers.

Overall, partnerships between banks and healthcare organizations serve to benefit local hospitals and healthcare providers and enable community banks to act as key drivers of local economic growth and stability. Through these collaborations, community banks can further their business revenue by capturing more deposits, as well as strengthen their role as trusted financial partners and make meaningful impacts on the well-being of the local areas they serve.

Jeff Grobaski is the founder and CEO of Epic River, a lending-as-a-service platform provider that connects banks and credit unions with healthcare providers to streamline patient payments. Their unique offering allows providers to offload nonpayment risk by partnering with banks and credit unions to create low-interest patient loan agreements. As CEO, Grobaski draws on more than 20 years of experience in software development and product management.

Embracing Diversity: Keys to Delivering an Accessible, Inclusive Digital Banking Experience

By Denny Howell, Co-founder and COO, Mahalo Banking

The banking landscape is making increasing strides toward greater digital innovation, empowering credit unions to engage seamlessly with their members, deepen relationships and streamline all interactions. Yet, many modern banking solutions continue to overlook traditionally underserved member groups by failing to incorporate inclusivity measures.

Upholding the member-centric philosophy necessitates that credit unions ensure their technology can accommodate members of all backgrounds and offer a consistent digital banking experience for all. Credit unions that prioritize implementing inclusive banking solutions ultimately enhance member loyalty and create more meaningful member interactions, as well as attract new members.

To establish an inclusive digital environment, credit unions must start by evaluating their technology partners and identifying those committed to providing solutions that address the complexities of member diversity and its impact on digital platform engagement. Below, we will explore key considerations for credit unions when delivering an accessible, inclusive digital banking experience.

Member-Centric Design

Mobile banking was the preferred method of account access among 63% of consumers in 2023, highlighting the need for credit unions to provide a seamless, mobile-optimized digital experience. Embracing a member-centric approach is crucial in this regard, ensuring that the banking platform design is tailored to accommodate varying levels of technological proficiency among members.

A truly member-centric platform will cater to the tech needs of all users, providing easily navigable interfaces for those less tech-savvy in addition to advanced features for the more adept. Credit unions should ensure usability through clear navigation menus, visually appealing layouts, easy-to-read fonts, and a logical information hierarchy. This approach facilitates seamless access to financial information and simplifies account management tasks for all members.

Members should also have the ability to customize their experience, empowering them to enjoy greater personalization. This could include adjusting visual settings such as font size, color schemes and layout, as well as options to clearly define their financial priorities to receive tailored recommendations and relevant content based on their specific needs. Crafting this member-centric design lets credit unions create a more accessible, intuitive and efficient experience, ensuring all member needs are satisfied.

Accessible Functionality

Approximately 15-20% of the global population is affected by at least one neurodivergent distinction, such as autism spectrum disorder, dyslexia, generalized anxiety disorder and attention deficit hyperactivity disorder. Members who are neurodivergent or have cognitive distinctions often engage with digital platforms differently and may face usability challenges. Thus, credit unions must incorporate accommodating features to build accessible digital experiences for these members.

Moreover, a significant portion of the global population faces other disabilities such as colorblindness, visual impairments and epilepsy. Each condition affects individuals uniquely and differently, potentially impeding their interactions with digital interfaces. For example, colorblind members may struggle to see content on contrasting backgrounds, while dyslexic individuals could find it challenging to navigate platform fonts and animations.

The absence of technical inclusivity features to accommodate this diversity may pose issues for a credit union's membership base, potentially marginalizing neurodivergent individuals. Collaborating with fintech partners that offer accessible functionality allows credit unions to address these obstacles and deliver a pleasant banking experience that all members can easily use.

Multilingual Features

Credit unions that exclusively serve native English speakers limit their growth potential and overlook opportunities to engage and attract new members. While nearly 80% of Americans primarily speak English according to the latest census data, about one in five Americans communicate in a different first language at home.

As multilingual populations in the U.S. continue to grow, bilingual functionality is becoming more crucial within digital platforms. Latinos comprised 19% of the nation's total population in 2021, and this group has also been the largest contributor to the country's population growth over the past decade. Additionally, Latinos have been rapidly establishing small businesses throughout the last 10 years, surpassing their non-Hispanic counterparts by a remarkable 44% compared to just 4%. This trend underscores the pressing need for credit unions to adapt their digital platforms to better cater to the specific needs of Latino entrepreneurs and consumers.

To effectively serve this vital banking segment, credit unions must strategically position their digital offerings by implementing inclusive language services and providing comprehensive financial management resources tailored to the needs and preferences of Latino communities. Incorporating multilingual customization features enables credit unions to enhance their relevance among Latino consumers, as well as foster greater financial inclusion and empowerment.

Embracing Digital Banking Inclusivity

Providing an intuitive and comprehensive banking experience for every member is essential for credit unions to foster inclusivity in today's digital environment. Adopting this forward-thinking strategy helps credit unions retain and grow their customer base, while also sustaining their member-centric philosophy by meeting all members where they are and embracing their unique needs.

Denny Howell is the co-founder and COO of Mahalo Banking, a CUSO that provides online and mobile banking solutions for credit unions. He is an experienced entrepreneurial industry leader with a demonstrated 20+ year history of working in technology, services, financial and fintech. Denny is also skilled in analytics, strategy, UX, online and mobile banking, agile and process improvements and project management.

Leveraging Data-Driven Strategies for a Closer Look at Loan Affordability

By Tracy Huber, Director, Product Management - Mortgage, Verification Services at Equifax Workforce Solutions

Today's economic climate is fueled by high inflation, elevated interest rates and changing employment trends, casting a shroud of uncertainty over mortgage lenders. The challenge lies in expanding their lending portfolios and doing so without shouldering undue risks.

Elevated interest rates have created a lending environment where every dollar of income becomes more critical when calculating loan affordability. A borrower who purchased a $300,000 house in 2021 at a 3.75% interest rate would be paying approximately $1,400 per month for their loan payment. In 2023, however, a mortgage on a $300,000 house at a 7% interest rate would cost approximately $2,000 per month. This does not even take into account the fact that a home that costs $300,000 in 2021 would likely cost significantly more in 2023, which also creates higher down payment requirements for borrowers.

In navigating this complex terrain, a vital aspect emerges – loan affordability. When assessing a loan's affordability, the critical variable comes down to the debt-to-income (DTI) ratio, a comparison between a borrower's total debt and gross income earnings (pre-tax). The maximum DTI ratio for mortgage qualification can be up to 50% depending on qualifying factors, but financial institutions commonly prefer a more conservative DTI ratio between 43% and 35%.

Successfully determining loan affordability requires the adoption of a data-driven approach to income and employment verification. With this transformation, lenders can gain a clearer picture of borrowers' financial health while adding an invaluable tool to their arsenal for a better understanding of risk exposure.

The shifting sands of debt-to-income ratio

Calculating the DTI ratio is becoming increasingly complex due to tepid job market conditions, inflation and various other macroeconomic factors. The evolving nature of employment shifting towards the gig economy and/or part-time work has disrupted traditional income assessments, sometimes making it challenging for lenders to calculate a borrower's income. The growing potential for month-to-month fluctuations in wages compounded by inflation trends may cast uncertainty over a borrower's ability to stay current with mortgage payments.

Equifax Consumer Credit Trends data from April 2023 reveals an 8% surge in consumer debt compared to a year ago. Meanwhile, a recent study by the CFPB underscores that nearly 37% of households lack the financial cushion to cover expenses for more than a month, even with recourse to savings, loans or assets. These factors may further complicate the DTI ratio calculation for lenders.

Even with a 1% wage and salary increase from April to June of this year, the Federal Reserve's numerous interest rate hikes to temper the economy have led to additional affordability hurdles for consumers.

According to the Bureau of Economic Analysis, January 2023 marked the beginning of a year with fluctuations in consumer spending. Americans saved their income in May at the same rate last achieved in January 2022, a sign that consumers may be becoming more cautious.

Collectively, these data points highlight that consumer spending habits are unpredictable, which may impact loan affordability.

Affordability is driven by income

Income data is the baseline of information used to calculate the DTI ratio on a loan. Financial institutions employ a myriad of strategies to better understand an applicant's financial capacity to repay, encompassing sources ranging from traditional to alternative such as bank transaction data or consumer-permissioned data provided through third-party platforms or aggregators or consumer-provided documents (e.g., pay stubs, W-2s).

These approaches, while diverse, potentially expose lenders and consumers to heightened risk. Many third-party aggregators, when linked via bank transaction data, continue to use consumer data until the consumer manually disconnects the third-party from the account. The security burden of financial data storage could be a risk for lenders. Instead, lenders should consider using automated income and employment verification data from trusted sources to fuel loan term determinations while better mitigating risk.

In the past, a lender may have qualified a borrower on base pay alone, but affordability has become such an issue that some people are tapping their extra income, such as bonuses and commissions, to qualify for loans. It is therefore now even more important to verify all sources of the borrower's income to help make sure there are no surprises during the underwriting process.

Trusted data leads to better opportunities for consumers

Helping pave the path for borrowers to make informed financial decisions requires lenders to thoroughly understand the borrowers' gross spendable income and how much of it can be utilized in the mortgage payment. As lenders pivot to a data-driven approach in gauging borrowers' DTI ratios, they may also unearth more favorable credit and loan outcomes for these borrowers.

Homebuyer assistance programs have emerged as a promising path to homeownership for a significant segment of aspiring homeowners. Research from Down Payment Resource details that 33% of all declined mortgage applications were eligible for homebuyer assistance yet rejected due to insufficient cash-to-close or disqualifying DTI ratios.

This sizable share of potential customers spotlights a lucrative opportunity for lenders to increase volumes while supporting more borrowers in their journey to homeownership, and access to readily available income data facilitates the identification of these prospects.

A timely example that is growing in relevance is the rise of Gen Z as the next generation of homebuyers. Their financial behaviors set them apart, demanding lenders' understanding of their unique attributes and how affordability challenges intersect with their aspirations.

According to Rocket Homes, Gen Z aspires to homeownership, with 86.2% of 18-24 year-olds aiming for this milestone, and 45% seeking to own a home within the next five years. Despite their enthusiasm, challenges loom for Gen Z. The cohort's concerns include inadequate down payment funds (21.9%), house price affordability (18.4%), credit sufficiency (16.1%), and student loan debt load (10.5%). The use of automated income and employment verifications may help lenders better understand a Gen Z applicant's ability to pay.

In the ever-evolving economic environment of 2024, lenders are finding themselves in need of robust tools to expand their lending opportunities responsibly. Income-driven loan affordability determinations are foundational to better serving borrowers; this approach, underpinned by a nuanced understanding of the moving target that is DTI ratio, empowers lenders to navigate challenges and propel borrowers toward brighter financial futures.

Tracy Huber is Director of Product Management, Mortgage Service at Equifax Workforce Solutions. Tracy has over twenty years of experience in public accounting, mortgage lending and product development. At Equifax, Tracy is working to innovate mortgage solutions through elevated customer experience in the digital mortgage space.

Building a Best-in-Class Digital Lending Strategy: Key Considerations

By Aditya Khandekar, President, Corridor Platforms

Stepping into 2024, the financial industry stands at the brink of a transformative digital era with heightened customer expectations. Financial institutions (FIs) of all sizes face numerous challenges including rapidly evolving economic undercurrents, intense competition in the digital marketplace for good customers and rapid technological advancements including GenAI. Rising interest rates, credit stress and fear fueled by recent FI failures (e.g., Signature Bank, First Republic Bank) are creating headwinds in acquiring and retaining customers including higher deposit costs, especially for mid-tier banks.

Confronting these challenges means FI business strategies for 2024 must prioritize digital innovation as a baseline theme. Without this critical component, community and mid-tier FIs not only risk falling behind but also stand to lose significant market share to competitors already embracing digital transformation across front, middle and back-end operations.

Digital lending and sophisticated decisioning processes emerge as pivotal aspects of this digital transformation, offering streamlined and intuitive processes for loan discovery and structuring, quick approval and disbursement, along with proactive digital customer management for servicing post-acquisition. Embracing such robust digital solutions becomes essential for FIs looking to win customer deposits and assets, improve revenue and profitability, manage losses and compete effectively in the evolving financial landscape.

Advancing Internal Decisioning Tech to Compete Nationally

In today's digital age, FIs must embrace digital innovation due to increased consumer digitization, notably accelerated by the COVID-19 pandemic. Community FIs face a shrinking competitive edge, as consumers and businesses can effortlessly compare and evaluate deposit and credit offers from various banks online and opt for the one that best fits their needs. Well-informed digital consumers have a wide array of financial choices, a lower loyalty level to any FI and a desire to get the best deal across their customer journey (e.g., BNPL origination, mortgage refinance, credit card with a better reward program and higher limit). This should prompt FIs to re-think their past approach and rapidly adopt advanced decisioning technologies to win and retain customers. FIs need to be good at both offense and defense when approaching customers to win consistently.

Modern borrowers demand instant gratification, seeking better contextual offers, expedited approval processes and faster fund disbursement. To deliver upon these expectations, banks must elevate internal capabilities around infrastructure, leverage advanced analytics (specifically machine learning), use more contextual data at the point of decisioning and establish partnerships with fintech providers to drive growth at scale and compete robustly with traditional peers, as well as neobanks and fintech players.

Best-in-class FIs rely on real-time decisioning, automated approvals and strong workflow automation to manage digital lending lifecycles efficiently. More than 70% of FIs are implementing digital loan origination for personal loans to expedite processes and enhance borrower experiences.

Best-in-class digital lending offerings leverage configured technologies for a seamless end-to-end origination process, driven by digital front-end orchestration, CRM, sophisticated decisioning logic, and instantaneous backend fulfillment. Leveraging internal customer data is key here and banks can offer data-driven solutions, dynamic pricing, risk assessments and targeted cross-selling to transform the consumer financial experience.

Developing a Best-of-Breed Lending Strategy

Leveraging a strong digital lending strategy vastly streamlines FI operations, reducing inefficiencies while significantly expediting the credit approval and dispersal process. Automated underwriting and approvals enable FIs to offer real-time credit decisioning, ultimately enhancing engagement and providing the swift offers that consumers demand. Additionally, digital lending entails FIs to continuously monitor, test and refine strategies in real time using robust decision management tools, eliminating legacy lending hurdles, shortening time-to-market and reducing costs by automating manual workflows.

Harnessing the power of digital lending first requires FIs to examine the different aspects of their technological infrastructure. The easiest component to address is front-end enhancement by creating a user-friendly digital interface, which has become relatively straightforward with the assistance of fintech companies. More critically, FIs must also revamp decision-management capabilities to meet modern digital transformation demands, implementing sophisticated decisioning capabilities for rapid evaluation and approval of applications. However, shifting from manual decision-making processes to real-time automated analytics requires meticulous planning and thoughtful investment in the overall analytical and production workflows.

Lastly, overhauling back-end production capabilities is crucial for FIs to effectively manage the rising demands of digital banking interactions. With the surge in digital transactions, it is imperative for FIs to possess the essential production capabilities needed to efficiently process and manage each transaction.

Establishing a Strong Innovation Approach with Regulatory Control

Creating a robust digital lending strategy within the FI demands a strategic yet dynamic approach that progresses incrementally while maintaining momentum. The core principle of any successful transformation initiative is a methodical, step-by-step approach.

During the initial phase, it is imperative to focus on establishing foundational capabilities across digital processes and products. Prioritizing the execution of critical elements to create a Minimum Viable Product (MVP) will have the most significant initial impact, rather than attempting to address all aspects simultaneously. This concentrated approach allows for faster and more systematic implementation of additional processes and products as the transformation progresses and the FI earns some initial “wins.”

To establish a solid foundation, banks should prioritize enhancing their analytical pipeline with continuous testing of performance, particularly within consumer-centric digital products. Remaining competitive requires banks to match the agility and sophistication demonstrated by fintechs and larger institutions, concentrating on transforming digital products where they already hold a competitive advantage with consumers.

As FIs move quickly to bolster their digital decisioning capabilities, a parallel effort is required to make sure that governance and compliance rails at every node in the decision pipeline is carefully planned with control measures – a speed-with-safety approach. Banks must move quickly but avoid the regulatory sword by preventing missteps and leaky compliance.

Yet, a significant challenge lies in securing buy-in from boardrooms and senior management to prioritize this transformation. Recognizing the urgent need for change, allocating resources, and fostering the necessary momentum for change present considerable hurdles, which may require restructuring of roles and organizational structures. Achieving this digital transition will demand robust leadership from both the board and the C-Suite to propel the business forward and maintain competitiveness.

Looking Forward

The banking landscape, particularly in lending, has swiftly moved into the digital realm and will continue to evolve in this direction. Consumer demands have fueled competition, driving the need to offer intuitive, fast-paced digital innovation. The 2024 landscape demands a quick transformation of legacy systems and slow manual processes to rapid automated operations.

Embracing the advantages of digital lending requires cutting-edge technology, robust data and analytical pipelines and automated governance. FIs that neglect to digitize their operations risk falling behind as more advanced institutions seize deposits and loans at unprecedented rates. To stay ahead and win, FIs must identify core areas that require transformation, leverage established tools and platforms, build upon internal expertise and cultivate adaptable leadership prepared to navigate the evolving financial landscape.

Aditya Khandekar is the President of Corridor Platforms, a next-gen digital decision platform enabling banks to leapfrog to best-in-class digital decisioning capabilities. As a seasoned technology leader, he has hands-on startup experience in data analytics, strategy and technology, as well as AI-powered products and services. Khandekar's areas of expertise in analytics and technology span prospect marketing, customer management, fraud, credit risk and compliance and regulatory frameworks for AI-driven decisions in banks.

Driving Back Office Operational Efficiency

By Marcell King, Chief Commercial Officer and Head of Product Strategy, Tyfone

Community financial institutions (CFIs) have made great strides in recent years to improve the end-user experience, but account holders aren't the only users interacting with your platform. Back-office employees – the administrative teams, IT, compliance, accounting, settlements, fraud mitigation, and many more essential FI leaders – must be able to navigate the administrative side of the platform to handle internal projects and resolve account holder issues without running into technical roadblocks or manually correcting user data.

However, tech stacks are often siloed, separated into several distinct systems that don't communicate with one another, creating an inefficient system for taking care of business on the back end. For the back-office employees interacting with this ecosystem requires extensive time and manual labor, interfering with the larger strategic goals of improving operational efficiencies.

As CFIs determine their strategic objectives and priorities for the new year, leaders have the opportunity to automate back-office tasks and create a true end-to-end, seamless experience to enable employees to focus on the important things – the account holder journey.

There are a few tactics that can help strengthen the digital experience and drive operational efficiency for account holders and back-office staff through open Application Programming Interface (API) driven infrastructure. APIs enable connections between an FI's core, banking platform, and other fintech tools and empower data sharing between the various applications that power an CFI. With open infrastructure, CFIs can streamline and automate their operations – a key driver of efficiency (and priority for leaders for their strategic growth plans).

Eliminate Tabbing

Employees have an overwhelming number of tools behind the scenes of the account holder experience. Switching between these disparate tools for accounts and administrative systems to find the account information you are looking for is also called "tabbing." This constant tabbing between systems to complete tasks impacts both the staff experience and the account holder experience. Consider an account holder calling into their CFI to resolve an issue with their account. If an employee is constantly redirecting the caller to a different department or is prolonging the interaction by revalidating identification information, an account holder may become aggravated by the time-consuming exchange. This experience inevitably impacts the relationship and perception of the CFI and may result in losing an account holder if they don't feel satisfied or confident in your service. It is also highly inefficient and frustrating for your employees.

APIs make the process of interacting with a CFIs' applications more streamlined because the systems are communicating and sharing data. When systems are completely integrated, employees can then view all account holder information from one place and automate workflows as well. This way, if an account holder calls their CFI with a query, a single employee can resolve the request and provide holistic account holder support, avoiding the need for multiple identity verifications, time-consuming tabbing and improving service at the CFI. If the platforms aren't integrated, staff will have to rely on manual data entry, a time-consuming and inefficient task.

Drive Self Service

Many institutions want to drive more self-service to empower consumers to address their needs, at any time and from any place. The easiest way to achieve this is through building user-friendly, intuitively designed platforms. Account holders, especially younger ones, are expecting self-service options from their financial institutions, especially in the age of always-online banking: BAI data finds that 58% of Gen-Z consumers are mobile-centric and expect 24/7 service, advice and convenience from their institutions. Additionally, BAI's 2023 banking outlook found that the best way to improve banking apps across all age groups is access to 24/7 customer service. Driving self-service for both the end-users and back-end users allows for 24/7 banking and the ability for account holders to address their needs without needing to turn to a human first. One example includes AI-powered chatbots which allow your banking platform to address initial account holder queries digitally, improving efficiency for customer service representatives.

Dynamic Data Access

CFI staff rely on user data for audits and reporting. However, actionable data on how their users interact with their platform is a powerful tool in assessing your existing banking platform and identifying the opportunities to expand your account holder experience. It can be a challenge for staff to interpret anything meaningful from an infinite volume of raw data. Ideally, CFIs can leverage a single console with dynamically generated reporting features, allowing for access to your data at any time. This enables enhanced visibility into how users are interacting with your digital banking platform and its features.

With this information, staff can gain a clearer and more accurate picture of the account holders' history and complete transaction data and patterns. For example, analysis can help identify opportunities for deepening the account holder's financial relationship through a loan, credit card, or savings account, and employees can send personalized marketing messages to the account holder on their pre-approved product offerings.

Empower Employees

Back-office employees need the ability to quickly manage and support retail and business accounts as well as perform administrative tasks from a single system. When you focus on fostering an account holder's experience, CFIs can transition from building transactional relationships to investing in a deep, advisory role for their account holders, providing insight and more consultative services that today's consumers desperately need. Driving these efficiencies at the back-office level enables your team to concentrate on the bigger picture and your overarching strategic goals, directly correlating to better end-user experiences.

Marcell King is chief commercial officer and head of product strategy for Tyfone, a leading provider of consumer and commercial digital banking and payment services for community financial institutions throughout the U. S. He oversees Tyfone's product strategy and execution, sales, marketing, partnership and account management efforts.

3 Ways Managed Device Services Will Help Banks and Credit Unions Cut Costs in 2024

By John Manganiello, Director Project Services, Benchmark Technology Group

As industry veterans predict a year of mergers and acquisitions, many financial institutions are taking steps to improve their resilience and agility as they contend with reduced deposits and higher interest rates. Many of them seek to become more agile to take advantage of emerging tech and growth opportunities.

From an operational standpoint, technology strategy and device management are crucial to productivity. From an employee standpoint, very little defines a bank more than the effectiveness of provided hardware and software infrastructure. Thus, it's crucial to have comprehensive device management capabilities in addition to a flexible and forward-looking technology strategy. With this infrastructure in place, banks and credit unions can ensure that their employees and customers have access to the technology and support they demand while also minimizing downtime. Harnessing their technology (including hardware, software, and mobile devices), financial institutions can better address security and fraud prevention, while also providing a more robust online banking experience to their customer base.

In providing the enhanced solutions of today, now and into the future, financial institutions may face significant challenges with regards to maintaining inventory, asset management, and deployment of equipment, as well as supporting their hardware and software offerings. As a result, financial institutions can benefit from the expertise of a managed device services partner to address time-consuming logistics and support needs. Below, I discuss just a few of the advantages of managed device services.

Logistics and Installation Services to Bridge the Execution Gap

Many banks struggle to efficiently deploy new and decommission legacy hardware at their branches. During a merger, acquisition, or branch refresh, they may not have the required project management or technology skillsets to install solutions quickly and seamlessly. Additionally, a bank or credit union converting to a new RDC platform may not have enough help desk personnel to reach out to their thousands of RDC customers to complete software upgrades or coordinate the delivery of new scanners.

Ongoing labor shortages are limiting financial institutions' access to skilled technology experts. It's hard to find the talent needed to complete projects on time and on budget. As a result, critical integrations and platform migrations are delayed, which in turn impacts service delivery.

When banks and credit unions work with a managed device services partner, they can be assured that their technology projects are staffed with fully vetted and trained technology installers with the right skills and certifications for the solution at hand. They'll also have access to skilled project managers who will coordinate task completion in real-time and keep financial institution leaders abreast of progress.

Fulfillment Services to Keep Branch Personnel and Commercial Customers Happy

The increasing costs of equipment, labor, and shipping are making it more expensive for financial institutions to control their assets and distribution chains. Banks and credit unions often struggle to manage distribution chains and customer/user experiences.

This conundrum is particularly costly with RDC programs. RDC programs can boost customer retention rates, as RDC customers are more likely to use other treasury services and maintain higher deposits. These high-value customers expect convenient digital services when interacting with their bank. However, many financial institutions lack the systems to track and follow up on orders and ensure the correct equipment was delivered to the client/user on time. When faced with poor customer experiences—particularly if it impedes speedy deposits—RDC customers are highly likely to take their business elsewhere.

When it comes to RDC programs, a managed device services provider can take over the entire fulfillment process and keep the treasury operations manager informed with real-time status updates on orders as well as order history. A partner with robust capabilities can provide on-demand reporting and branded online catalogs or ecommerce sites displaying preselected products. They can also offer digital solutions so that users can schedule installations, request unit replacements, and get help desk support. Additionally, when the managed device services partner handles inventory needs at their own warehouse, banks can simplify logistics and reporting, as well as optimize shipping delivery time and costs.

A managed device services partner can help financial institutions keep branches outfitted with teller capture devices and other equipment, while providing the service and support branch personnel need to create excellent customer experiences.

By working with an experienced partner, financial institutions can tap into a well-oiled 3PL solution to benefit from economies of scale and ultimately reduce the costs of branch operations and boost both the customer experience and the profitability of treasury services.

Lifecycle Services to Maximize ROI on Technology Investments

Managing technology at different stages of life is challenging when you have limited technical staff. Warranties can go unused; equipment that could have been repaired might be trashed; opportunities to buy or sell refurbished devices can be missed; and sensitive data may not be properly safeguarded when equipment is decommissioned.

By working with a managed device services partner, a bank or credit union can gain better visibility into the value, performance, and health of deployed devices. With this information, and guidance from their partner, they can make informed decisions about their technology assets and achieve greater ROI. Additionally, your managed devices services partner can ensure your organization maintains security protocols and meets corporate ESG goals by managing the proper disposal of hardware.

Take Control of Your Devices in 2024

Lack of skilled technology personnel and ineffective processes and workflows can hinder progress and success, especially during challenging times. A managed device services partner can help your financial institution keep pace with innovations and navigate complex operational challenges. This partner, with their standardized deployment methods and proven processes and resources, might be just who you need to gain greater operational efficiency and agility in 2024.

During his over 17-year tenure at Benchmark Technology Group, Inc. John Manganiello has helped banks and credit unions of all sizes plan and pursue successful branch transformations. He works closely with bank leadership teams to architect comprehensive technology implementation initiatives that result in increased efficiency, productivity and facilitate growth. He also advises information technology executives on data governance, architecture and integration strategies to maximize their technology investments and assure alignment with their strategic objectives.

Prior to joining Benchmark, John held executive and technical leadership roles at various organizations, including one of the nation's oldest and largest banks.

Maximizing Engagement Through the Art of Effective Mobile Communications

By Sarah Martin, CEO, Pulsate

Throughout today's fast-paced digital world, the role and efficacy of mobile communication methods like push notifications and in-app messaging continues to spark debate. Are these alerts a gateway to high-touch, high-value communication, or are they merely intrusive and likely to be overlooked? The reality is that through mobile messaging, banks and credit unions can unlock the potential for creating personal banking experiences in the digital channel.

Like most industries, the landscape of modern marketing and sales has been transformed by the digital evolution, shaping not only consumer behavior but also the way people navigate their daily lives. As personalized service, convenience and ease have become paramount, mobile communications has become integral to those everyday experiences of consumers.

Unlocking the True Potential of Push Notifications

From updates on purchases and deliveries to reminders on bank balance limits, as well as the increasing popularity in Buy Now, Pay Later (BNPL) installment reminders, consumers have embraced these service-oriented notifications. Notably, the finance and insurance sectors continue to boast impressive push notification opt-in rates, reaching as high as 96% for Android users and 74% for iOS users.

In leveraging targeted information, such as unique customer and member insights and geofencing, financial institutions can provide a level of service beyond simple messaging. By offering concierge-style service and timely, relevant deals, many FIs are achieving remarkable results with hyper-local, hyper-personalized push notifications. These communications can range from something as simple as providing time-saving suggestions, like recommending a nearby branch or ATM with shorter queues, to more in-depth, personalized offers on loans for customers who may be currently shopping new vehicles at a specific local dealership.

By harnessing geofencing and consumer insights, banks and credit unions can create precisely targeted offers, aligning locations of high purchase intent with considerations such as credit scores and loan pre-approvals. This ensures the recipients receive the right offers at the right time, creating a seamless and personalized experience in their time of need.

Navigating the Pitfalls of Push Notifications

Even with all the potential benefits both push notifications and geofencing can offer, they each face some misconceptions. Privacy concerns lead some businesses to avoid location-based permissions, but research indicates that 70-80% of app users are open to granting such permissions to those trustworthy businesses with genuinely helpful offers. While often associated with privacy concerns as well, geofencing actually safeguards consumer rights, allowing customers to opt in or out while tracking their location only within specifically set and approved boundaries.

However, push notifications can tarnish a company's reputation if misused. Customers lose trust in companies that flood them with excessive interruptions, while sending the wrong message or too many notifications can lead to a decline in opt-in rates. Research suggests that in the U.S., 42% of smartphone users will adjust their notification settings if they feel inundated with too many push notifications, while 39% will disable all of an app's notifications altogether.

Advantages of In-App Messaging

Expanding on the effectiveness of mobile engagement, it is essential to recognize that in today's mobile-first environment, choosing the right delivery method is fundamental to effective communication. While push notifications play a vital role in capturing consumers' attention, in-app messaging can offer a much more nuanced approach to engaging users in a thoughtful manner.

In-app messages are best used for communication that is important, but not necessarily urgent. These messages appear when users log into their mobile applications, capitalizing on the moment when they are already thinking about the financial institution or their finances. In-app messaging is an ideal channel for delivering value-added content, like digital adoption and financial wellness tips, as users are more likely to engage when their mindset aligns with the content.

With onboarding, in-app messages can help FIs guide their customers to ensure they get the most out of their banking app. As users log into the app, these messages can direct customers to fulfill specific tasks to enhance their engagement, such as setting up alerts or signing on for eStatements.

Push notifications can also be used to complement in-app messaging as a strategic approach to escalating pressing requests more effectively. If a customer abandons a loan application before completion within the app, push notifications allow for a gentle yet timely reminder to finish the application.

A notable advantage of in-app messaging is that it does not require opt-in, reducing the perceived risk of overusing push notifications. Moreover, in-app messages have a higher likelihood of being seen and read since they remain accessible until the user logs in, ensuring the communication does not go unnoticed, even if the notification is not immediately addressed.

Mastering the Art of Effective Mobile Engagement

As with any powerful tool, mobile communications can be either friend or foe for financial institutions, but the choice between push notifications and in-app messaging depends on the nature of the message. Blanket, generic messages and impersonal offers are seen as only disruptions to most consumers, leading to poor engagement and even complete opt-outs. However, by delivering the right message to the right person at the right time, FIs can utilize the digital channel to transform these messages into an intimate, meaningful communication, fostering stronger relationships and inspiring the recipients to take action.

As with all communications, personalization is crucial for both push notifications and in-app messaging, going beyond simple name references to provide tailored outreach and offers based on individual insights. To truly cultivate stronger, lasting relationships and establish these as a welcomed and effective communication channel, FIs should create a strategy that includes:

1. **Transparent Communication:** Clearly articulate your intentions to dispel any sense of surveillance, emphasizing the use of customer data to tailor services and offerings.

2. **Conservative Frequency:** Limit notifications to important, timely messages that benefit account holders while avoiding unnecessary disruptions.

3. **Relevance and Value:** Ensure every push notification or in-app message provides utmost relevance and value to the customer or member.

4. **Explanation of Data Usage:** Use everyday language to explain how data will be used, and then adhering to these agreed terms.

With face-to-face interactions becoming much scarcer when it comes to banking, mobile messaging presents unique opportunities for FIs to maintain a level of intimate communication. By keeping account holders informed and providing personalized offers based on their unique, individual needs, banks and credit unions can establish deeper relationships with consumers, keeping them informed while turning their ubiquitous smartphone into a new point of contact and, for many, the new preferred branch.

Sarah Martin is CEO of Pulsate, Headquartered in Dublin, Ireland. Pulsate is a mobile-first, personalized member engagement platform enabling customers to optimize revenue and engagement through their digital channels with data-driven personalized, localized, and relevant mobile marketing communications. Pulsate works with 270+ credit unions and community banks reaching 20M consumers.

Prior to her role at Pulsate, Sarah founded Mamabud, an e-commerce platform facilitating direct business-to-consumer sales in China. Earlier in her career, she held key positions at Digicel and Unilever and earned an MBA and a Master's in Marketing from University College Dublin.

Seven Innovative Ways Financial Institutions Can Utilize AI in 2024

By Adrian Moise, Founder & CEO of Aequilibrium

For over a year, the rise of artificial intelligence (AI) as a driving force of innovation has been major news in financial circles. This excitement should be no surprise to anyone paying attention. Its ability to dramatically increase efficiency among various processes is undoubtedly cause for intrigue. Financial institutions are particularly interested in investing in AI-enabled solutions that improve efficiency. AI tools are especially good at analyzing data and providing informed predictions based on that data, but what are the best ways to utilize AI for banks and credit unions? AI technology is evolving rapidly, and its use cases in financial services will look drastically different next year. What do those use cases look like, and how can banks and credit unions implement them to improve their business?

1. Automation

As mentioned earlier, AI tools can process massive amounts of data in seconds whereas it may take a human several hours to process the same amount of information. Thus, AI technology is perfectly suited to automate tasks that financial institutions spend lots of time on. Document processing and customer outreach can be done in seconds, saving financial institutions massive amounts of man hours.

2. Decision-making

Generative AI models, known for creating tailored outputs from specific inputs, offer financial institutions the potential to automate decision-making processes. By setting predefined preferences and risk thresholds, financial institutions can leverage AI to streamline the initial stages of loan application reviews, reserving final decisions for human oversight. Put another way, humans can be augmented by insights as opposed to "data-driven" operations in which humans will become obsolete.

3. Predictive Analytics

AI tools can go further than automating specific tasks. AI tools can also look at the broader picture and perform deep analytics on the entire organization. AI technology can help bank and credit union leaders make informed decisions that help them grow their organizations. Banks and credit unions can use AI analytics tools to identify customer behavior patterns and predict market trends.

4. Compliance and Risk Management

Banking and credit union professionals are constantly devoting resources to ensure they meet all compliance requirements. Failure to do so can result in costly fines, so financial institutions spare no expense when organizing their compliance programs. AI tools can significantly reduce the risk of compliance breaches by automating accuracy in reporting and ensuring adherence to anti-money laundering (AML) and know-your-customer (KYC) regulations.

5. Security and Fraud Detection/Prevention

Security is also a major concern for banks and credit unions. As cyberattacks become more sophisticated and commonplace, financial institutions must invest in technology that mitigates risk and protects themselves and their customers or members. In the face of increasingly sophisticated cyberattacks, AI offers proactive security measures, detecting account activities around the clock and addressing potential threats instantly. Machine learning processes can also learn from previous cyberattacks and interfere before anyone's information is critically compromised. AI can also help credit unions identify unusual member activity and patterns that may indicate fraud.

6. Personalization

As competition between financial institutions intensifies, many banks and credit unions adopt a personalization strategy to stand out. However, that is easier said than done, and financial institutions must implement specialized technology to develop and propose personalized offerings at scale. AI solutions can analyze account preferences and demographics and generate customized offerings. AI technology can also help with marketing efforts. By processing the same kinds of account information, financial institutions can make informed decisions on how to reach their customers or members best. The personalization also leads to increased loyalty among customers and members, as their financial institutions are better able to address their specific needs.

7. Customer service

Generative AI is well suited for addressing text prompts, which many industries have utilized in the form of chatbots and virtual assistants. It is no less suited for financial services, but banking and credit union professionals can optimize its application to suit their industry. By integrating AI-enabled chatbots into their broader platform, those solutions can instantly provide customers or members with specific information by automatically accessing the requested information.

Banking and credit union professionals have utilized AI tools to increase efficiency for back-end processes, which helps increase revenue and ultimately reflects on the customer or member experience. However, AI technology can also enhance the customer or member experience more directly and concretely.

There are also three keys for integrating AI and other kinds of innovative technology for credit unions:

1. **Member-Centric Innovation:** Technology developers are leveraging generative AI to understand the needs of credit union members deeply. By integrating extended reality (XR) and AI technologies, vendors facilitate immersive experiences that enable credit unions to innovate and create products and services tailored to member needs. Additionally, there are tools that harness VR for employee training and onboarding, ensuring staff are equipped with the knowledge and skills to deliver world-class offerings that surpass conventional solutions. This approach enhances member satisfaction and loyalty by providing personalized experiences and expertise, ultimately driving superior business outcomes.

2. **Mission-driven Personalization:** Credit unions uphold a mission to serve the underserved and those with modest means. The right tools empower credit unions to fulfill this mission by utilizing generative AI to provide personalized financial advice to each member. Furthermore, XR technologies enhance the accessibility and effectiveness of this advice by creating immersive virtual environments where members can engage with financial concepts. Meanwhile, VR is utilized for employee training, enabling staff to deliver tailored advice and support efficiently. By offering personalized experiences and expertise, these solutions ensure that credit unions deliver on their mission, fostering financial inclusion and empowerment for all members.

3. **Enhanced Margins and Trust:** In a competitive financial services landscape, achieving economies of scale and optimizing margins are crucial. Many in the industry recognize the importance of leveraging technology to streamline operations and enhance efficiency. Through XR, AI, and VR integration, the right technology enables credit unions to absorb more work without adding more people and costs. Additionally, VR is utilized for employee training and onboarding, reducing the need for extensive in-person training sessions and minimizing costs associated with staff development. This approach improves margins and reinforces the trust credit unions have built with their members. By treating AI, XR, and VR with the same care as member relationships, industry experts can ensure that these technologies strengthen the trust between credit unions and their members, driving sustainable growth and success.

AI tools for financial institutions are still relatively new, and their development and implementation are sure to evolve in the coming months and years. Indeed, the coming AI innovations may likely outshine anything operating today. As AI technology evolves, early adopters among financial institutions stand to gain a competitive edge. Investment in AI today sets the stage for future innovation and customer and member satisfaction.

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Navigating the Future: A Blueprint for Financial Institutions in the Decision Intelligence Era

By Philip Paul, CEO and Founder, Cotribute

Financial institutions are at a crossroads, faced not only with the imperative to adapt, but also to revolutionize their approaches. The advent of Fintech 3.0 presents an unprecedented opportunity to transcend legacy paradigms and usher in a new era of innovation. Embracing the evolution, here are the fintech waves unveiled:

- **The First Wave: Fintech 1.0** – The genesis of consumer-oriented fintech, marked by pioneers such as Intuit Quicken and PayPal, laid the foundation for managing personal finances and streamlining transactions. This era heralded a departure from traditional brick-and-mortar transactions, introducing the world to online banking and the convenience of digital financial management.

- **The Second Wave: Fintech 2.0** – Building upon its predecessor, Fintech 2.0 saw the emergence of B2B and B2B2C fintech companies, offering specialized solutions to businesses. Categories such as Payments, Banking, Alternate Lending, Wealth Management, Insurance, Payroll/Benefits, Capital Markets, and Real Estate showcased a diverse landscape. Financial institutions focused on digital marketing, digital account opening and digital loan applications as ways to engage prospective customers. As leaders solidified their positions, the industry matured, setting the stage for the next evolution.

- **The Third Wave: Fintech 3.0** – In the third wave, the spotlight shifts to "Decision Intelligence," enhancing personalization and efficiency through cutting-edge technologies like artificial intelligence, machine learning, and intelligent integrations. This approach delivers an Apple-like experience not only to customers but also enriches the working environment for financial institution staff and developers. Unlike the previous wave's sole focus on customer experience, this new era equally prioritizes the well-being and productivity of employees (employee experience) and developers (developer experience) at large financial organizations. By automating mundane tasks related to compliance, fraud, and decision-making, the third wave fosters a more efficient operational framework, allowing all parties to concentrate on driving superior outcomes.

Moving away from the compartmentalized approach of the past, Fintech 3.0 revolutionizes the industry with a modular architectural framework. This innovation empowers financial organizations to swiftly launch and integrate a diverse range of financial products like memberships, deposits, loans, investments, and insurance. It's designed for agility and efficiency, enabling rapid market entry for new offerings. Moreover, this framework incorporates seamless integrations with essential services including Customer Identification, KYC, AML, Customer Due Diligence, ID verification, fraud detection, document collection, eSignatures, and various enterprise and core system integrations. This comprehensive setup not only fosters automation across these services but also supports rules-based decision-making, ensuring that every action is predictive, understandable, and auditable.

To pave the way for a future-ready stance, several critical priorities emerge. At the core is the customer experience, focusing on engaging customers within their existing digital realms. Just as Buy Now, Pay Later (BNPL) options are conveniently presented during online checkouts, financial products like deposits, loans, investments, and insurance must be seamlessly embeddable. They should not only integrate effortlessly into standard digital marketing landscapes but thrive within the unique digital ecosystem of the financial institution, which might encompass various partners as well.

In the realm of digital decision intelligence, Fintech 3.0 platforms serve as foundational elements, enabling financial firms to transform outdated systems into captivating digital solutions. Utilizing secure APIs and microservices, these institutions can weave together unique user experiences, paving the way for innovative business and revenue strategies. This strategy mirrors the groundbreaking influence of Amazon Web Services (AWS), promising to reduce expenses and simultaneously boost customer interaction.

As the financial services industry stands on the precipice of the Decision Intelligence Wave, organizations must not merely adapt but seize the opportunities it presents. This paradigm shift promises not only a competitive edge but a commitment to innovation that transcends the boundaries of conventional finance.

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Assessing Potential Fintech Partners

Maximizing each step in the innovation journey, including the fintech evaluation process, will set you on the path to a fruitful fintech partnership.

By Charles Potts, Executive Vice President and Chief Innovation Officer, ICBA

When it comes to innovation, understanding how we do it may be even more important than why. With technology upgrades and customer experience consistently ranking as chief priorities for community banks, there's no question that innovation serves as a strategic imperative. But the best tactical implementation approach remains uncertain.

In truth, the answer comes down to finding the right partner. And you'll want to maximize each step in the innovation journey, including the fintech evaluation process. Ensuring you have the answers to the following three questions will set you on the right path to a fruitful fintech partnership:

1. Does the solution resonate with a need at your bank? Many fintechs have flashy offerings, but if what they provide doesn't instantly solve a problem for your bank, it isn't an immediate fit. Prioritize deeper engagement with those companies that offer solutions that fit your business needs, address the challenges you face and provide the opportunities you're looking for as a bank.

2. Who within your bank needs to be engaged? Once you've been intrigued by a product demo, you need a deeper dive into the solution. Bringing in your internal subject-matter experts from day one will make it more efficient. Depending on the product, you may need technology leaders, marketing experts, risk and compliance teams, back-office operations, customer support representatives, and other team members engaged in the decision-making process, so loop them in early for the biggest benefit.

3. Who's using the solution, and where are the referenceable use cases? Even when you're engaging at the earliest stages of a new product, fintechs will have proof of concept and pilot examples. Lean on those references and reach out to peers who are using the solution. Those conversations will give you a better understanding both of cultural fit and where the pitfalls may lie.

These questions are a good starting point as you engage in vendor discussions, so the sooner you start, the more you can maximize your time. And with all-star events like ICBA LIVE and our ongoing ThinkTECH Accelerator showcases where alumni can demonstrate their solutions, these questions can help you take advantage of this rich programming and better prepare as you plan your innovation roadmap and journey.

In addition, ICBA's digital transformation education series, which is a part of Community Banker University and will be unveiled at LIVE, will provide guidance to support the next steps in fintech engagements.

This is the year of innovation in action. At ICBA, we've upped our innovation game, culminating in the long-awaited opening of ICBA's Center for Innovation—an initiative more than a year in the making with the promise to help drive community bank innovation.

We're entering the phase of implementation, where the question becomes not why innovate, but how. And in today's landscape, that's precisely where we need to be.

The Innovation Journey Continues in 2024

As I noted in a recent Independent Banker column, innovation will continue to be a priority in 2024 as viewed through the lens of some of the biggest challenges facing community banks. These include: the ongoing need for deposits, liquidity demands, risk management, fraud mitigation, compliance considerations and so much more.

Fortunately, what sits on top of these issues is the promise of new technology. Tools like generative AI—which was the top product category at Finovate Fall—can bring forward interesting solutions. While many companies are in the early development stage, this technology can and will help with account acquisition, risk mitigation and fraud prevention.

Case in point: BAC Community Bank in Stockton, Calif., worked with AI specialist fintech Agent IQ to develop better systems that benefited both staff and customers. The partnership helped the bank grow mobile engagement efforts through personalization, creating stronger relationships. (Check out episode 19 of the Independent Banker podcast for details.)

As we look to what's next, don't forget the lessons of the past. Community bankers have always shown remarkable strength and resiliency in times of uncertainty. This year poses a lot of interesting opportunities for innovation, but the work community banks have done and the opportunities they've embraced will set them up well for future success.

Charles E. Potts is executive vice president and chief innovation officer for the Independent Community Bankers of America® (ICBA). In this role Potts drives ICBA's innovation initiatives, and financial technology strategies, working with ICBA leadership to develop impactful, value-added solutions that help community banks seize new market opportunities to meet customers' evolving financial services' needs.

Check Fraud Continues as a Critical Issue in 2024

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

In 2023 44% of consumers wrote a check while 81% of businesses are using paper checks on a daily basis. Paper checks serve an important purpose as they provide the needed backup for auditors and two-party signature features ensure appropriate oversight and control. Despite the banking industry making the jump to digital processes, check fraud will continue to be a growing issue that the financial services industry will grapple with in 2024. Financial institutions encounter check fraud in three primary ways: counterfeits, forgeries, and alterations. While the use of physical checks is declining in the United States, check fraud has exploded and remains one of the most common forms of financial crime committed in the country, resulting in over $24 billion in fraud losses for banks.

Mail-related check fraud on the rise

In 2023, mail theft-related check fraud rose dramatically, with fraudsters targeting U.S. mail for checks of all types. In 2022, SARs (Suspicious Activity Reports) related to checks doubled compared to the previous year, reaching more than 680,000. This issue continued into 2023, with the situation getting so severe that the United States Postal Service (USPS), in collaboration with the Financial Crimes Enforcement Network (FinCEN), issued a nationwide alert warning financial institutions to remain vigilant against potential check fraud.

The Unites States Postal Investigation Service (USPIS), and FinCEN identified ten red flags to help banks better identify mail related check-fraud.

USPS blue mail collection boxes are prime targets for criminals seeking to steal personal checks, business checks, and Social Security payments. In the first half of 2023, over 25,000 mail theft incidents were from blue collection boxes. Fraudsters either break into boxes or use tools like fishing devices to steal checks and “wash” them. The postal service is solving the “Blue Box” issue by upgrading 49,000 Blue Boxes to dual factor lock access with a revised mail chute that eliminates theft. The ability to extract items from the Blue Box will diminish, meaning criminals will focus on channels such as Telegram.

Check washing is a process by which criminals use chemicals to remove ink from a stolen check and change the dollar amount and recipient name. Fraudsters also have moved to sophisticated means such as graphic design to make copycat checks for use in future schemes or sell them to third-party entities on the dark web or through encrypted social media platforms.

To prevent check washing, the Better Business Bureau recommends that consumers and businesses write checks with indelible gel black ink pens, which are more resistant to check washing techniques. Additionally, it is recommended that banks step up their internal controls and partner with third-party firms that mine the dark web for account information associated with their institution to proactively place stops and holds on compromised accounts.

A sense of urgency to move to real-time fraud detection

According to a recent ABA Deposit Account Fraud Survey Report, 49% of fraud occurs in over-the-counter (OTC) transactions. The ability to accurately detect fraud in real-time reduces loss and the reputational cost of customer offense due to false positives. In 2024, financial institutions will move to automate the analysis of check images at the point of presentment, providing transaction, image, and Bank Secrecy Act (BSA) and Anti-Money Laundering (AML) analysis. Real-time fraud transaction processing allows the financial institution to provide interdiction and instructional messages to frontline personnel, alerting them of suspicious activity. Automatic holds, warning messages, overrides, and transaction-denial capabilities allow financial institutions to protect funds.

Using positive pay to stem fraudulent activity

Financial institutions are fighting back on business fraud by selling Positive Pay services to their business customers. Unfortunately, it takes a check fraud loss by a business to feel the sense of urgency to sign up for Positive Pay services. While Positive Pay puts the responsibility of fraud mitigation on businesses, it ensures that financial institutions can proactively detect check fraud on a business account.

Traditional positive pay enables check fraud protection by positively matching and validating dollar amounts and serial numbers against information from issued-check files. In addition to the baseline service, there are several types of positive pay that banks offer, including:

- **Payee Positive Pay:** Altering the payee's name on a known, good check is a technique often used to defraud organizations. While the dollar amount, check number, and other details are being verified, the payee's name printed on the face of the check is automatically scanned, read, and matched against the payee information in the issued-check file.

- **Reverse Positive Pay:** A check fraud prevention method that presents all paid items to the corporate customer for self-service review.

- **ACH Positive Pay ACH:** Enables customers to create ACH debit blocks and debit filters, which the solution uses to evaluate ACH transactions. The solution also allows customers to add or remove ACH vendors or items in real time. The ACH solution also processes converted checks against the original issue information, generating alerts for altered, mismatched, or duplicated items.

By using positive pay, financial institutions protect themselves and businesses against fraudulent checks and electronic transactions, while also lowering costs and cutting down on the time needed to evaluate exceptions. Although many banks charge businesses for positive pay service, mitigating how susceptible a business is to check fraud is something every business owner should be prioritizing.

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

From Implementation to Invisible: How to Identify the Right Partner Beyond a Solution

By Tori VanCura-Rutland, Chief Growth Officer, HC3

The decision to outsource a function or task is often a difficult one. An internal review of current pain points (pushes) along with how the solution could solve these and scale with future bank growth (pulls) are some of the key criteria that must be identified. Even then, once they choose to outsource, the search for the right vendor partner begins. Many different solution partners often exist, so how does the bank select the right partner for their needs?

Evaluate the vendor by inquiring into their implementation process and not solely by reviewing their technology. The key is to ask the crucial questions early. Financial organizations must address the pain points and obstacles often accompanying a new implementation. It is easy to forget the implications of implementing new technology and processes.

Solution providers ultimately should become "invisible partners" working seamlessly in the background. Before then, it is vital to remember an old process will be going away. How can the new partner help connect the dots to ensure the result for the customer improves?

Before The Process Begins

Bankers may need to ask themselves some hard questions before they begin the search for a partner. This process will disrupt the current status quo. Is their organization truly ready for changes associated with an implementation?

Usually, the people making technology decisions differ from those who will have to work with the new solution regularly. Bring the day-to-day employees into the conversation early so they can provide insights about how processes work today while giving them a realistic understanding of what the implementation process will look like. They will bring a unique perspective that might trigger additional questions the decision-makers have yet to ask.
Here are two discussion-driving questions bankers can ask potential vendor partners to help decide which solution will work best for their organization.

How Do I Get From Point A to Point B?

The goal is to uncover as many pain points as possible and discuss how the potential partner will work with the bank to solve them. Every implementation is going to have challenges. Most potential vendors will only mention challenges during the sales process with straightforward questions from the bank.

Getting a good idea of the overall process will help prepare the bank for where issues may arise. Ask questions like:

- How does this new process pull data or connect to user information within the core?
- Are all processes automated? Does any human intervention need to occur?
- How does the vendor update the core to keep a single source of truth?

How Strong is Your Project Management?

Before bankers even have these conversations with a potential partner, they need to make sure they understand the technology and workflow changes that will happen. Similarly, ensure the potential partner understands the realistic impact those changes will have on the bank. Shared empathy and understanding will provide both partners with a better implementation process.

Vendors typically have their project management methodology. It is important to learn what that is and evaluate whether or not it will work for the bank's team. Bankers should ask questions like:

- Who does the vendor project team consist of?
- Do they outline a timeline of key deliverables and accountability?
- What are the typical challenges that stall similar projects?
- How does the vendor help the bank overcome these challenges?
- Can they provide a sample testing plan?

Good partners will create and communicate a realistic timeline with "drop dead" dates to ensure everything remains on target. Finding a partner that will be open and honest is priceless when it comes to providing a

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Top Ten Trends Impacting Bank Technology for 2024

By By Jimmy Sawyers, Co-founder and Chair, Sawyers & Jacobs LLC

"Look at all those chickens!" — Popular Vine Meme

Before TikTok there was Vine, and one of the more popular vine memes was of a little girl mesmerized by a flock of geese gathering around her, which led her to exclaim, "Look at all those chickens!" "Chickens" they were not, but the meme lives on and still makes me laugh every time I see it.

The meme reminded me of an old business fable about ham and egg breakfasts. **The chicken is involved, but the pig was truly committed.** Such is the case for bank technology ventures. A lot of eggs continue to be laid, but true commitment has been rare. As bankers crank up the due diligence requirements and regulators place renewed emphasis on third-party risk management in 2024, successful tech providers will have to show some commitment and sustainability. **Commitment** in the form of ownership and management having some skin in the game. **Sustainability** in performance and profitability for a solution that truly is in demand and solves a problem for bankers.

I'm optimistic that 2024 will be the year that true innovators make the cut and emerge as valuable solutions to help bankers compete in a market that demands world-class digital services but still values stability and trust.

To help bankers clearly distinguish the chickens from the pigs, I offer the following predictions.

Prediction #1 – The Robots Arrive as Artificial Intelligence (AI) Gains Unstoppable Momentum

AI hits the mainstream in 2024 and promises amazing productivity gains combined with unimaginable progress, yet AI is not without risk. Unintended consequences must be considered, and risk must be mitigated and regulated, but make no mistake—AI will not be stopped.

Microsoft's multibillion dollar investment in ChatGPT maker-OpenAI will birth more than just a few nifty computer tricks and productivity gains. Already being tested as Amazon warehouse workers, expect human-like robots to be the next evolution of AI. Bipedal and wheeled robots will become commonplace for industrial and domestic use. I've had my robot dog, Astro, for almost one year. He rolls around my place and serves as an excellent guard dog when I'm away, offering me mobile live views via my iPhone. More AI capabilities will be added to Astro in the years to come, increasing his utility and my usage of his services.

As noted in my 2017 predictions ("Artificial Intelligence will be the next big thing"), AI made its way into banking via Natural Language Processing (NLP) driven by virtual assistants and voice banking years ago and is now making strides in Robotic Process Automation (RPA) and machine learning. As an early adopter of Amazon Echo (Alexa, I love you!), I've enjoyed the convenience of home automation as well as quick access to information.

In the meantime, before the robots change the world as we know it, Microsoft Copilot and Google Gemini (formerly Bard) to name two AI apps, will bring AI capabilities to the masses and become part of normal work routines.

Hardware gets a boost not seen in decades as generative AI could triple the market for servers and semiconductors. The Rabbit R1 is essentially the iPod of early AI hardware devices, showing us how AI can be incorporated into our personal lives with these Large Language Models (LLMs). However, we've just scratched the surface of AI applications in banking and in our personal lives.

Watch out for many companies engaging in "AI washing," which means a company is overstating its AI capabilities and misleading customers and investors to believe that AI is used extensively in its offerings. "I used ChatGPT to create this marketing piece" does not an AI company make.

In cybersecurity, AI presents opportunities and threats: opportunities in that AI will allow more activity to be monitored and will help banks detect malicious traffic earlier and take action to prevent or contain breaches, and threats in that hackers will use AI to launch more sophisticated and complex attacks. Data integrity will be key as bankers scrub their data so it can be used effectively in AI applications.

Ready or not—AI is here. Smart bankers will devote research dollars to learning how AI can make their banks perform at a higher level. Are robot tellers on the near horizon?

Challenge Question: Is Artificial Intelligence evaluation part of your bank's strategic plan?

Prediction #2 – Microsoft's Significance in Banking Expands with New M365 Features

As more banks migrate their Microsoft applications to the cloud, we will see expansion of Microsoft 365 use as new features are added that promise to enhance employee productivity and bring Artificial Intelligence to the desktop with its new aforementioned Copilot AI offering. As Microsoft Teams has been greatly refined over the past year, we will see this tool skyrocket in usage and surpass Zoom as the videoconferencing leader.

Expect a few contrarian banks to attempt a move to Google, using the argument and buzzwords of "cloud" and "collaboration" as if Microsoft does neither and Google has the market cornered on both. Bankers should consider the pros and cons of such a risky and unorthodox move. I would not want to lose the new hot-shot commercial lender I just hired because my CIO is forcing her to use Google Sheets over Excel.

A good due diligence question for any provider is, "How do you make your money?"

Most of Google's revenue (approximately 57%) is derived from advertising. Microsoft, a more diversified company, generates its revenue from productivity and business processes, intelligent cloud services, and more personal computing, each representing about one-third of the revenue pie, with cloud services being the most profitable and fastest growing.

As with any major tech move, executive management and the board should require documented due diligence and a strong, formal written business case for the migration. Just taking the IT staff's word for it because "they know more about computers" is weak leadership.

Email, word processing, spreadsheets, calendars, chat, videoconferencing—pretty boring but critical applications for any business. Let's not introduce complexity and confusion where none should exist. Happy, productive employees plus satisfied, trusting customers are still a winning combination for profitability in banking.

Challenge Question: What is your bank's current utilization of Microsoft tools, and are your people trained to be proficient in the applications they use on a daily basis?

Prediction #3 – Zombie Fintechs Lose Their Brains (Funding) and Finally Die

I'm a big supporter of innovation, and I'm an advocate of banks partnering with reputable, stable, and marketable fintechs. But the same business rules apply. One must do the proper due diligence on the front end and the proper vendor management during the relationship.

Some bank and fintech partnerships are the equivalent of letting your wife's college boyfriend live with you until his bitcoin podcast becomes profitable. The resident party might not have the host's best interest in mind.

Two indicators of the tough row that fintechs and neobanks must hoe are the planned funerals of Marcus and Mint. After acquiring GE Capital Bank's consumer deposit solution in 2016, Goldman Sachs opened its digital bank, Marcus. Approximately $4 billion in losses later, Goldman is exiting the consumer banking arena. The Marcus website is still up, but it's not offering what it originally did. Goldman is also ending its Apple Card venture. Turns out, mere ownership of an iPhone does not constitute good credit. Imagine that! Goldman's net charge-off rate of 2.93%, compared to 0.76% at American Express, is an indicator of the subprime nature some of those loans represented. A large portion of Goldman's Marcus loan portfolio was sold at a huge loss. (Source: Fintech Blueprint, 12/4/23)

Intuit is shutting down Mint, one of the most popular Personal Financial Management (PFM) apps for consumers. While Intuit spins this as "reimagining Mint" and as part of Credit Karma, users who have poured their personal financial information into the Mint app will no longer have access as of March 24, 2024. Smart bankers learned long ago that the average consumer does not have the appetite for the accounting and discipline needed for PFM apps, a tech solution to a problem that doesn't exist nor is in demand. See my 2020 predictions on this tech time waster. Customers sign up for it, the bank pays the vendor monthly per user fees, but customers don't use it once they see the work required, and the bank gets no ROI for what is often a significant investment of time and money.

In 2024, bankers will be less fearful of being totally disrupted out of business by neobanks, most of which have produced rather anemic returns.

Varo, one of the only chartered neobanks in the US, lost one million accounts in 2023. To be fair, some were low-balance, inactive accounts (like the one I opened just to check the customer experience) and should be jettisoned. However, this could also be an indicator that starting a bank to serve people with little money to deposit and an inability to repay loans is not exactly a sound business plan for a bank.

It's hard to have a successful bank on interchange revenue alone (and that is 60% of Varo's revenue), so time will tell if Varo is the innovative bank it claims to be. For now, Varo is a well-capitalized, wildly unprofitable bank with no indication of sustainability. It continues to spend more money than it makes ($1.75 spent to generate $1.00 of revenue according to 9/30/23 FDIC efficiency ratio data).

Winning banks will leverage their traditional brands and learn they can partner with reputable and stable fintechs to do anything a neobank can do—only better!

Challenge Question: Does your bank require documented due diligence of new technology solutions and their providers, or does the IT staff have a blank check and carte blanche?

Prediction #4 – Service Trumps Technology as Core Evaluations and Migrations Increase

In the many core evaluation engagements we have with banks, our clients rarely convert to another core because of technological shortcomings. The most common reason for leaving the incumbent core is not a very technical issue: it's SERVICE. Complaints about lack of responsiveness, poor support, and a revolving door of account managers are often the reasons that compel bankers to go through the pain of a core conversion. In 2024, tech providers will realize that developing new applications without considering service and support is a short-term, losing game.

As a case in point and to borrow a customer service example from another industry, I travel frequently and am often on the move, so fast food is sometimes the only option to keep me fueled. Arguably, there are a lot of places to stuff fried chicken into my mouth, but Chick-fil-A dominates its markets and remains one of my favorites because of one thing—service. When lines get long at Popeye's or KFC, I don't see well-mannered employees with iPads and credit card readers taking my drive-thru order. Excellent service and reliable technology make for a "pleasurable" customer experience. Bankers take note. Customers don't care about the technology. It's not the chicken or the tech. It's the service, yet service is made better when the proper tech is provided to your people.

Bankers will continue to demand better service from their tech providers so bank employees, in turn, can provide better service to bank customers. One without the other is just a case of heartburn.

Challenge Question: When negotiating your bank's core contract, what service level agreements are in place?

Prediction #5 – Ransomware Attacks Increase as Bankers Learn That "Cybersecurity Theater" Is Not True Risk Mitigation

As noted last year, ransomware remains the top cybersecurity threat to all organizations but especially to banks, many of which are unprepared for the reality of such an attack.

Currently, banks benefit from the fact that less regulated (and sometimes less secure) organizations, such as municipalities and healthcare, are often easier targets, but that should not cause bankers to breathe easy thinking that their banks are less vulnerable.

The new year will see too many bankers still engaged in "cybersecurity theater" as executive management relegates cybersecurity preparedness to IT staff intoxicated by too-frequent phishing testing and other "style over substance" exercises that do little to mitigate the risk of ransomware attacks.

In our work with banks, business email compromise (BEC) incidents and ransomware attacks are still the most common cybersecurity incidents that lead to major financial losses at banks. BEC risk can be greatly mitigated through simple hardening of email systems and proper testing by a qualified and independent firm.

Ransomware attack risk mitigation is more complicated and multi-layered, with the most important exercise often being the tough discussion and what-if scenario of what bank management and the board will do when hit with such an attack. If the victim bank's first calls are to a public relations firm and a government agency, expect chaos and irreparable damage to the bank's reputation and legitimate questions about management's competence to handle a crisis. Bankers must face reality and seek advice and guidance from experienced firms, preferably in advance of any incident, so that the proper scenarios can be considered, discussed, and mitigated.

Delusion is not an effective strategy when it comes to cybersecurity preparedness.

Challenge Question: Are your bank's cybersecurity preparedness efforts truly effective, and have they been tested by an independent and qualified firm?

Prediction #6 – Bankers Co-Source with Trusted Experts to Complement Internal Teams

Community-based financial institutions are finding it harder each year to attract and retain IT talent. Some of these challenges can be attributed to years of outsourcing key systems and critical business functions that in the past provided training grounds for their operators and administrators. Like a major league baseball team that has a poor farm system, many bankers are not preparing rookie employees for playing in the big leagues someday, hence the talent vacuum.

Large banks can give people the opportunity to specialize in certain tech jobs, but the majority of banks (those below $1 billion in total assets) tend to develop people who are required to "wear more hats" and take on several duties. Yet, some tech employees, void of leadership and coaching, gravitate to what they want to do and not necessarily what the bank needs them to do. In recent years, this lack of clear direction has led to many "overnight" cybersecurity experts in bank IT departments who are watching screens instead of helping their fellow bank employees.

Let's face facts. If your CIO or IT manager truly were a cybersecurity expert, he or she probably wouldn't be working at your bank.

The ideal CIO in a community-based financial institution is a generalist, someone who can coordinate all the areas required to support the bank's business goals with effective application of technology and innovation. Wise CIOs develop a team of external resources, those experts who can be called upon for specific needs and special projects. It's often best to "rent" rather than "buy" such expertise.

As demands for diverse experience increase in banks due to needed expertise in cybersecurity, vendor management, strategic tech planning, network administration, risk management, and tech provider evaluation, expect bankers to assemble more external teams of trusted advisors to complement in-house players who are wearing the bank's jersey.

No one person can be expected to know it all or do it all when it comes to leading a bank's technology efforts. CIOs who try are committing career suicide. CEOs who allow it are not properly leading their banks.

Challenge Question: Who are the most valuable players on your bank's external tech team, and what roles do they play to help your people and your bank succeed?

Prediction #7 – Innovation Comes to Lending

It seems to make perfect sense to devote tech budget dollars to the business function that generates most of the bank's revenue; however, banks continue to throw money at technology solutions to problems that don't exist (read: PFM applications) while neglecting the lending area.

Expect lending to take center stage in 2024 as bankers work to coalesce all the current, fragmented lending solutions into a contiguous, integrated process that yields impressive returns.

Lending tech islands of decisioning, spread analysis, documentation, workflow, relationship management and money movement will be connected to bring long-awaited harmony to this critical function. Expect some of the new successful fintechs to be acquired by major traditional players to provide the bridge to this innovation. Banker scrutiny and proper vetting of lending solutions and their providers will balance the market and expose those who have over-hyped their offerings.

Leveraging AI in lending could really blast banks into a whole new world.

Is your lending function a cobbled-together mess of disparate systems that confuse and frustrate, or is it a streamlined process that customers love and lenders leverage? Few if any banks have a completely integrated lending process. Most banks must still depend on many systems to make a loan. However, innovators are working to fuse the lending function with new systems and better business processes.

Challenge Question: From application to servicing, is your lending process operating as desired?

Prediction #8 – Banking as a Service (BaaS) Tanks as Regulators Finally Step in and Step up to Protect Bankers from Themselves

The chickens let the fox into the henhouse and are now surprised the fox is broke and not paying rent on time. More disturbing, the fox has also introduced risk (e.g., Bank Secrecy Act issues) to the formerly peaceful and profitable farm, and the chickens now wish they had performed more due diligence before engaging Mr. Fox.

Such is the case with some Banking as a Service (BaaS) relationships where bankers, often inspired by a shill on stage at a conference at a nice resort, have invited the very people who want them out of business into their traditional banks where they are now providing core and debit card processing services to what could be classified as fake, largely unregulated banks.

Despite helping some core providers and consultants increase revenues, the BaaS experiment has brought regulatory enforcement to some of the banking leaders in this niche. According to S&P Global Market Intelligence, BaaS banks accounted for 13.5% of all severe enforcement actions issued to US banks in 2023.

If you've read my predictions from previous years, been in my banking school classes, or heard me speak at conferences, you know I've advanced a few unpopular opinions on the blind trust many bankers have put in fintechs as well as the "drink the Kool-Aid" mentality of some who get persuaded to provide core and debit card processing services for the very fintechs and neobanks that are vying for their market share. Sadly, independent and objective advice is rare these days, and even rarer is the ability for some to distinguish the charlatans from the trusted advisors.

By the way, Banking as a Service is nothing new. Most community banks were processed by their correspondent banks back in the 1970s and 1980s, but the advent of midrange computers and later client-server-based systems helped these community banks cut the cord of dependence from their large-bank brethren and usher in a new era of innovation of nimble operations.

"A swift kick in the BaaS" fad will help stabilize the banking industry and reward traditional community bankers who have the wisdom to focus on tech solutions for their bank, its customers, and their communities—not the parasitic companies that bring unnecessary and unprofitable risk.

Challenge Question: Are you leveraging your bank's reputation of trust and high performance to innovate and improve the customer experience and profitability, or is your focus on providing processing services for companies trying to put you out of business?

Prediction #9 – Risk-Tech Management Gets Redefined

Banking isn't getting any less risky, hence the need for effective risk management at all levels. As innovation outpaces regulation, we are now seeing regulators catch up to the market and lower the hammer on certain areas, notably third-party risk management and cybersecurity.

Many bank-fintech partnerships are mutually beneficial and help both parties succeed. In these cases, there has typically been proper due diligence performed by the bank, a strong, formal contract (drafted by a qualified attorney) exists between the two parties, and measurable performance by the fintech. Vet-contract-perform (VCP). These fintechs tend to have good leadership with a healthy work ethic, not just a parasite with a get-rich-quick mentality.

Third-party risk management (i.e., vendor management) is only one part of a bank's overall risk management program, but it is an increasingly important part these days. Expect bankers to step back and review all risk management functions for effectiveness, from risk assessment models to business processes. The time has come to apply innovation and critical thinking to risk management.

I remain bullish on bank-fintech partnerships that follow the VCP formula. In 2024, expect bankers to get more formal when entering into such agreements. Otherwise, to paraphrase Benjamin Franklin, houseguests, like fish, begin to stink after a period of unprofitability, underperformance, and broken promises.

Challenge Question: Have you taken a fresh and holistic look at your risk management programs to determine if they are truly creating awareness and mitigating risk to an acceptable level?

Prediction #10 – Strategic Technology Planning Becomes More Critical as Finite Resources Force Bankers to Pick Their Battles

Today's tech choices can be overwhelming. Follow the herd or break away? Listen to biased sources who are salespeople-in-disguise or seek independent advice? Risk your bank's reputation by choosing the wrong solution?

Sorting the players from the pretenders is not getting easier. Assessing your bank's past and current tech performance as you chart a path to the future by defining where you want to go and how you get there is a valuable exercise that brings focus to complex decisions.

Many bankers have not gone through a strategic technology planning post-pandemic, but it's time they did so. To be competitive in a world that is forever changed by digital apps that allow us to order groceries, bankers must listen to their customers and their employees to map out a tech strategy that keeps their banks relevant.

Challenge Question: Does your bank have a formal strategic technology plan that keeps your team focused and moving forward?

Summary

Sir Arthur Ignatius Conan Doyle, creator of the character Sherlock Holmes, said it best: "Once you eliminate the impossible, whatever remains, no matter how improbable, must be the truth." In 2024, bankers will find truth in technology as the "impossible" is eliminated through due diligence and continued innovation for tech providers who are committed to helping bankers improve the customer experience, employee productivity, and risk management. Take care of those three areas and profitability and high performance, along with that other important factor—truth—follows.

Here's to a new year full of innovation and mutually beneficial bank technology provider relationships.

Jimmy Sawyers is Co-Founder and Chairman of Sawyers & Jacobs LLC and is one of the most independent and informed voices in the industry. For more information, visit sawyersjacobs.com, call 901.853.1000, or email jsawyers@sawyersjacobs.com.

Digital Lending Leaders Should Always Be Prepared for a Liquidity Crunch

By Danielle Sesko, Director of Product Management and Innovation, TruStage™

The severity of a liquidity crunch for digital lenders cannot be overstated, as it poses significant challenges to their operations and the broader financial ecosystem. When liquidity becomes scarce, it can lead to a vicious cycle of reduced lending capacity, decreased revenue and increased default rates.

Additionally, the digital lending industry often attracts a wide range of borrowers, including those with limited access to traditional banking services. A liquidity crunch in this sector could disproportionately affect underserved populations, exacerbating financial inequality.

Economic pressures influence digital lending

Navigating the current inflationary environment is a paramount challenge for lenders in today's economic landscape. As inflation rates surge, lenders are compelled to reassess their interest rate strategies to maintain profitability while also ensuring borrowers can shoulder the increasing cost of borrowing. The rapid rise in consumer prices can erode the purchasing power of borrowers, making it imperative for lenders to strike a delicate balance between charging rates that reflect rising inflation while avoiding discouraging borrowing altogether. Moreover, lenders must adapt to changing consumer spending habits, as inflation often prompts consumers to modify their purchasing decisions.

The ongoing workforce challenges — including layoffs, remote work disruptions and shifting employment patterns — pose a significant concern for lenders. As companies grapple with these issues, lenders must consider how these workforce dynamics can impact borrower repayment capabilities and default rates. Layoffs and job instability can directly affect borrowers' financial health and their ability to make regular loan payments. Lenders should consider implementing comprehensive risk assessment strategies to identify borrowers who may be more vulnerable to economic shocks stemming from workforce changes.

How to spot a liquidity crunch

At the root of a liquidity crisis is widespread portfolio mismatching among banks and other businesses, resulting in a lack of cash and other liquid assets. Liquidity crises can be triggered by large, negative economic shocks or by normal cyclical changes in the economy. Digital lending leaders can be better prepared for liquidity crises if they know how to spot them.

Perform routine assessments

A comprehensive assessment of lending portfolios is crucial for financial institutions to navigate the complexities of a volatile market. By scrutinizing their lending portfolios, digital lenders can identify areas of potential risk and opportunity, enabling them to make well-informed decisions. This assessment involves evaluating the creditworthiness of borrowers, analyzing the performance of existing loans and assessing the diversity and maturity of loan types. By identifying potential weaknesses or concentrations within the portfolio, lenders should be able to proactively manage risks and allocate resources more effectively.

Challenges digital lenders face during a liquidity crisis

During a liquidity crunch, digital lenders will need to be prepared to face a slew of challenges. Getting creative to improve operating efficiency across the company should be the top priority. Without this, the continued success of the company is in jeopardy. Let's review the top pain points digital lenders should have an action plan for in the event of a liquidity crunch.

Low customer acquisition cost (CAC)

In the fiercely competitive landscape of digital lending, keeping the CAC low is crucial to remain competitive. Lenders need to develop and implement cost-effective marketing strategies to not only attract new customers but also to retain them. By efficiently targeting potential borrowers and reducing the costs associated with acquiring them, financial institutions could bolster their bottom line during challenging times where every dollar counts.

Loan portfolio resiliency

In the ever-fluctuating economic landscape, the resilience of a lender's loan portfolio is of paramount importance. Building a resilient loan portfolio requires a multifaceted approach. Diversification of risk is crucial; lenders should spread their loans across various industries, geographies, and creditworthiness levels to minimize the impact of downturns in any particular sector. Stress testing, using historical data and hypothetical scenarios, helps lenders assess how their portfolio might fare under adverse economic conditions, allowing them to make informed decisions to mitigate potential losses.

Attracting new customers

Attracting and retaining borrowers is a perennial challenge for lenders, particularly in the digital age. To succeed in this, financial institutions must enhance their digital capabilities, creating a seamless end-to-end experience. From streamlined loan application processes to user-friendly mobile apps, borrowers expect convenience and efficiency. Additionally, lenders should be attuned to evolving consumer needs and preferences, offering flexible loan products that can adapt to changing circumstances, such as payment protection products that could benefit borrowers and lenders.

While digital lending has given more borrowers access to credit, the threats imposed by a liquidity crunch should remain top of mind for digital lending leaders. As this industry continues to grow, it's imperative that leaders stay proactive by conducting routine portfolio assessments while monitoring changing economic conditions to accurately predict the next liquidity crunch.

Danielle Sesko is the Director of Product Management and Innovation at TruStage. Danielle has been with TruStage for over 10 years and has held a variety of roles ranging from financial leadership to transformation and product development. Prior to joining TruStage, Danielle spent her career in financial services and Mergers and Acquisitions. Danielle currently leads TruStage's Digital Lending Insurance initiative which is focused on creating new digitally native products for new markets.

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Capturing the ROI of HR

By Dinesh Sheth, CEO and Founder, Green Circle Life

Despite the key role Human Resource (HR) departments play in overseeing planning, hiring, training, career development, retention, compensation, benefits administration, and compliance while improving a business's bottom line, quantitative measures on the returns on HR investment by an organization can be challenging to capture. From some points of view, HR departments are a cost center; however, they significantly impact profitability and productivity of an organization in qualitative ways, such as employee happiness, engagement, and satisfaction.

Due to the continued economic uncertainty and increased attention to the bottom line in 2024, HR leaders must proactively access, analyze and report all qualitative and quantitative metrics available to their leadership to ensure they remain sufficiently staffed to improve employee engagement and demonstrate their resource allocation is where it needs to be. Gathering and sharing the data on benefits package utilization, efficient resource allocation and employee engagement will help HR better serve both employees and employers. So, how do you define, measure, analyze and share your ROI as an HR leader?

Decision Making

HR leaders belong in the executive suite as they bring enormous value to their organizations by supporting their decision making with data. Not only can they provide better evaluation for the effectiveness of existing total compensation including their benefits offerings, but they also incorporate measurements to determine how various parts of organizations are performing and how they compare in a competitive marketplace.

For better understanding of their large benefit package costs, HR leaders can share engagement analysis from usage rates of countless benefits, such as medical plan utilization, physical and emotional wellness programming, surveys, or health outcomes, such as how wellness initiatives lower sick days. Increases in mental health resources, childcare benefits and/or investment in remote workplaces that started with the pandemic may be well-received and popular among staff; however, there is a chance that some of those expanded options are no longer desired or needed by employees and therefore are not producing necessary ROI to continue the investment.

By analyzing actual usage data, the HR team can help organizational leadership better understand the benefits their employees seek and improve decision-making while keeping the costs to the employers and employees in mind. They will right-size the benefits package and focus on what drives the productivity and success of their organization.

Identifying Opportunities

Through analysis and reporting, HR can identify areas for improvement in company-provided services, benefits, and policies. Being able to assess the ROI of programs and analyze usage data helps them tailor and customize their company's unique services and benefits. Conducting one or more anonymous surveys through a digital platform enables these executives to learn what is important to their employees, what services and benefits they want, which ones are most beneficial as well as which ones generate the least interest.

HR can also take a temperature check of the workforce, inquiring about the work-life balance, trust- and team-building or other areas that need to be overseen by their efforts. By assessing survey results, HR can identify new opportunities to better engage with employees and add touchpoints throughout their organization. Surveys improve leader transparency, increase employee trust in their leaders and demonstrate the impact and active role HR plays in employee engagement to the company leadership team. It is important to follow up and report back on lessons learned and changes from those surveys to be more effective.

Employee Engagement, Satisfaction and Happiness

Employee engagement with their organization, hiring and turnover reduction are some of the primary goals for HR leaders. Unfortunately, workplace engagement has been difficult to develop given the events of the last few years: a Society for Human Resource Management (SHRM) workplace report found that employees feel disengaged from their workplace and will continue to feel disconnected well into the year, likely due to the aftershocks of the COVID-19 pandemic, the upcoming election, turbulent economic and geopolitical conflicts, and burnout.

Considering these shifts, HR should use tactics, such as gathering employee engagement data by age group, work group or work location or evaluating the effectiveness of their communications, to self-assess how their communications tactics are working and encourage employees to use their company-provided services, benefits, platforms, and communication channels to the fullest.

For instance, if utilization of preventive screening is low, consider adding new communications and user touchpoints via a mobile app to remind employees to access personalized tools that will improve their happiness and health outcomes. Assisting those who have not seen a primary care provider in the past few years will help employees and organizations lower their costs and sick days. Additionally, HR executives can better communicate with their employees on the importance of accessing and using their benefits, reminding and encouraging employees to take the time they need to focus on their health and wellbeing so they can come to the workplace recharged and ready to work. An engaged worker is three times less likely to leave the organization compared to those who are not.

Tracking engagement data enables HR to understand employee preferences, tailor benefits packages to meet employee needs and expectations and enhance employee satisfaction by addressing gaps in benefits coverage. Benefits managers have always struggled with getting their executives to support wellbeing programs because it is a soft number and difficult to display the importance. Reporting capabilities show who is engaged, how many people participated in wellness challenges, how many people recorded a physical with a primary care physician, and other key wellbeing goals. Then HR can share wisdom and solid numbers with their executive teams. When HR can share workforce engagement rates, leadership can see the firsthand value of the HR department.

Reporting to Leadership

Seeing is believing and reporting demonstrates the importance of your work and the difference it makes to your organization. HR improves employees' physical, mental, and emotional well-being; when a workforce is happier and healthier, productivity and retention increase. HR departments need to show this data and analysis of their results with their leadership team to highlight the importance of long-term investments in people.
From a leadership standpoint, clear and accurate ROI on HR emphasizes the importance of your work. That said, establish regular reporting practices to fine-tune and identify new opportunities to engage employees and show – not tell – the value of HR.

Dinesh Sheth is the Founder and CEO of Green Circle Life (GCL). GCL provides an innovative communication and engagement service, SmartFHR™, that aggregates all employee-facing HR services and benefits along with corporate wellness and disease management services via a single sign-on, interactive platform that is accessible via both the web and iOS/Android apps. Sheth is a serial entrepreneur who has successfully launched several companies, including uMonitor Parsam Technologies, which he co-founded and served as CEO until its acquisition by Harland Financial Solutions.

Modernizing Banking: Aligning Legacy Technology with Evolving Consumer Demands

By Gary Singh, President, North America, Zeta

Technology is constantly evolving and changing the outlook of consumer needs. Today's consumers expect more from their financial institutions than just a traditional call center experience. They demand seamless and personalized solutions that meet their needs and anticipate them. Most financial institutions still run on decades-old legacy software and face challenges as they strive to meet consumer expectations, often burdened with technical debt.

However, completely replacing legacy systems involves multi-year, multi-billion dollar projects with a high level of complexity. Banks should consider strategies that help them bridge the gap between legacy systems and consumer expectations faster, with lower risk and complexity.

The Changing Landscape of Consumer Expectations

Mobile banking and the demand for seamless digital experiences contribute to shifting consumer expectations. Consumers now expect the convenience of managing their finances at their fingertips, anytime and anywhere. Furthermore, personalization and tailored financial services have become the new normal. Personalization is everywhere that we look. Whenever consumers open their favorite social media platform, their ads are custom-tailored to their interests, so it is no surprise that they would expect the same experience in their financial lives.

Data security and privacy concerns have also become a priority as consumers increasingly demand robust measures to safeguard their personal information. As technology advances, so do the attempts of fraudsters, and financial institutions must navigate these factors to meet and exceed the shifting expectations of their customers, ensuring a competitive edge in the modern banking industry and prioritizing customer safety.

According to a recent Salesforce survey, 53% of financial customers would switch providers for a better digital experience, and only 11% of customers agree that their banking institutions anticipate their financial needs. The survey results further emphasize that if a current financial institution is not providing the type of technology and personalization that a consumer needs, the consumer will begin searching for a banking provider that does. The stakes of competition are high and, at minimum, will divide customer loyalty between multiple banking applications if the customer is not lost altogether.

Legacy technology poses some significant challenges to banks but also to their customers. It limits the delivery of seamless customer experiences across products and services. It can hamper the delivery of real-time services, further increasing inefficiencies in customer service. Most importantly, legacy systems arrest the speed at which a bank can innovate and launch newer offerings, thus affecting its ability to compete in this market.

Strategies for Bridging the Gap

While legacy systems can be challenging to navigate, many approaches enable FIs to transition seamlessly as they work towards bridging the gap between consumer expectations and legacy technology. One strategy is considering incremental modernization in phases, building on the transition between legacy systems and more modern, user-friendly platforms. Implementing APIs and microservices architecture facilitates greater flexibility and responsiveness to consumer demands. Finally, embracing cloud adoption is pivotal in ensuring scalability and efficiency.

One company that has embraced technology to navigate the challenges of legacy technology successfully is Chase Bank. The launch of Chase's online bank in the UK proves that a flexible, cloud-native approach is best for expanding a customer base. The platform supports multiple products and focuses on scaling while keeping costs low. According to The Financial Brand, nearly one-third of the digital bank's customers are highly engaged with Chase products. The bank established incremental modernization, starting with a free checking account and several financial and budgeting products. After this success, the company added a savings account, appealing to UK consumers when inflation hit a high in 2022. This strategy emphasizes the need to grow alongside consumers, appealing to their unique needs.

Furthermore, financial institutions need access to agile technology to quickly adapt to a changing regulatory environment. Regulatory bodies are essential in balancing innovation and safeguarding consumers and stakeholders. It is crucial that financial institutions not only understand new regulations but adapt quickly to ensure proper compliance. Modern issuing platforms can assist with these changes, streamlining compliance processes and ultimately helping banks navigate the complex regulatory landscape while still harnessing the full potential of technological transformation.

As financial institutions look to advance, partnerships with next-gen technology service providers will become the bridge that allows financial institutions to keep pace with consumer expectations in an ever-changing digital landscape. By pooling their strengths, financial institutions and technology partners can create an ecosystem that satisfies the immediate demands of consumers and lays the groundwork for a more secure, efficient, and customer-centric financial industry.

Gary Singh is the President, North America at Zeta. A 20+ year Silicon Valley industry veteran, Gary has an extensive knowledge about the fintech industry and holds multiple patents in the mobile and wireless industry. At the core, Singh is a business and product guy, who understands how to build and take new and innovative products and services to disrupt status quo markets. Prior to joining Zeta, Singh was the Chief Revenue Officer at Ondot Systems. At Zeta, Singh is responsible for the company's go-to-market, operations, growth and overall financial performance in North America.

The Big Idea That Bankers Need to Understand for Bridging the Legacy Technology Gap

By Emily Sweillam, Executive Vice President, Marketing, Kinective

Banking today isn't just about numbers and transactions. It's about crafting frictionless experiences for clients, both online and in-branch. But in an age of transformation, connectivity, and fintechs— many bankers face serious head-scratchers in this digital age.

An integrated technology ecosystem that seamlessly connects multiple systems is key to providing stellar service, but modernizing legacy systems and competing in a digital-first world can be daunting and overwhelming. Complexity abounds between disconnected digital and branch channels, the struggle of integrating legacy systems with newer technology, and simply the pressures of your day job.

How can bankers best bridge this gap?

Enter the game-changer: Connectivity and APIs. It's the secret sauce that binds your channels together, creating a unified, client-centric ecosystem with the ability to choose best-of-breed third-party fintech solutions.

Busting Boundaries

Having a unified system across branch and digital channels is the most critical component of a modern end-to-end banking enterprise, as it eliminates the need to replicate processes and data entry in the various channels and systems of record (SORs).

While banks and credit unions have historically relied on their core banking platform's product ecosystem, they are increasingly choosing a best-of-breed approach using third-party fintech solutions to meet business needs. But integration with their core commonly stalls progress and possibilities.

If a fintech isn't connected to your core, or your core doesn't offer the feature(s) you need to deliver on your vision, the vision often seems like a dead end.

Connectivity providers and APIs (application programming interfaces) have emerged as a solution to eliminate limitations, rapidly connect systems, and securely unlock data using out-of-the-box connectors and integration templates.

According to Cornerstone Advisors "What's Going on in Banking 2023" report, the percentage of financial institutions making investments in APIs has nearly doubled between 2020 and 2023, going from 21% to 40%.

And while APIs may seem like the holy grail, many financial executives are discovering the new set of challenges these solutions bring. Namely lack of true choice in integrated solutions, the amount of in-house development resources it takes to get these off the ground, long lead-times to execution, and safeguarding sensitive information while enabling smooth data flow between different channels.

The Gateway to Connectivity

As a company with more than 2500 banking customers, Kinective has seen these problems over and over again. With a recent merger of three companies, CFM, NXTsoft, and IMM/eSign, Kinective now brings the most robust connectivity to the market with one connection between cores, branch, digital, and fintech solutions.

Offering over 80+ integrated fintechs across more than 40 core banking platforms, Kinective provides an expansive ecosystem of use cases and channels, unlocking the potential of best-in-class providers for banking. No technology is left out when it comes to integration, allowing innovation to thrive.

With Kinective, financial institutions (FIs) can take advantage of:

- ACCESS: FIs have access to a broad range of fintech solutions and comprehensive use cases across channels including loan origination solutions, account opening software, document imaging software, cash automation hardware, document automation and e-signature software, and CRMs.
- CHOICE: FIs are able to select from a wide array of offerings and have the flexibility to switch to more innovative solutions in the future.
- CONTROL: Turnkey connections, independent of the core, enable FIs to have control over the pace that they innovate.
- COMPREHENSIVE SOLUTIONS: End-to-end connectivity optimizes efficiency, reducing costs by automating workflows, eliminating errors, and streamlining processes from beginning to end.
- OMNI-CHANNEL: Most connectivity providers only focus on digital channels. While digital is king, the branch still remains relevant. Kinective brings both channels together with integrations for all solutions within the branch and online.

As we navigate this transformative era, it's paramount to choose partners who understand the intricacies of the industry. With a 100% banking focus, along with an extensive client and partner network, Kinective is emerging as the premier partner to help financial institutions scale innovation faster.

Emily Sweillam is the EVP, Marketing for Kinective, a leading provider of connectivity, workflow, and analytics software for the banking sector. She is responsible for driving "people-to-people" marketing and creating meaningful conversations with banking executives.

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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