

Why Fintech and Innovation Will Shape the Future of Banking

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Agenda

Why Innovation?

Fintech Landscape

Competition

Digital Lending Trends

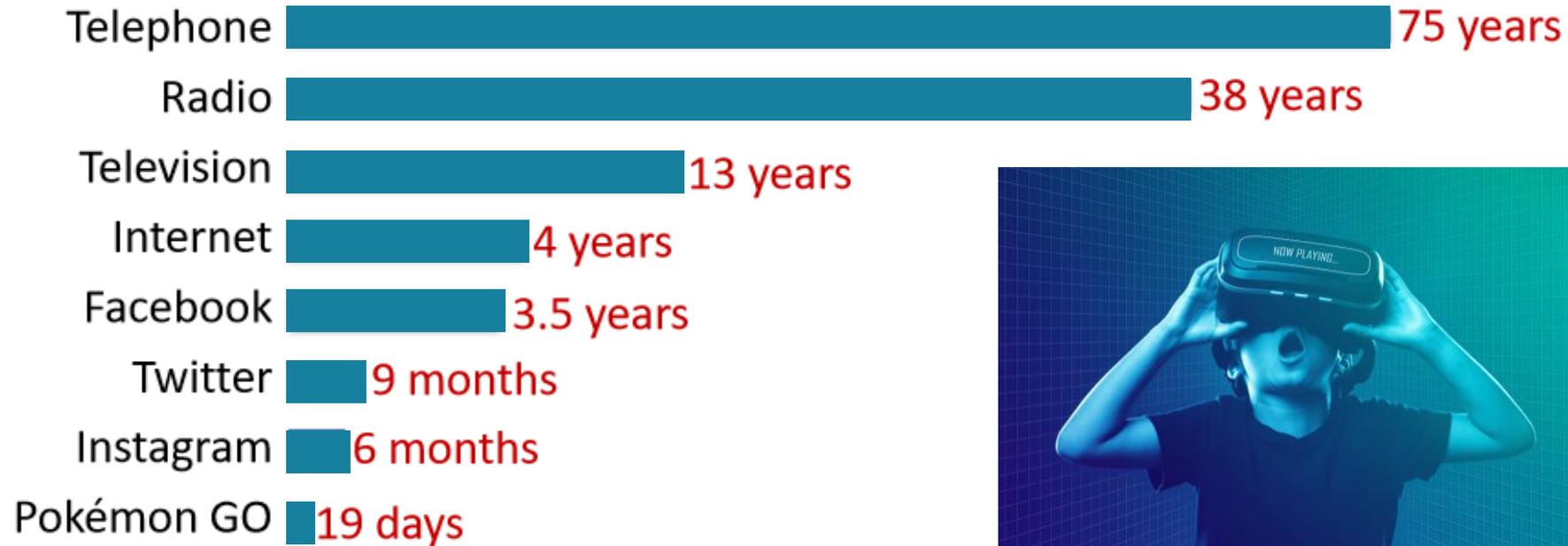
Approaches to Fintech

ICBA Fintech Resources

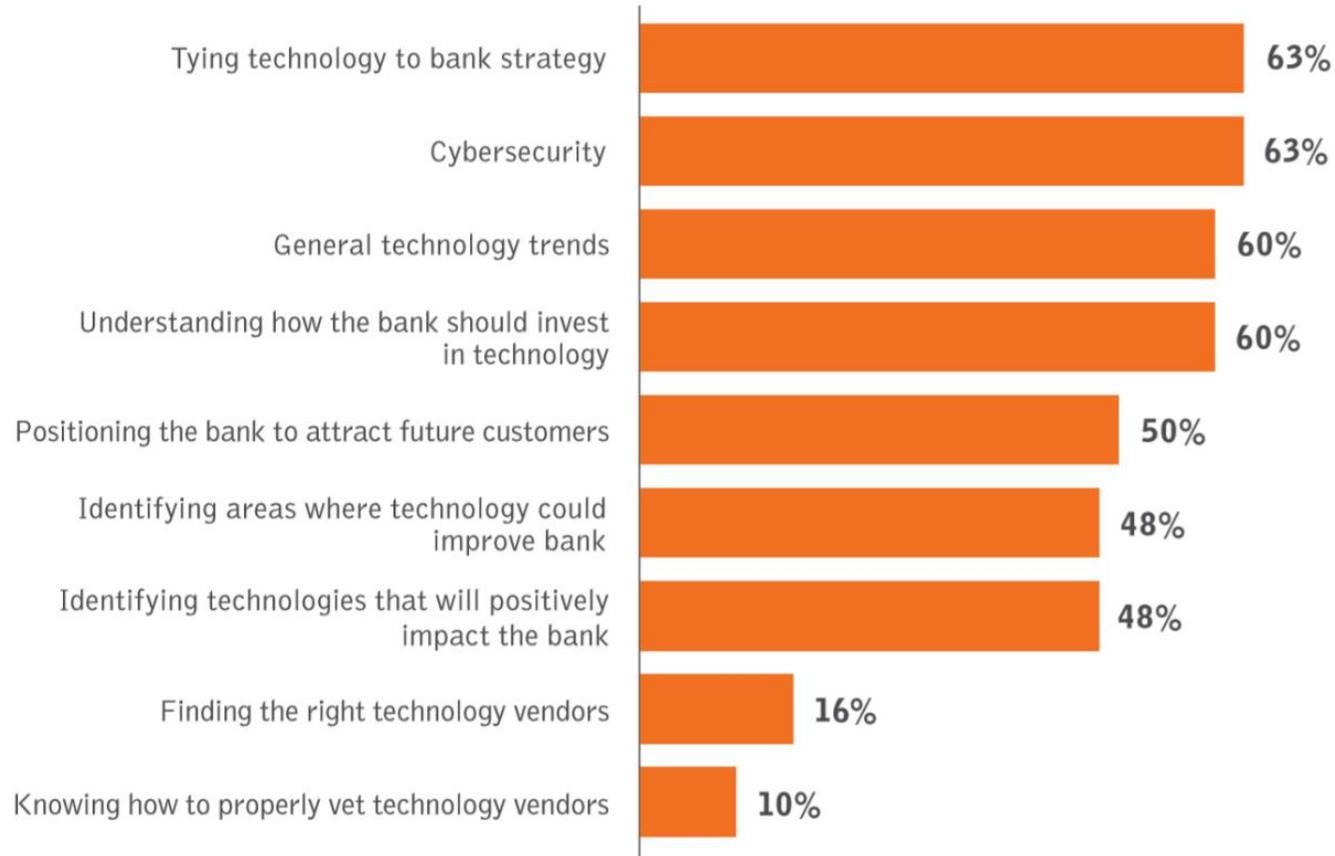
Summary & Conclusions

Embracing Change at a Faster Pace

Time to Reach 1 Million Users



Where does your bank see opportunity?



Characteristics of Strategically Innovative Companies

Culture

- Questioning attitude
- Rewards success and failure, punishes inaction
- Tolerates mistakes
- Welcomes change
- Supports risk taking and change
- Supports teamwork and collaboration

Structure

- Fast and flat
- Small units
- Encourages collaboration
- Autonomous teams at the front line

Processes

- Fast and unbureaucratic
- Decentralized decision making
- Support idea generation, experimentation and execution

Systems

- Support the process of strategic innovation
- Enable collaboration
- Enable the use and creation of knowledge
- Reward risk taking and action
- Used to create relationships with customers

People

- Variety (internal and external)
- Collaboration
- Educated in regard to the strategy and skills needed

Source: Dr. Marc Sniukas, Author of "The Art of Opportunity"

An Innovation Culture is Not Easy To Build...



Sources: Capgemini Financial Services Analysis, 2018; Capgemini Digital Transformation Institute Survey, Digital Culture, March–April 2017, N = 1700, 340 organizations.

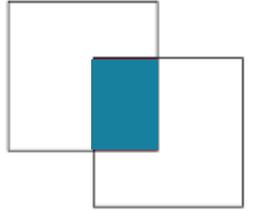
Innovation is Critical

Why it's important

- **Competition** is growing and scale is harder to achieve given costs due to regulatory compliance, infrastructure, integration and speed of change.
- **Digital lending** speeds the process and provides broader access to customers which threatens the largest asset and biggest driver of profitability for community banks.
- **Real-time payments** and related payment methods like P2P, ACH and card-less cash require community banks to have a “seat at the table” of the larger more complex payments providers to compete and ensure a level playing field.
- **Cybersecurity threats** are more likely due to the use of cloud computing and outsourcing. This requires community banks to use more sophisticated technology and talent to prevent these occurrences.



What is Fintech?



- Fintech companies are businesses that **leverage new technology** to create new and better financial services for both consumers and businesses.
 - These products and services are within the categories of lending, personal finance, retail and institutional investments, equity financing, consumer banking, and several others.
- A select few start-up companies compete directly with traditional banking and financial institutions... Fintech companies are providing products and services once exclusively available through financial institutions. However, the current trend is more towards partnership with banks.

Fintech Priorities for Bankers

	Very important	Somewhat important	Not very important	Not at all important
Digital account opening	70%	26%	2%	2%
Payments	53%	37%	5%	5%
Lending and credit	48%	45%	7%	0%
Fraud/risk management	35%	51%	11%	4%
New banking products	34%	50%	14%	2%
Personal financial management	20%	51%	21%	8%
Investment management	16%	36%	34%	14%
Insurance	9%	12%	31%	48%
International remittances	3%	10%	29%	57%

Source: Cornerstone Advisors survey of 305 community-based financial institution executives, Q4 2018

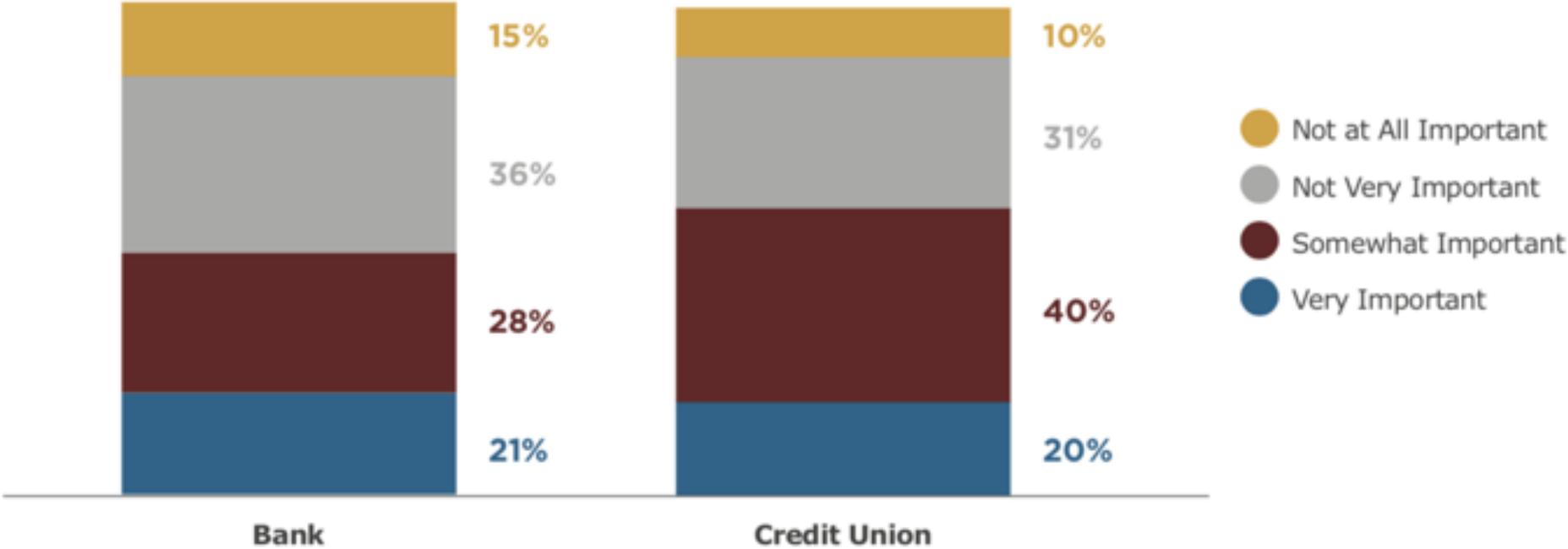
Fintech Objectives for Bankers

	Very important	Somewhat important	Not very important	Not at all important
Improve the customer experience	82%	16%	2%	0%
Create new capabilities or competencies	58%	35%	6%	1%
Strengthen core competencies/competitive positions	55%	39%	6%	0%
Reduce operating expenses	38%	48%	12%	2%
Reduce fraud	37%	51%	13%	0%
Expand product line	36%	51%	13%	1%
Reach new consumer segments	30%	49%	16%	5%
Expand geographic reach	17%	39%	39%	5%

Source: Cornerstone Advisors survey of 305 community-based financial institution executives, Q4 2018

Importance of Fintech Partnerships in 2019

How important will fintech partnerships, collaborations and/or investments be to your organization in 2019?

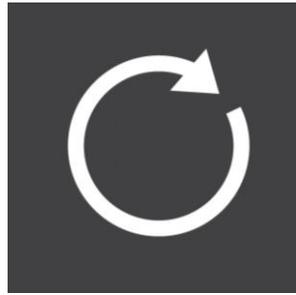


SOURCE: Cornerstone Advisors surveys of community-based financial institution executives, 2018

Community Banks Use Fintech Because They Help:



GROW REVENUE



**LOWER COSTS &
INCREASE EFFICIENCY**



**IMPROVE THE CUSTOMER EXPERIENCE
AND/OR
GIVE THEM A BETTER UNDERSTANDING
OF THEIR CUSTOMERS**



MITIGATE RISK & FRAUD

The Competition

GAFA



Eric Cook, MBA Digital Strategist, WSI
"Community Banking and the Amazon Effect", ICBALIVE18, March 2018

Biggest Threats: Amazon



- Amazon Payments - already 33M users
- Amazon Lending - already doing small business lending (\$3B since 2011)
- Amazon Reload - 2% cash back on all prime purchases
- Amazon Cash - prepaid cards
- Amazon Allowance – reloadable gift cards
- Looking to partner with JPMC or Capital One for checking accounts
- Amazon with JPMorgan Chase and Synchrony for credit cards 5% cash back on Prime cards
- Reportedly exploring mortgage options

Alipay is now the modern gateway to Ant Financial's ecosystem of financial services

PAYMENTS



The crown jewel, Alipay, is now a mobile wallet that has **520M+ users**, and **110M+ partners across 15 countries**.

WEALTH MANAGEMENT



Yu'e Bao is a money market fund that invests spare change from Alipay wallets. The money market fund is **the largest in the world**, managing **\$211B**.



Ant Fortune is a marketplace for other Ant Financial and third-party financial products. Ant Fortune has **180M users**.

INSURANCE



Ant Insurance Service has nearly **400M users** and is seeing premium growth of 43% YoY. Ant Financial's marketplace has **80+ insurance companies** selling thousands of products.

CREDIT SCORES



Zhima Credit (Sesame Credit) creates a credit score based on social networks and payments history – among other factors. At the end of Q1'17, it had about **260M users**.

CONSUMER LENDING



Ant's consumer credit offering, Ant Credit Pay, has **100M active users**. In total, Ant Financial has lent **\$95B** to consumers through Q1'17.



Ant Cash Now allows Alipay users to borrow funds quickly, based on user risk profiles.

Source: "Fintech Trends to Watch in 2018"; CB Insights

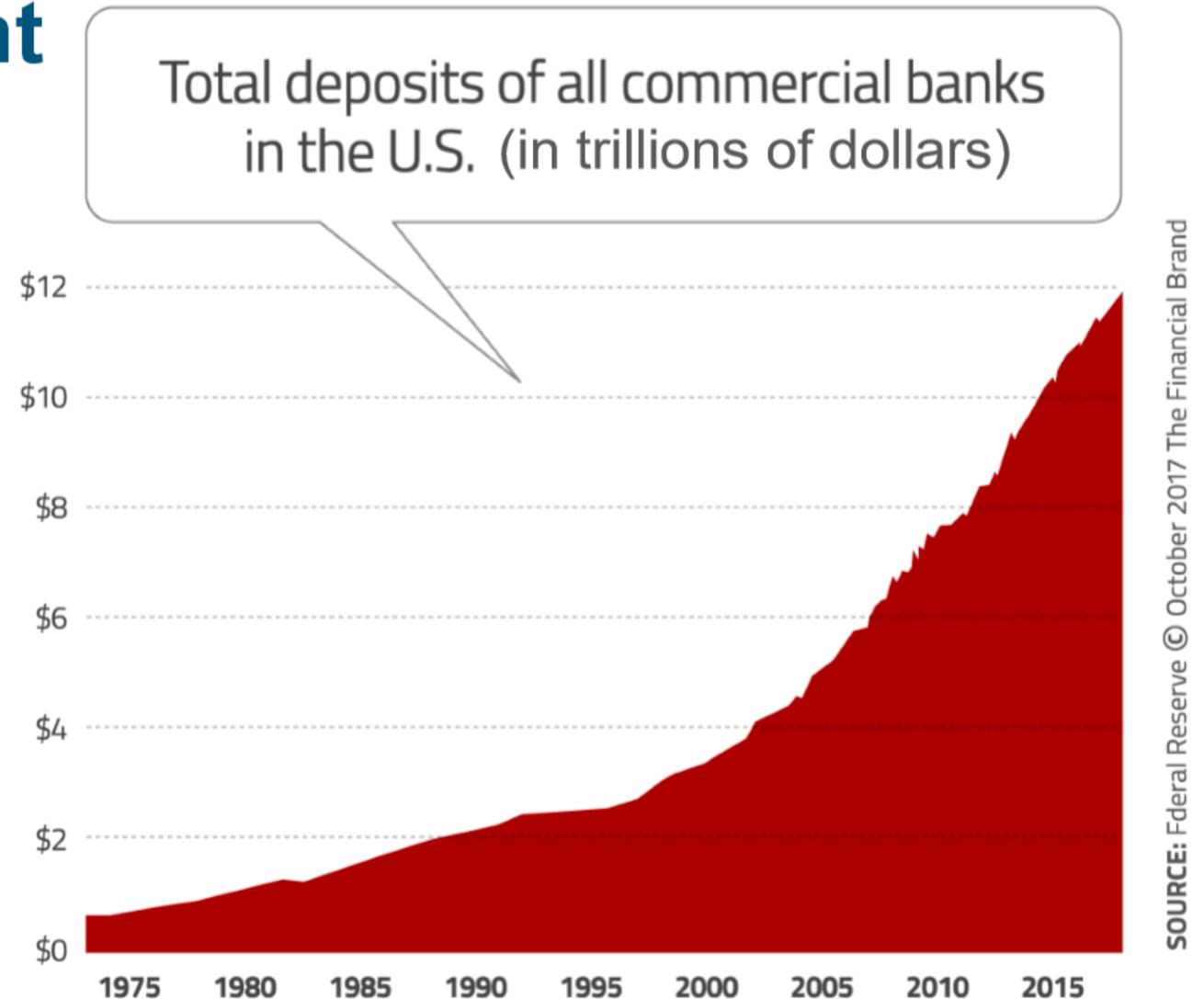
Source: CB Insights - World Fintech Report 2018, Alibaba investor presentations

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Digital Wallets will Continue to Impact Deposit Competition

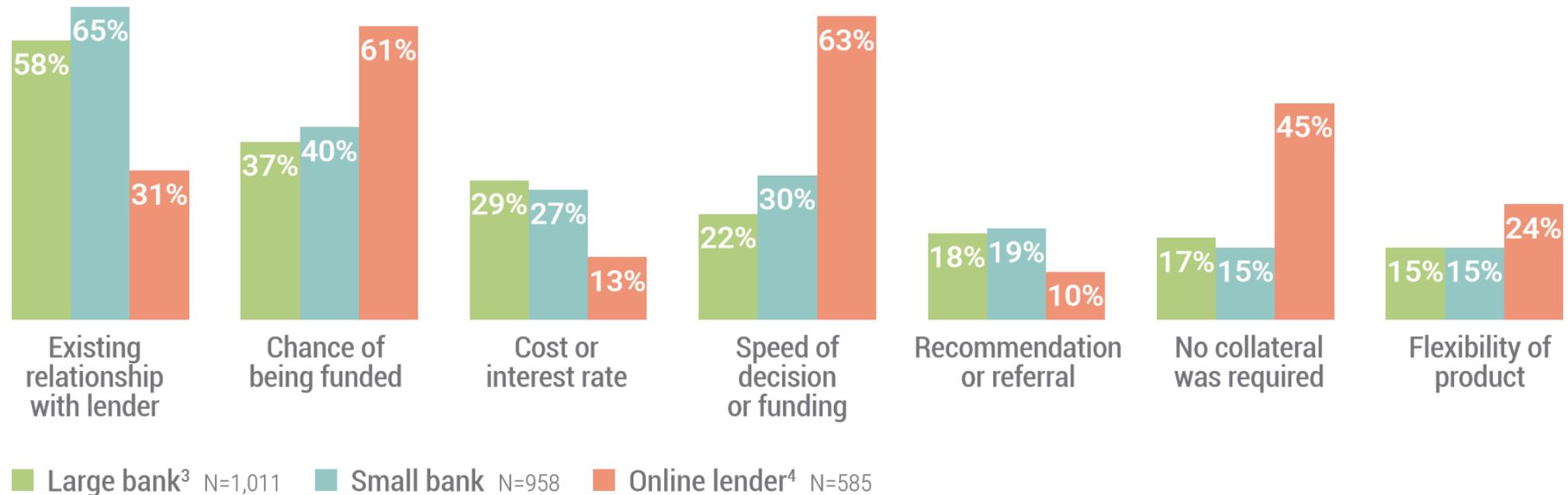
Deposit Displacement

- **P2P stored value**
 - VenmoSM (\$2B)
 - Square[®] (\$2B?)
 - Apple Pay[®] (\$1B?)
- **Retail mobile apps**
 - Starbucks[®] (\$2B)
- **HSA**s (\$45B)
- **Robo-advisory** (\$1.1T)



Approval, not Cost, is the Leading Choice Factor

FACTORS INFLUENCING WHERE FIRMS APPLY^{1,2,5} (% of loan/line of credit and cash advance applicants at source)



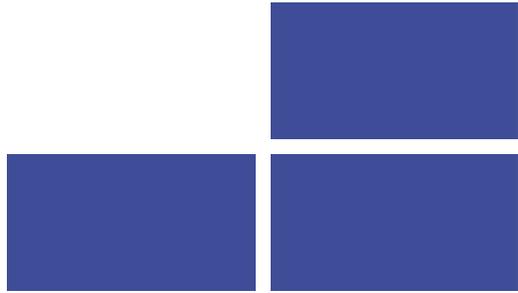
Source: Federal Reserve Banks Small Credit Survey 2017 (Large banks are > \$10B in deposits)

Key Considerations with Digital Lending

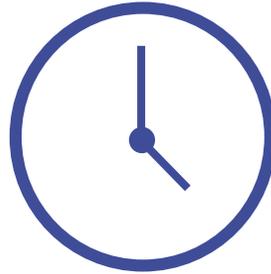
- Strategic alignment – Is this offensive or defensive?, hold the loans and service or sell them?; drive fee income, cross-sell efforts
- Product strategy – rates, terms, structure vs. competition and “credit box” (implications for approval rate and customer experience)
- Fraud – what does fraud look like in a digital lending environment?
- KYC/CIP – documented resources or undocumented, analytical resources?
- Servicing/collections – how do we handle out-of-footprint customers?
- Marketing – Existing customers and/or prospects? Identify target market

Source: Foundation

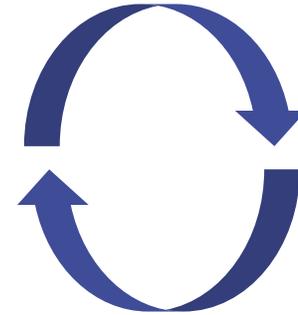
Approaches to Fintech



Build – My Way;
Technology Ownership



Buy – Their Way;
Time is of the Essence



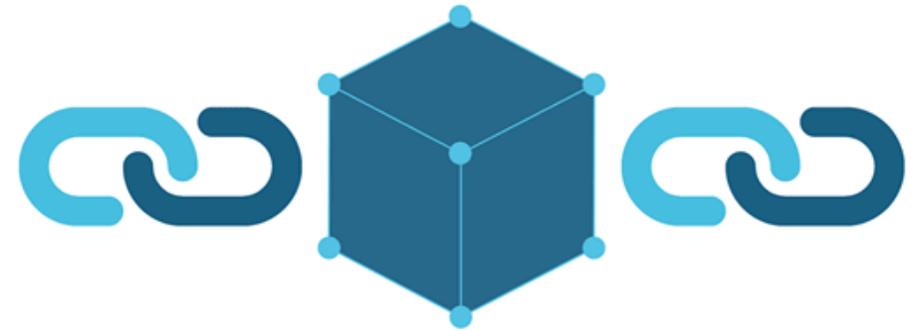
Partnerships – Our Way;
Shared Risk & Reward

Fintech Evaluation Risk Factors

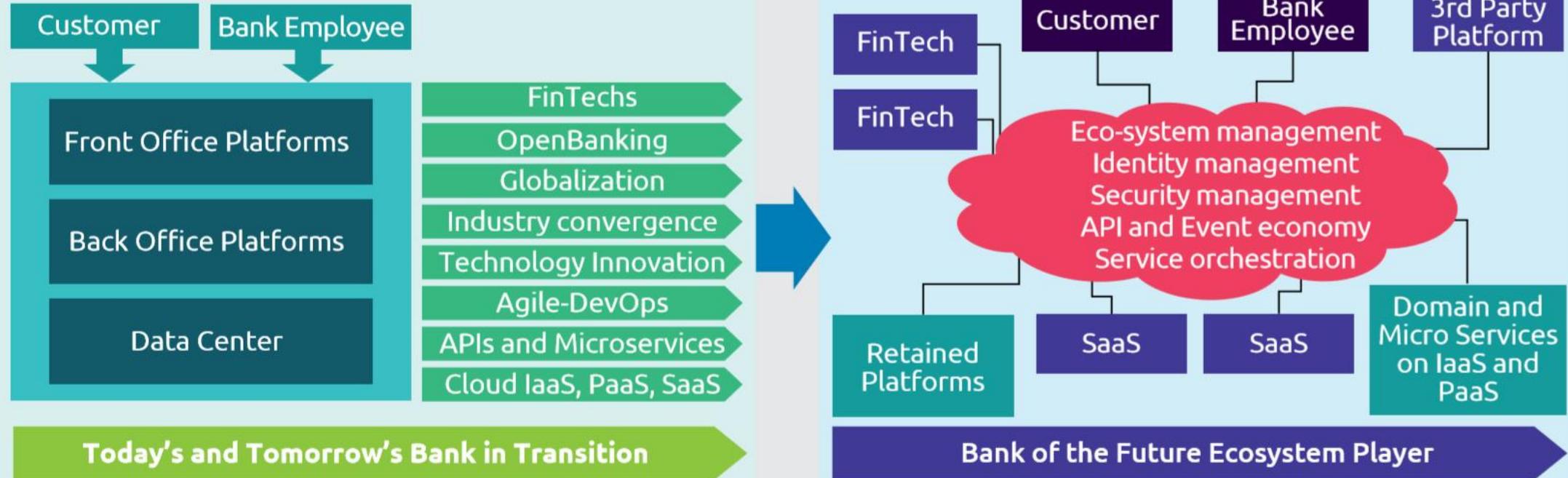
- Strategy/Mission Fit
- Financial State
- Executive Evaluation
- Technology Maturity
- Ease of integration/Scalability
- Customer Impact
- Regulatory impact
- Benefit/ROI
- Interfaces and Integration
- Roadmap
- CX

Emerging Trends to Watch Going Forward

- Mobile-first platforms
- Open banking/Digital Banking
- Data Analytics/Artificial Intelligence
- Financial literacy engines
- Automated customer onboarding
- Self-service/Personal digital assistants
- Blockchain/cryptocurrencies



The Changing Bank Ecosystem



Source: Capgemini Financial Services Analysis, 2018.

ICBA Innovation – Fulfilling Our Mission

“To create and promote an environment where community banks flourish”

Education

- Educating fintech companies and community banks on innovation

Outreach

- Publications
- Fintech Strategy Roadmap
- Innovation Station
- Active social media presence

Conferences

- ICBA LIVE® Convention
- Sponsored conferences
 - FIFintech conference
 - FinXTech

Partnerships

- Curated fintech directory for banks
- Find partners focused on community banking
- Accelerator program

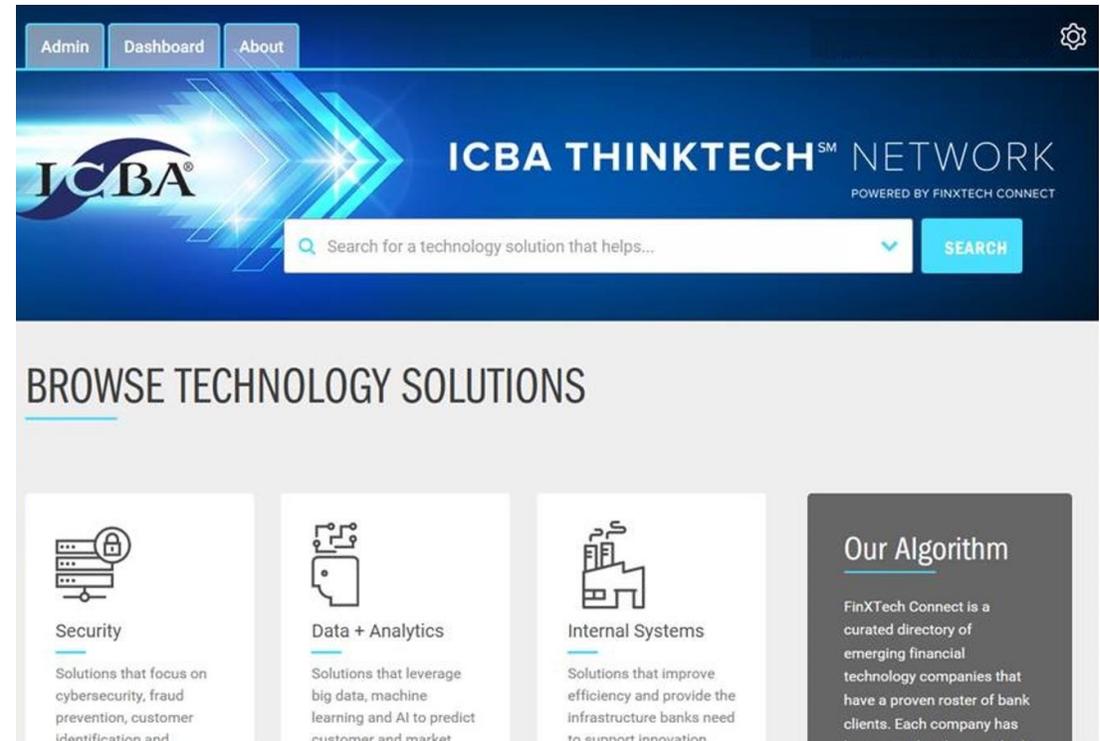
ICBA Innovation Focus

- Communication and Messaging
 - Align consistent messaging across ICBA for advocacy, services and internal departments
 - Regulatory interaction – working with regulators to address industry issues
- Partnerships – Assist and Add to Our Process
 - Thorough vetting to identify partners focused on community banking
 - Build, buy or partner?

ICBA ThinkTECH Network

Powered by FinXTech Connect

- A curated, online directory of technology companies that are strategically partnering with financial institutions
- Create an experience for community bankers which would be similar to Yelp, Consumer Reports or Angie's List
- Partnering with Bank Director/FinXTech to help provide this solution to our membership



ICBA ThinkTECH Accelerator

In partnership with The Venture Center in Little Rock, Ark.

- 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
- Began the program/process in October 2018
- Provides a structured process to innovation and allows us to focus purely on community bank issues and involve our members
- Provides a feeder system of early stage companies/fintech's to bring on new corporate members
- Provides interaction and investment opportunities for ICBA and our community bank members

ICBA ThinkTECH Accelerator

- Focused on solving community bank problems/issues and potential future opportunities
- Selection committee/fintech selection
- ICBA will invest in the companies and help fund the accelerator program
- Mentorship

Summary & Conclusions

- For innovation/fintech to be successful, it must be interwoven as part of your culture and strategy at the bank
- There is no “one-size-fits-all” approach on innovation organizational structures for banks
- While fintech’s failed to disrupt banks, they did raise the pace, volume and complexity of change
- Emotional consumer experiences and “high-tech, high touch” are the go-to strategies for banks trying to balance digital vs. human interactions
- Change and education will be “constants” going forward for innovation in banking

Q & A

Thank You!

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