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TOP TEN TRENDS

IMPACTING BANK TECHNOLOGY FOR 2022

By Jimmy Sawyers

"It is important for the common good to foster individuality; for only the individual can produce the new ideas which the community needs for its continuous improvement and requirements – indeed, to avoid sterility and petrification."

— Albert Einstein

Our nation is stronger with a sufficient number of diverse, community-based financial institutions serving every community and every American citizen by providing access to financial services from a trusted and stable provider. I want to see people realize the American dream by establishing relationships with bankers who care and who help them become homeowners, obtain an education, start their own businesses...whatever their dreams may be, effecting generational change that benefits their families and our society as a whole. That dream is still alive...thanks largely to local community banks and credit unions.

Unapologetically, I am an advocate of community-based financial institutions. A community bank changed my life by employing me at a young age (19), paying for my education, mentoring me, and putting me on a path to live the American dream. Now that I have my own firm, our mission is to help those that helped me to succeed in a rapidly changing competitive landscape where technology can level the playing field and give even small institutions capabilities they only dreamed about years ago.

As Dr. Einstein said above, "sterility and petrification" are to be avoided in a healthy community. Traditional banks will only become petrified by not embracing change and not employing the right people, processes, and technology. Sterility will be self-induced, not as a matter of environment but of inaction. ***Let's get 2022 started with ten technology initiatives that will power your bank into a new era of digital transformation.***

PREDICTION #1

Core Providers Become More Valued Yet More Scrutinized

New core banking systems that can actually run the entire bank (including such applications as commercial loans and treasury management) have proven more elusive than Bigfoot. We have some grainy photos but none in captivity. Yet...the tales continue to be told.

This reality has caused bankers to gain a new appreciation for their traditional core providers, but it has also invited more scrutiny in the form of structured due diligence to evaluate core providers and determine their value and ability to deliver the world-class digital services required to compete.

We need more competition in the oligopoly that exists with core banking providers. Accordingly, the search will continue, as it should.

In 2022, banks' executive management teams and boards of directors will no longer accept speculation or opinion from their IT teams. Instead, they will require documented and thorough analysis of core provider relationships, new or old. Before a core contract is renewed, there will be a new emphasis on negotiating the right contract terms and pricing. The advent of "bundled pricing" by many core providers will require bankers to dig deeper in the investment analysis to truly determine what services are included in this "pig in a poke." Per unit pricing will require more sophisticated projections based on the bank's anticipated growth and its customers' adoption of digital services at an increasingly rapid rate. Application by application, bankers will analyze which applications are best integrated in the core versus which are better outsourced to third-party providers with robust APIs.

CHALLENGE QUESTION

When did your bank's management team last evaluate your core provider and was the due diligence documented, presented, and approved?

PREDICTION #2

Bankers Stop Obsessing Over Fintechs and Start Beating Them at Their Own Game

An August 17, 2021 report by Matt Egan of CNN Business noted, "Nine of the top ten PPP lenders with the highest rate of suspicious loans are fintechs — and the remaining one acts like a fintech company, according to the study by researchers at the McCombs School of Business at the University of Texas at Austin."

At last check, K Servicing, the offshoot of fintech Kabbage that processes, according to their website, "Kabbage Funding loans or PPP loans taken prior to October 16, 2020," had 2,156 complaints on the Better Business Bureau website. How many does your traditional bank have? American Express acquired Kabbage but, perhaps wisely, not its existing loan portfolio.

Trust still matters. Integrity in banking is still expected. Technology doesn't change that dynamic.

Chime, the neobank that claims to have over 12 million customers, is not really a bank. As a matter of fact, the California Department of Financial Institutions required Chime to stop calling itself a "bank." Chime now calls itself a "financial technology company" noting on its website disclaimer that banking services are provided by the Bancorp Bank or Stride Bank.

This is why I believe bankers that focus on their strengths can beat fintechs at their own game. Banks have real customers with actual account balances, not just zero-balance or low-balance accounts that will not sustain a business. Not to be underestimated, traditional banks have the centerpiece and the foundation of the customer relationship…the checking account. The right technology can make that checking account powerful, useful, and ironclad.

Should traditional bankers ignore fintechs? Of course not! However, as Elvis sang, it's time for "a little less conversation" and "a little more action, please."

There is nothing a fintech is doing that a traditional bank cannot do with the right strategy and tactics.

CHALLENGE QUESTION

Does your bank spend more time talking about fintechs or actually making the necessary changes to defeat fintechs?

PREDICTION #3

A Renewed Focus on Efficiency Drives Bankers

In the banking industry today, we have a lot of technology solutions to problems that never existed. We should ask, "What is the problem we are trying to solve? What are customers demanding that we don't have?"

Is it a problem that your vendor management system doesn't include the guy who brings coffee to the bank? Are customers, perfectly satisfied with Venmo and Square Cash, really demanding a bank-branded P2P payment solution that could increase fraud and damage the customer experience? What is the actual usage of your bank's PFM app, if you've invested in one to compete with the thousands on the market, including those by Intuit (i.e., Mint and Quicken)?

As I've noted in previous years, these three resource hogs continue to feed at the trough of inefficiency, causing bankers to misallocate valuable time, money, and resources to bloated and unnecessary solutions. It's time to slaughter inefficiency.

My simple way of helping my banking school students understand the efficiency ratio is by asking, "How much does your bank spend to make a dollar?" An efficiency ratio of 60% means that bank spends 60 cents to make a dollar. As of December 31, 2021 data, the national benchmark for the efficiency ratio in U.S. banks is 67.81%, according to our friends at Seifried & Brew LLC. I would contend that banks' efficiency ratios must get much better to survive the future where costs are being driven down by digital services.

CHALLENGE QUESTION

Are your people devoting their time to the right applications?

PREDICTION #4

Bankers Learn to Balance Cybersecurity Controls as a Service Business Should

As I have preached for years, we cannot lock our banks down so tightly that our employees don't want to work for us and our customers don't want to do business with us. There must be a balance of the risk-reward proposition that is the very foundation of banking.

Overzealous IT staff, fueled by the latest newsfeed about cybersecurity threats or an uninformed speaker at a tech conference, often forget they work for a service business, one that must open its doors, physically and digitally, to the outside world. A bank is not a military installation. A bank must engage customers to survive. So, there is a balance between the customer experience and cybersecurity that must be achieved, and achievable it is. Executive management and the directorate will get more involved in cybersecurity preparedness, making sure the IT staff, with good intentions, doesn't kill the bank competitively with unnecessary policies, controls, and security measures.

IT audit firms operating without integrity from the reporting extremes of "all is well" to "lock it all down" will be exposed and terminated, eventually ceasing to exist. Qualified and reputable IT audit and cybersecurity testing firms will be engaged to help bankers test their controls while getting professional advice on a reasonable balance that encourages high performance by bank employees and complete satisfaction by bank customers.

CHALLENGE QUESTION

Have you engaged the right IT audit firm, and do your bank's cybersecurity preparedness measures make it more competitive or less competitive?

PREDICTION #5

Banking in the Metaverse Emerges

What is the "metaverse" and what does it have to do with banking? According to Investopedia:

> *The metaverse is a digital reality that combines aspects of social media, online gaming, augmented reality (AR), virtual reality (VR), and cryptocurrencies to allow users to interact virtually. Augmented reality overlays visual elements, sound, and other sensory input onto real-world settings to enhance the user experience. In contrast, virtual reality is entirely virtual and enhances fictional realities.*

Think about the movie, Avatar (2009), but with banks and their customers, not blue-skinned humanoids.

What about video banking? Isn't that preferable? I think not, based on the failure of Amazon's Mayday video customer service and the fact that most people turn off their video on Zoom calls these days. Many people are still not comfortable on video. However, they might be entirely comfortable as an avatar interacting with their bankers in the metaverse.

See Facebook (Meta) Horizon as one example. Online, virtual worlds such as Second Life, which launched way back in 2003, are nothing new. However, the technology and our society may be ready for this world, the metaverse, to truly become a viable place to do business. This may be more about how we interact via tech than the tech itself. Build your bank's awareness of the metaverse in 2022 so that you're positioned should this new channel take off and reach critical mass.

CHALLENGE QUESTION

How is your bank positioned to leverage the metaverse to a competitive advantage?

PREDICTION #6

The Payments Franchise Is Protected at All Costs

Bankers have the payments franchise. All roads lead back to the checking account.

We have so many ways to pay these days. Recently, I paid for my breakfast by scanning a QR code on the receipt using the Toast POS system. Another time, I used my smartphone for an in-person yet contactless payment at an Amazon 4-Star store. I pay for DoorDash and InstaCart via the apps. What do all of these have in common? My bank is getting interchange revenue from these payments as all must hit my credit cards or checking accounts, eventually. Even my Venmo and Square Cash app transactions ride my banks' debit card rails.

Still, many banks don't allow loan payments online or by card. The capability is there…they just choose not to use it, regardless of customer demand.

Inevitably, I get the question about cryptocurrency when discussing payments. Can this truly be a "currency" if not backed by a central government? Can a "currency" fluctuate wildly in value each day? Ask Odell Beckham, Jr. who requested his salary be paid in Bitcoin when he joined the Los Angeles Rams in November 2021. Bitcoin was priced at $64,158 at that time. As of January 24, 2022, Bitcoin was down 46.55% since he signed. His $750,000 became about $401,500, but he will still be required to pay taxes on the full $750,000.

Back to what we have more power to control…is that your bank's debit card or credit card loaded in your customer's digital wallet, app, or online profile? If not, why not? What are you doing to secure that spot and therefore the payments franchise?

CHALLENGE QUESTION

What is your bank's payment strategy?

PREDICTION #7

Debit Card Programs Become More Effective

The average consumer is not a banker or a tech entrepreneur. When discussing digital transformation and payments, we often forget that our customers do not always behave like us.

For example, the Federal Reserve Bank of Atlanta's 2020 Survey of Consumer Payment Choice (released in 2021) reported that consumers made 68 payments per month on average in 2020, a number that held steady from 2019. So, which payment method do consumers use most? Debit, credit, or cash?

Of the 68 monthly payments noted above, debit cards were used most often at 23 per month on average. Credit cards were next at 18 payments, and cash was last at 14 payments. The remaining 13 payments were spread across prepaid cards and other methods.

The survey found that 85% of consumers own a debit card with 68% using it each month.

So, what does this mean for your bank? One word…revenue! Non-interest income is hard to find. Here it is. Now, are you feeding this golden goose or are you killing it? Many banks have such draconian controls over debit cards that the customer experience is terrible due to blocked states, frequent transaction denials, and low POS limits. I call this the "dollar for a dime equation." At a minimum, your bank's debit card fraud losses should be no more than 10% of your interchange revenue (e.g., $100,000 in losses should be balanced against $1 million in interchange revenue). You give me a dollar and I give you a dime. I'll take that return.

I often find that bankers can quickly tell me their losses but have a harder time knowing the revenue figures. By tracking both numbers, month by month, bankers can see the impact of debit card strategies designed to leverage this popular payment method while improving customer satisfaction and bank profitability.

CHALLENGE QUESTION

Who is in charge of deciding which debit card controls are applied at your bank?

PREDICTION #8

The Death of Brick and Mortar Proves Greatly Exaggerated

In 1987, the U.S. had 13,823 FDIC-insured commercial banks with 45,851 branches. As of June 2021, the number of charters had shrunk by 9,448 to only 4,375. Yet, the number of branches over this period increased by 33,515 to 79,366 (Source: FDIC). Is the branch dead? Evidently not.

Are there branch closures? Yes…2,927 in 2021 to be exact. However, according to a January 24, 2022 article in Banking Dive, five banks (Wells Fargo, US Bank, Huntington Bank, Truist, and Bank of America) accounted for 38% of these closures, mostly due to acquisitions resulting in overlapping branch networks, a normal occurrence.

Financial services are more personal than buying coffee pods on Amazon, who, by the way, also has its share of physical locations (over 600) via Whole Foods, Amazon Fresh, Amazon Go, Amazon 4-Star, and Amazon Books. Amazon even opened its first hair salon in London and will open its first physical clothing store in Los Angeles soon.

One cannot ship a haircut via Fed Ex.

Even those who championed "digital-only" bank startups are now realizing that a hybrid model works best. I've always advocated "digital-too" over "digital-only" as there is no shame in having a high-tech, supremely convenient branch.

The branch is changing. It's becoming smaller, more efficient, more digital. Similar to the holometabolism, the complete metamorphosis we see when a caterpillar becomes a butterfly, the branch is not dead…it's just transforming into something better.

CHALLENGE QUESTION

How will you leverage your branch network as one of the channels of choice for your customers?

PREDICTION #9

Bankers Learn the Power of Three as in the Three Phases of Digital Adoption

When I help banks with digital transformation strategies, we cover my three phases of digital adoption. Simply put, these are **(1) Awareness:** As a customer, I have to know about the service, want it, trust it, and perceive value; **(2) Enrollment:** I need to sign up for the service on the channels of my choice, it needs to be easy, and I might need access to people who can help me complete the enrollment; and **(3) Use:** I want to install the service correctly, feel that it has utility on a daily basis and will work properly, and that I am simply happy with it.

Too often, bankers do not test their digital services for the three phases, putting themselves in the customers' shoes from awareness to use. By doing so, we can eliminate obstacles and increase customer acceptance and usage of digital services. If we don't, our competition is glad to welcome our dissatisfied customers, quietly and permanently.

CHALLENGE QUESTION

How do your three phases of digital adoption stack up against the competition?

PREDICTION #10

Customer Relationships Are Built Channel by Channel and Dollar by Dollar

Focusing on one customer segment or one channel are strategies that lack diversification and sustainability in most banks. Smart bankers understand that customers are unique at different stages of their lives and therefore these relationships should be treated as such.

The net borrowers of the under 40 crowd often give way to the net savers of later years. We need both, although each has different needs. We need all customer segments for a bank to be profitable and high-performing.

Expect bankers to worry less about individual customer profitability and instead focus on building those customer relationships to obtain as much of the deposit and loan share possible. As many fintechs have learned, having a low-balance account is not a profitable customer relationship. Like the airlines, bankers will get passengers on the plane first, then these customers will become more profitable as they rack up more miles (read deposit and loan balances). Profitability will then be a matter of the bank's pricing, not the customer's current status.

Banks offering the right digital channels will succeed as the complementary nature of all customer segments and all channels work together to achieve a profitable and mutually beneficial relationship.

CHALLENGE QUESTION

Which of your channels is most in demand and are you tracking activity across all channels?

SUMMARY

The previous two years have presented several challenges...testing our logic, our trust, our temperaments, our will. As we look ahead to 2022, I like what James Thurber said: "Let us not look back in anger, nor forward in fear, but around in awareness."

Returning to some semblance of normalcy and optimism, the only mandate for 2022 is for bankers to help re-establish a bank tech meritocracy where performance is rewarded and innovation is encouraged. A heightened awareness of trusted providers will make that happen.

Jimmy Sawyers is Co-Founder and Chairman of Sawyers & Jacobs LLC,

and is one of the most independent and informed voices in the industry. Leaders in Innovation-Risk Management-Cybersecurity-Technology through the firm's four brands.

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