Emerging Trends in Fintech – The Community Bank Perspective

Charles E. Potts
Executive Vice President, Chief Innovation Officer
Independent Community Bankers of America
Agenda

- Change
- Why Fintech?
- Innovation as a Concept
- ICBA Thought Leadership
- Q&A?
“We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten.

Don’t let yourself be lulled into inaction.
Embracing Change at a Faster Pace

The Pace of Technological Change is Dizzying

- Radio: 38 years
- Telephone: 20 years
- Television: 13 years
- Cell Phones: 12 years
- Cable TV: 7 years
- World Wide Web: 4 years
- IM: 4 years
- iPods: 3 years
- Blogs: 3 years
- MySpace: 2.5 years
- Facebook: 2 years
- YouTube: 1 year

Years to Reach 50 Million Users

What’s Next?
The Changing Fintech Landscape

The full Venture Scanner market report and database tracks 2,267 companies with $72B in funding.
Fintech has redefined consumer expectations, COVID-19 forever shifted consumer engagement...

- **Increased adoption**
  - **34%**
  - More fintech app downloads in 2020

- **Less financial stress**
  - **68%**
  - Say fintech helps reduce financial anxiety

- **Higher trust**
  - **55%**
  - Millennials trust fintech more than incumbents

- **Greater access**
  - **76%**
  - Fintech helps find new/better financial products

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**Fintech Usage Changes¹**

- **Gen Z**
  - Before COVID-19: 62%
  - During COVID-19: 89%

- **Millennials**
  - Before COVID-19: 48%
  - During COVID-19: 65%

- **Gen X**
  - Before COVID-19: 37%
  - During COVID-19: 56%

- **Boomers**
  - Before COVID-19: 24%
  - During COVID-19: 33%

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¹ Represents relative percentage changes

Sources:
- "State of Fintech Apps 2020," Sensory Tower;
- "Global Fintech Report 2021," KeyBanc;
- "COVID-19 and the financial services consumer," Capgemini Research Institute;
- "The Fintech Effect," Plaid;
- "How US customers’ attitudes to Fintech are shifting during the pandemic," McKinsey & Company
...while the pace of fintech innovation continues to accelerate

**Square** is building a decentralized finance business using bitcoin

Facebook's payment system extends to online retailers in August

Walmart poaches two Goldman Sachs bankers to lead new fintech startup

NYDIG expands its play to bridge bitcoin and banking with new partnerships

US open-banking regulation gets Biden's backing

Chime, Current lead US banking app downloads in first half of 2021: report

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Across the fintech landscape, the pace of partnership and product announcements is accelerating.
The Top 5 Trends In Fintech And Banking For 2022 – Ron Shevlin, Cornerstone Advisors (Dec 13, 2021)

1. The Great Overdraft Overhaul
2. The Cryptofication of Banks
3. Faster Payments and Payments Modernization
4. Embedded Finance Grows By 5 to 10 BIPs (BaaS Infrastructure Providers)
5. The Open Banking Battle Heats Up
Why Fintech?

FAST  SECURE  SIMPLE  AFFORDABLE
1. What are the top three objectives that drive your bank’s strategy around the investment, development and/or implementation of technology?

Respondents were asked to select no more than three options. *Indicates a count of less than 10 within a category.

<table>
<thead>
<tr>
<th>Bank Asset Size</th>
<th>&gt;$1B*</th>
<th>$1B - $10B</th>
<th>$500M - $1B</th>
<th>&lt;$500M</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving the customer experience</td>
<td>75%</td>
<td>75%</td>
<td>72%</td>
<td>85%</td>
<td>78%</td>
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<tr>
<td>Creating a more efficient operation</td>
<td>88%</td>
<td>63%</td>
<td>84%</td>
<td>71%</td>
<td>72%</td>
</tr>
<tr>
<td>Enhancing online and mobile platforms</td>
<td>75%</td>
<td>43%</td>
<td>52%</td>
<td>38%</td>
<td>46%</td>
</tr>
<tr>
<td>Enhancing the bank’s top-line growth (revenue and/or sales)</td>
<td>50%</td>
<td>30%</td>
<td>24%</td>
<td>29%</td>
<td>30%</td>
</tr>
<tr>
<td>Building and/or implementing more innovative solutions</td>
<td>13%</td>
<td>45%</td>
<td>16%</td>
<td>24%</td>
<td>29%</td>
</tr>
<tr>
<td>Competing with larger banks</td>
<td>-</td>
<td>25%</td>
<td>16%</td>
<td>38%</td>
<td>25%</td>
</tr>
<tr>
<td>Redesigning the branch network</td>
<td>-</td>
<td>3%</td>
<td>12%</td>
<td>6%</td>
<td>6%</td>
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</table>

Source: Bank Director 2019 Technology Survey
# Importance of Fintech Partnerships

Q. How important will fintech partnerships, collaborations or investments be to your organization?

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<thead>
<tr>
<th></th>
<th>Banks</th>
<th>Credit Unions</th>
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<tr>
<td></td>
<td>2019</td>
<td>2020</td>
</tr>
<tr>
<td>Very important</td>
<td>21%</td>
<td>23%</td>
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<tr>
<td>Somewhat important</td>
<td>28%</td>
<td>42%</td>
</tr>
<tr>
<td>Not very important</td>
<td>36%</td>
<td>26%</td>
</tr>
<tr>
<td>Not at all important</td>
<td>15%</td>
<td>9%</td>
</tr>
</tbody>
</table>

SOURCE: Cornerstone Advisors surveys of community-based financial institution executives, 2020
“...incumbent financial institutions have been able to catch up faster than many expected, treating the proliferation of fintechs as a supermarket for capabilities that allow them to use acquisitions and partnerships to rapidly deploy new offerings.”

— R. Jesse McWaters, Financial Innovation Lead at the World Economic Forum
“Technology is a piece of innovation, but so are many other factors. Your ability to be flexible, your mindset, your protocols, and your ability to function well in an evolving environment all make up your innovation agenda.”

- Steve Farbstein, CRO/CDO, Blue Ridge Bank
Innovation as a Concept
“Innovation is taking two things that exist and putting them together in a new way.”

- Tom Freston (born 1945), Co-founder of MTV
Innovation in Banking

- ATM’s
- Telephone Banking
- Online Banking
- Mobile Banking
- Online Bill Payment
- Debit Card + Rewards + Bitcoin =
2020 – Rise of the Challenger Banks

Independent Community Bankers of America
Components of digital disruption in banking

- Data-driven credit rating
- Mobile points-of-sale
- Mobile payments & e-wallets
- P2P payments
- P2P lending
- Dynamic pricing
- Comparison engines
- Mobile insurance
- Mobile communications
- Social media
- Sophisticated data analytics
- Mobile banking
- Personal finance management
- Investment management
- FinTech start-ups
- Large digital leaders
- Redefining customer expectations
- Redefining industry boundaries

Source: Accenture © August 2015 The Financial Brand
Consumers with More Than One Checking Account

Percentage of Consumers With More Than One Checking Account

- **Gen Z** (Age 21-25): 32%
- **Millennial** (Age 26-40): 42%
- **Gen X** (Age 41-55): 36%
- **Boomer** (Age 56-74): 31%
- **Senior** (Age 75+): 34%

Source: Cornerstone Advisors survey of 3,016 U.S. consumers, Q4 2020
Reason why Consumers have more than one checking account

- Closer bank branches: 18%
- Just wanted to try out another account: 17%
- To manage another family member’s money: 15%
- Better online and mobile banking experience: 15%
- Better interest rates on my balances: 14%
- Lower fees or free checking account: 13%
- Better personal financial management tools: 12%
- Condition of applying for another product: 11%
- Monetary reward for opening another account: 10%
- Better debit card rewards: 9%
- Wanted a bank whose values better aligned with mine: 9%
- Liked the brand of the provider I opened account with: 8%
- Friends/family convinced me to: 8%
- Wanted early access to my paycheck: 8%
- Wanted early access to stimulus check or tax refund: 5%
- Bad customer service experience with other provider: 5%

Source: Cornerstone Advisors survey of 3,016 U.S. consumers, Q4 2020
Number of Checking Accounts Held

Allocation of Funds in Checking Accounts (by # of accounts)

Source: Cornerstone Advisors survey of 3,016 U.S. consumers, Q4 2020
Share of New Accounts Opened by Type of Institution

Type of Financial Institution Chosen the Last Time an Account Was Opened

Source: Cornerstone Advisors survey 3,004 US consumers, Q4 2020
Why is this Happening?

Rates and fees. Roughly three in 10 challenger bank adopters chose a digital bank to get better interest rates on their deposits or lower rates on their accounts.

Customer experience. About one in four challenger bank customers chose one of the digital banks to do business with because they were looking for a better online and/or mobile banking experience.

Featurization. A number of consumers are choosing challenger banks for specific reasons or features. For example, one in five Chime users opened an account with the fintech because they wanted early access to their paychecks.

Affinity (or specialization). Challenger banks like Aspiration, Joust and Tenth focus on serving specific niches of the market: environmentally conscious consumers, gig workers and African Americans, respectively.
Americans’ Shadow Financial Lives

Checking

Credit Cards

Mobile Payments

Savings Accounts

Investing

Health Savings Accounts

Financial Management

Revolut
goHenry
CapitalOne
Apple Card
Amazon
Delta
Curve
Apple Pay
PayPal
Venmo
Zelle
Klarna
BANK OF AMERICA
Acorns
Marcus: by Goldman Sachs
Capital
OPTUM
HealthEquity

Vanguard
Robinhood
Coinbase
invstr
Intuit Mint
Credit Karma
Nerdwallet

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UNBUNDLING BANK OF AMERICA

Companies targeting the traditional bank

Source: cbinsights.com
Innovation is Critical

• “Executing a new idea or process to address a specific challenge or need and achieves value for the customer.”

• Innovative solutions are feasible, relevant products, services or experiences with a viable business model that are perceived as new and readily adopted by customers.
COMMUNITY FINTECHS ARE EMERGING TO SERVE NICHE GROUPS
Innovation is a Mindset

Citizens

- $360M assets
- Edmond, OK
- Jill Castilla, CEO
- Founded in 1901
  - Consolidated all branches in 2013
  - Vault 405

LiveOak Bank

- $2.5B assets
- Wilmington, NC
- Chip Mahan, CEO
- Founded in 2007
  - Leading SBA lender by $ volume
  - Specialize in over 30 different industries
Innovation Comes in all Shapes and Sizes

- Coastal Community Bank in Everett, Washington, who in six years has developed a robust Banking-as-a-Service (BaaS) business—one that yielded a 1,200% growth in new accounts.
- Blue Ridge Bank in Charlottesville, Virginia, whose fintech relationships resulted in deposits of $189 million and fee and interest income of $3.4 million in 2021.
- Queensborough National Bank, based in Louisville, Georgia, who reports saving $30,000 of employee time per job by shifting manual/ internal processes to robotic process automation (RPA).
“Innovation doesn’t have to be a big thing that you leave to the big guys who have teams of people in a room somewhere throwing stuff at a wall to see what sticks, It can be as simple as how you accept a customer into your lobby or how you greet that customer and change that customer experience.”

- Kimberly Kirk, executive vice president and chief operations officer at Queensborough National
ICBA ThinkTECH Thought Leadership
Why?

• Partnership to create a “community bank only” focused accelerator to work with fintech companies helping to solve community bank specific problems as part of our mission

• Doing so will continue to allow ICBA and our members to give direct feedback on the solutions we should prioritize to help community banks

• Continue to build a more targeted “farm system” for corporate membership program and preferred providers
Why?

• “Skin in the game” to improve/influence outcome of solution providers
• Continue to educate fintech companies about community banking
• Policymakers look to the ICBA for innovation
• Build upon our reputation within the industry as a leader in innovation and enabler of fintech partnerships
High-Tech, High-Touch: The Future of Community Banking

The Community Bank Way
HIGH-TECH & HIGH-TOUCH

Business Driven by Human Interaction

Business Driven by Digital Experience
ICBA ThinkTECH Objectives

- Recruit up to 10 early-stage ventures or startups with community bank enabling solutions
- De-risk up to 10 ventures
  - Connections, Content, Capital, Communications
- Accelerate each company’s timeline to validate
- Contribute meaningfully to the innovation culture among ICBA and its members
- Development and support for further revenue diversification
- Create Innovation content opportunities for ICBA marketing & social media efforts
- Create a potential investment return opportunity to ICBA
Mission Driven

**problem focused. solution driven.**

- Data + Analytics
- Customer Experience
- AI + Machine Learning
- Gamification
- Regulatory Compliance Automation
- Marketing
- Streamlined Mortgage
- Data Privacy
- Cybersecurity
- Process Automation
- Next Gen Payments
- Wealth
- Wildcard Solutions
- Distributed Ledger
- Vendor Management
selecting companies

phase one
filter promising solutions
- evaluate hundreds of applicants
- identify bank-enabling solutions

phase two
evaluate company viability
- evaluate competence of team
- assess product maturity
- determine product-market fit

phase three
select best candidates
- ICBA Selection Committee and
VC Selection Committee rank
and select 10 companies

team | problem | traction | solution
12 week bootcamp.

kickoff: January 6
demo day: March 15–18 (TBD)
100+ community banks hosted at the ThinkTECH Accelerator program
500+ community bankers attended the program
1,000+ pitches
honored with help from community bank mentors
500+ hours of thoughtful discussion about the opportunities and challenges of community banking
<table>
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<th>Artis</th>
<th>Finosec</th>
<th>Agent IQ</th>
<th>Harness</th>
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<td>Fintel Connect</td>
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<td>LendSmart</td>
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<td>KapitalWise</td>
<td>NK</td>
<td>Sou Sou</td>
<td>Telsar</td>
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ICBA ThinkTECH Network Directory

Curated, online directory of technology companies that are strategically partnering with financial institutions

Exclusive ICBA member bank benefit

Similar to sourcing bank solutions through a digital format like Yelp, Consumer Reports, or Angie’s List

Bank Director/FinXTech technology is the foundation for the platform
ICBA ThinkTECH Innovation Series

**Cryptocurrency Demystified**: A look at the growth of cryptocurrency solutions and the implications for community banks. This three-part webinar series offers a primer on the technology, potential use cases, and potential regulations and associated risk.

**Banking as a Service Demystified**: A look at the new, and more modular provider landscape, known as Banking as a Service for the digitization of payments, loans and insurance offerings at the point of need rather than as a standalone product.
Communities of Innovation: An ICBA Podcast

Inspired by countless conversations with community bankers, ICBA’s Communities of Innovation podcast invites community bankers to share their stories, experiences, and how innovation has shaped their journey.

Join us for conversations on emerging technology, fintech, and the ever-shifting landscape of the community banking industry.

Listen in at icba.org/podcast
Questions?
Thank You!

Charles E. Potts
Executive Vice President, Chief Innovation Officer
charles.potts@icba.org
p: 202-821-4323
c: 678-575-0971
@charlesepotts