SAWYERS & JACOBS

Innovation. Risk Management. Cybersecurity. Technology.

TOP TEN TRENDS

IMPACTING BANK TECHNOLOGY FOR

2018

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"Far better is it to dare mighty things, to win glorious triumphs, even though checked by failure...than to rank with those poor spirits who neither enjoy much nor suffer much, because they live in a gray twilight that knows not victory nor defeat."

- Theodore Roosevelt

As the economy booms into 2018, driven by low unemployment rates, tax reform, record stock market gains, and a rise in consumer sentiment not seen in over 10 years, bankers will be emboldened to blaze new trails and invest in new technologies. Talk turns into action. Plans degenerate into hard work. Projects enjoy investments designed to improve bank performance at all levels of the organization and to give customers the tools and experience they demand. Inevitable as the rising tide, technology and change will advance, and banks and the customers they serve will benefit.

To rally bankers to charge the hill of opportunity and innovation, I offer ten predictions.

PREDICTION #1

Cybersecurity Preparedness Gets Deeper and Broader as Bankers Scrutinize Their Providers

The battle to thwart cybercriminals continues in 2018 as threats evolve and bankers become smarter on how they approach this critical issue. Critical thinking will be applied as bankers step back and assess what the bank has done to protect customer funds and information and what must be done in the future to be responsible stewards of customer trust.

A bank's cybersecurity preparedness strategy should not be delegated to the lowest spot on the org chart or outsourced to a host of "we're the hammer, you're the nail" tech providers who are selling their solutions and not necessarily what the bank needs or requires. This multi-layered issue will demand a multi-layered assessment of the bank's enterprise environment with credible recommendations for practical solutions.

Limited external vulnerability scans and weak, redundant phishing tests from practitioners with questionable resumes will not cut it. Bankers must take a more in-depth, sophisticated approach to cybersecurity. Otherwise, they will spend a lot of money but leave their banks exposed to intrusions. If a bank has not had a truly independent assessment of its cybersecurity posture by a qualified firm, the management and board of directors has put the bank at risk and could pay the price, financially and reputationally, when a security breach occurs.

Making the critical choice of who is allowed access to banks' most sensitive systems and information, bankers will note that "Section 19 of the Federal Deposit Insurance (FDI) Act prohibits, without the prior written consent of the Federal Deposit Insurance Corporation (FDIC), a person convicted of a criminal offense involving dishonesty, breach of trust, money laundering, or who has entered into a pretrial diversion program, from participating in the affairs of an FDIC-insured institution." Additional weight is applied with FDIC Financial Institution Letter 46-2005 (FDIC FIL-46-2005), Pre-Employment Background Screening: Guidance on Developing an Effective Pre-Employment Background Screening Process. As a matter of national security, regulators will wake up and ban those convicted felons, the companies that employ them, and the firms that resell their services, from performing cybersecurity work for banks.

Further noting FDIC FIL-46-2005, "Institutions should verify that contractors are subject to screening procedures similar to those used by the financial institution. Consultants should be subject to the financial institution's screening process." Bankers who have wittingly or unwittingly engaged convicted felons will review their personnel policies, vendor management programs, and codes of conduct to determine where the breakdown occurred.

In 2018, high-performing banks will recognize cybersecurity as a business issue critical to the bank's reputation and future. Accordingly, investments will be made in first determining the bank's current cybersecurity preparedness before additional investments are made in the solutions necessary to mitigate cybersecurity risk.

> CHALLENGE QUESTION
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> ***Has your bank purchased cybersecurity solutions before assessing your enterprise cybersecurity preparedness and vetting the providers?***

PREDICTION #2

Cryptocurrency Mania Gives Way to Sobering Reality

The hype surrounding cryptocurrency investments and the wild market fluctuations are unprecedented. Case in point, Dogecoin, a cryptocurrency originally created as a joke based on the Shiba Inu dog meme and one that hasn't released a software update in two years as of 12/31/17, had a $1 billion market cap as of year-end 2017.

The cryptocurrency market is changing second by second and will remain volatile throughout 2018. Bankers should continue to study the impact of cryptocurrency and the benefits of the blockchain while also understanding that the biggest cryptocurrency advocates are trying to supplant banks. Why is cryptocurrency popular? Because of the technology and the hope of a better, faster payments system? Or because cryptocurrencies are pseudonymous, favored by anarchists and those who deal in black markets, engage in illegal activity, and despise the central authority of any government because they don't want to be monitored or taxed?

At a recent cryptocurrency conference, several participants wore masks to avoid facial recognition technology. Can you imagine going to a banking conference and seeing bankers wearing masks? This conference also had exhibitors selling postcards of Edward Snowden. One can tell a lot about a group of people from their heroes.

Expect "pump and dumps" to continue in 2018 as a cryptocurrency gets hyped on social media only to tank as investors unload it after a short run-up. Quasi-insider trading abounds. Regulators face a steep learning curve and will be stumped as how to handle this problem. In an ironic twist of fate, the Consumer Financial Protection Bureau (CFPB) will be inundated with complaints about delayed funds transfers and settlements at cryptocurrency exchanges, among a host of other problems.

What is one founding principle that makes America great? The rule of law. It's difficult to know who will make the rules or who will enforce the laws with cryptocurrencies. And, for that reason, bankers should remain aware but skeptical. Cryptocurrency may be cool and represent a newer and better way to pay but it might also represent a threat to capitalism and the end of our meritocratic society as we know it. Trustworthy adult supervision is needed and will be required in 2018 for cryptocurrency markets to stabilize and succeed.

CHALLENGE QUESTION

Has your bank weighed the opportunities and threats of cryptocurrency?

PREDICTION #3

Bankers Learn to Serve the Mobile-Only Customer

According to ComScore, users spend on average 69% of their media time on smartphones. This should come as no surprise as global users of mobile surpassed desktops way back in 2014. With 80% of internet users now owning a smartphone, the emergence of the "mobile-only" customer is a reality. This is not to say that the branch is dead, but wise bankers will realize that a significant segment of their customer base wants to use the mobile device and couldn't care less about traditional online banking via their PCs. Sadly, most bank technology providers are not supporting this trend.

Some online banking providers are on board and now offer bankers the option to enroll customers on mobile banking only. Most providers still charge the bank twice, once for the traditional online banking channel and a second time for the mobile user. These per user costs can skyrocket quickly as the mobile channel gains popularity and bankers find themselves the victims of double-dipping by their providers. Ideally, bankers give customers one interface for all digital services and providers support this and stop the double-dipping game.

CHALLENGE QUESTION

Is your bank serving its customers on the channels of their choice, even if the choice is mobile-only?

PREDICTION #4

P2P Takes Off But Bankers Continue to Lag

Person-to-Person (P2P) payments volumes will skyrocket in 2018 as consumers embrace the ease-of-use and speed of this payment service, both using the ACH and debit card rails. Bankers wanting to deepen the customer relationship and further demonstrate the utility of the checking account will offer a simple yet quick P2P service.

While Apple Pay has been a huge disappointment in terms of usage (less than six percent according to PYMNTS.com) over the past three years, look for Apple Pay Cash to jump in the game in 2018. Users are required to update to iOS 11.2 and to implement two-factor authentication. Apple Pay Cash makes the P2P transaction as easy as sending a text message. Green Dot Bank (aka GoBank and Bonneville Bank) is handling the bank accounting behind the scenes for Apple Pay Cash.

A P2P service started by a group of large banks (including Bank of America, Capital One, and Wells Fargo), Zelle (formerly clearXchange but rebranded to Zelle in August 2016) will see low adoption by banks and low usage by customers. Case in point: My bank has "partnered" with Zelle for over a year but hasn't launched the service yet. In the meantime, bank customers flock to third-parties while banks like mine try to figure out P2P, remain stagnant, and lose critical market share.

Inexplicably, Zelle doesn't even own its simple domain name, zelle.com. A law firm of the same name does. This questionable branding decision will cause the Zelle service to suffer and will create consumer confusion. Customers look for brands with simple names followed by a dot com, logical domain names that will not take one to a law firm site. Venmo (PayPal) and Facebook will see the majority of P2P payment activity due to their simple interfaces, ease of use, and familiar processes.

Further complicating the Zelle proposition, I reviewed the registration process from a major bank's website. The instructions and related links took me from the bank's site to Zelle but then back to the bank's site, a loop with all the unnecessary notifications that I was being directed to another site. The average consumer will bail on such a disjointed registration process.

Forward-thinking bankers will adopt P2P solutions that have easy registration and use the debit card rails for transaction speed.

CHALLENGE QUESTION

How does your bank's P2P payments solution compare to Venmo or Facebook?

PREDICTION #5

Banks Get Branded

When my kids were just toddlers, I was always amazed by their eagle-eyes as they could spot the golden arches from miles away. This glowing icon, combined with the lure of a happy meal toy, served as a tractor beam for our car. Nutrition critique aside, this illustrated the power of branding in a big way and showed that one has three seconds to catch the attention of the customer. Once the attention is grabbed, the linkage of the expected customer experience does the rest.

Successful banks will devote new dollars to branding across all platforms, both digital and physical, to gain brand recognition and attract customers.

CHALLENGE QUESTION

Is your bank's most innovative branding now relegated to stainless steel drink tumblers or does it have a digital marketing plan?

PREDICTION #6

Archaic Bank Processes Get Re-engineered

One of the most influential books of my early career was ***Reengineering the Corporation***, a classic business tome that inspired positive change in many organizations.

In my work with banks, I see many processes that, while automated, should not exist at all. Other processes are ripe for change due to technological advances. Too many unnecessary processes are being performed in the name of compliance or security, yet do nothing to add value or help the bank's compliance efforts or security posture. It's time to review all processes and challenge them as being sound. A 20-year old audit or exam recommendation might no longer be applicable.

A great example in payments is the ridiculous requirement to sign when making a purchase with a debit or credit card. That squiggle I make on the signature pad means nothing. In 2018, Discover, American Express, and Mastercard will stop requiring U.S. customers to sign. Visa, a current holdout, will bow to consumer pressure and will follow suit. This is welcome news for businesses that depend on getting customers through the queue quickly.

Bankers will pause and ask, "Where are we?" in terms of tech spending ROI. Many bankers have purchased solutions that remain on the shelf or did not live up to expectations. The next questions that require thoughtful answers are, "Where do we want to go?" and "How do we get there?"

Expect successful banks to perform operations and technology assessments to determine their current state while employing strategic technology planning to determine the path forward and the way technology purchases will support the bank's business goals.

CHALLENGE QUESTION

What processes in your bank are unnecessary or in need of re-engineering?

PREDICTION #7

Fintechs Deliver or Destruct

After years of losses at some fintechs, investors will require a return on their investments or will be ready to stop the bleeding and cut their losses. Fintechs that have overpromised and underdelivered will fail in high numbers in 2018. Those that have some value but cannot exist as standalone firms will seek to be acquired or will partner with banks, those very dinosaurs they once threatened to disrupt and supplant.

One example is Billguard which became Prosper Daily. Its parent, Prosper, the online lender, pulled the plug on the app in July 2017. Belying its name, Prosper has lost $210 million in two years.

The basics of business and financial performance hold true. Still, many fintechs will spark innovation that is contagious and leads to advances in banking and new products and services at bank tech providers. However, bankers and tech providers will adapt. The strong will not be displaced. The wise will survive.

Banks that partner with unsuccessful or shady fintechs may find themselves with unwanted houseguests that are hard to evict. Wise bankers will enter into these agreements with sound exit strategies and firm timelines. To paraphrase Benjamin Franklin, fintechs, like fish, begin to stink after a few years of unkept promises and no profits.

CHALLENGE QUESTION

How does your bank measure fintech stability and performance?

PREDICTION #8

Vendor Management Gets Smart

Like it or not, bankers are dependent on a host of technology services providers. Choosing the right providers and vetting them properly, before signing a contract and thereafter, will rise in importance in 2018. Corporate tax cuts combined with the best economy we have seen since 2001 will give bankers more money to spend on technology solutions and consulting services to get the most out of these solutions. However, bankers will scrutinize their providers more than ever as competition increases.

Many community bankers have been oversold on the benefits of outsourcing and now realize it still takes smart and talented people to manage the bank's IT and operations, regardless of where the hardware and software are housed. Invoices will be reviewed and meetings will be held to measure the promise of outsourcing against the results.

The concept of vendor management will be re-defined as bankers question the value of paying a provider to review relatively meaningless third-party data center review reports and opining whether Microsoft is financially stable. Such exercises in futility will be replaced by hard-hitting questions and new requirements that prove providers are managed by ethical, stable people with proven track records of high performance. Such due diligence will cut through the façade of empty rhetoric and misleading marketing.

Bankers will demand more transparency from their providers, especially those that are new. Questions will be asked about where the provider is headquartered, where the bank's data is located, and where support calls go, as the offshoring trend reverses and U.S. bankers strike a more nationalistic tone in their choice of partners. For example, India's $160 billion IT industry laid off over 56,000 workers in 2017.

Open APIs, while a worthy goal, have proven difficult to execute for some. A beneficial byproduct has been the opening of constructive dialogue between bankers and their core providers. Bankers will be pleasantly surprised at what their core providers can accomplish when they are asked for solutions and compensated for providing them.

CHALLENGE QUESTION

What vendor management tasks are you doing that, upon further review, appear to be a waste of time?

PREDICTION #9

Bankers Invest in Talent

Many of today's bank CEOs are the product of excellent management trainee programs that used to be a staple of successful banking organizations. Sadly, such programs appear to be relics of the past as some bankers have unwisely cut spending on developing their people. I contend this is often one of the primary reasons that banks sell, especially in rural communities - lack of management succession.

Akin to a major league baseball team not having a strong farm system to develop future stars, banks are suffering from a shortage of talent, and bankers largely have themselves to blame. In a tight job market this becomes more apparent, as it is more difficult to attract and retain good people. In the tech area especially, some bankers have failed to develop their people as they thought outsourcing would eliminate the need for in-house management and expertise, a grossly incorrect assumption that is hurting bank performance.

To illustrate the challenge banks face in recruiting new talent, the unemployment rate in December 2017 stood at 4.1 percent. Compare that to December 2009 when the unemployment rate was a staggering 10.0 percent. In the coming year, bankers will invest in their people, sending more to banking schools and continuing education while developing stronger in-house education programs. Employing people in the communities they serve will be the goal of bankers across the nation. In 2018, bankers will focus on the continued creation of jobs, the cure for many social ills and the salve for what often divides us.

CHALLENGE QUESTION

What is your bank doing to attract, retain, and develop talent?

PREDICTION #10

Artificial Intelligence Continues to Progress

Traditional brick-and-mortar retailers had a tough 2017 as over 7,000 stores closed (Source: Fung Global Retail and Technology) and 662 retailers filed for bankruptcy (Source: BankruptcyData.com) while more shoppers opted for online channels. Shares in Amazon were up 55% in 2017 as the popularity of the Amazon customer experience grew.

Amazon dominates the virtual assistant market and increased that lead over the 2017 holiday season as its Echo line proved a popular gift. In a pricing strategy that Apple should note, Amazon offers several Echo devices at a range of price points. Priced in the $30-$50 range, Echo Dot was the best-selling device on the Amazon site as it complemented the original Echo and its spawn of Echo Spot, Echo Buttons, and my favorite gift this year, my Echo Show, a device that incorporates video into the Echo experience.

Strategy Analytics, a consumer research firm, estimates Amazon's market share at over 70 percent of the smart speaker and virtual assistant space, despite challenges by Google with its Google Home devices.

Expect such Artificial Intelligence (AI) to progress from our homes to our cars in 2018, making voice recognition ubiquitous and further enmeshed in our daily lives.

Smart bankers will realize that voice banking is the killer app for 2018 and will invest in this technology from the contact center to the mobile device, and from the home to the office. From paying bills and checking balances to helpful voice alerts for card-not-present transactions and payment reminders, voice banking will be demanded and embraced by consumers.

CHALLENGE QUESTION

What is your bank's AI strategy for voice banking?

SUMMARY

Throwing it back to Teddy, the Rough Rider himself reminds us that *"Rhetoric is a poor substitute for action, and we have trusted only to rhetoric. If we are really to be a great nation, we must not merely talk; we must act big."* These are true words from a century ago that still apply today.

Here's to 2018, a year of action and accomplishment, hope and prosperity, and innovation driven by bankers and technologists brave enough to "dare mighty things."

Jimmy Sawyers is Co-Founder and Chairman of **Sawyers & Jacobs LLC**, leaders in Innovation-Risk Management-Cybersecurity-Technology through our four brands. **RedTorch Consulting**: Lighting the Path to High Performance - Strategic consulting designed to align people, processes, and technology for world-class innovation, management, and operations. **RedTail Risk Management**: Watch Risk Like a Hawk - A suite of risk management services designed to help bankers identify threats and mitigate risk through practical applications, comply with laws and regulations, and maintain a high-level of customer service, security, and profitability. **RedWolf Cybersecurity**: Protect the Pack - A full range of Cybersecurity services for those serious about securing the enterprise and repelling the attackers who threaten the bank and its customers. **RedCape Tech Support**: Your Hero in Tech - Concierge-level tech support delivered in a strong, intelligent, and friendly manner with premium quality, superior service, and special attention. For more information, visit **www.sawyersjacobs.com**, call **901.853.1000**, or email **jsawyers@sawyersjacobs.com**.