



Emerging Trends in Fintech – The Community Bank Perspective

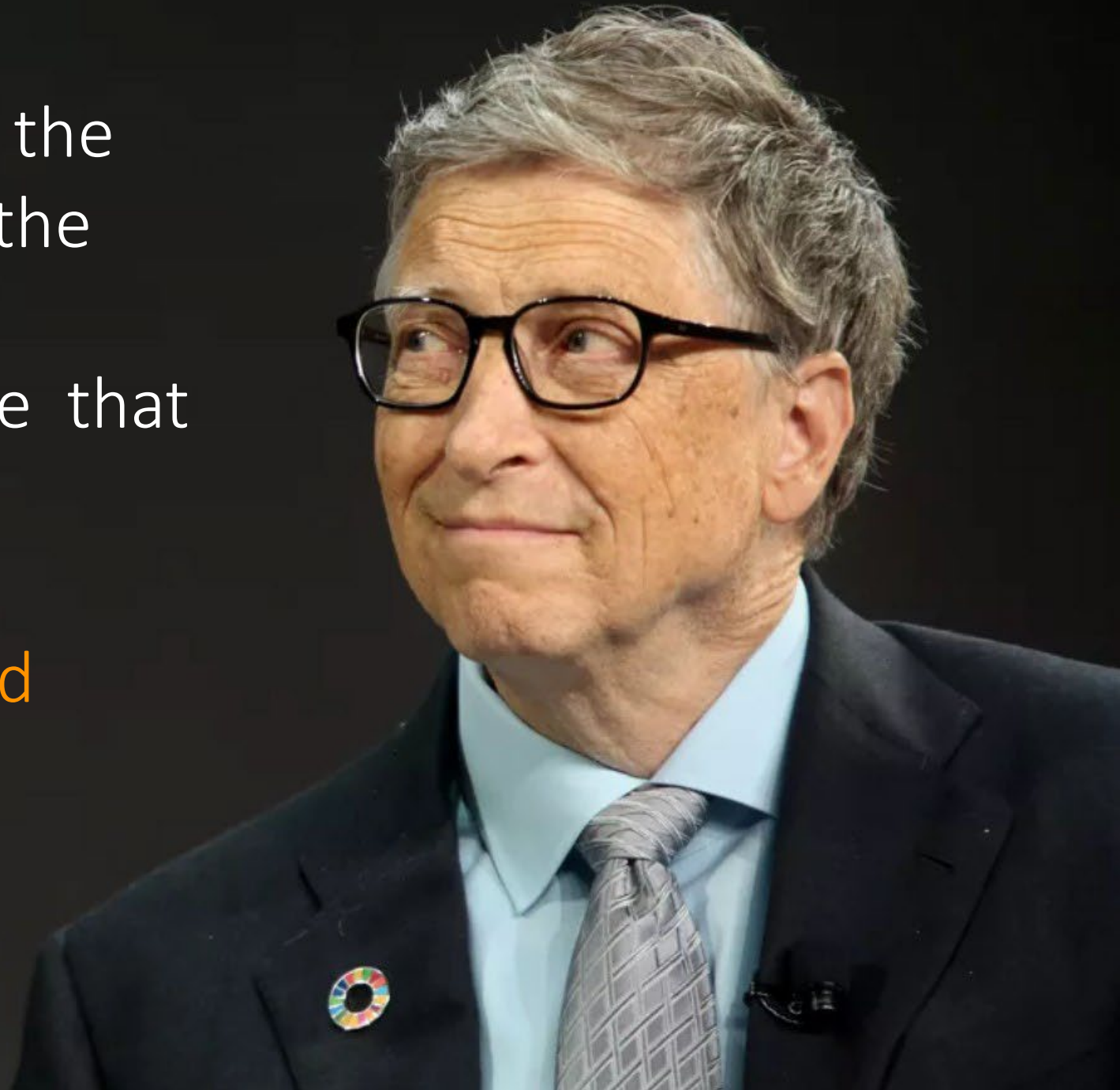
Charles E. Potts
Executive Vice President, Chief Innovation Officer
Independent Community Bankers of America

Agenda

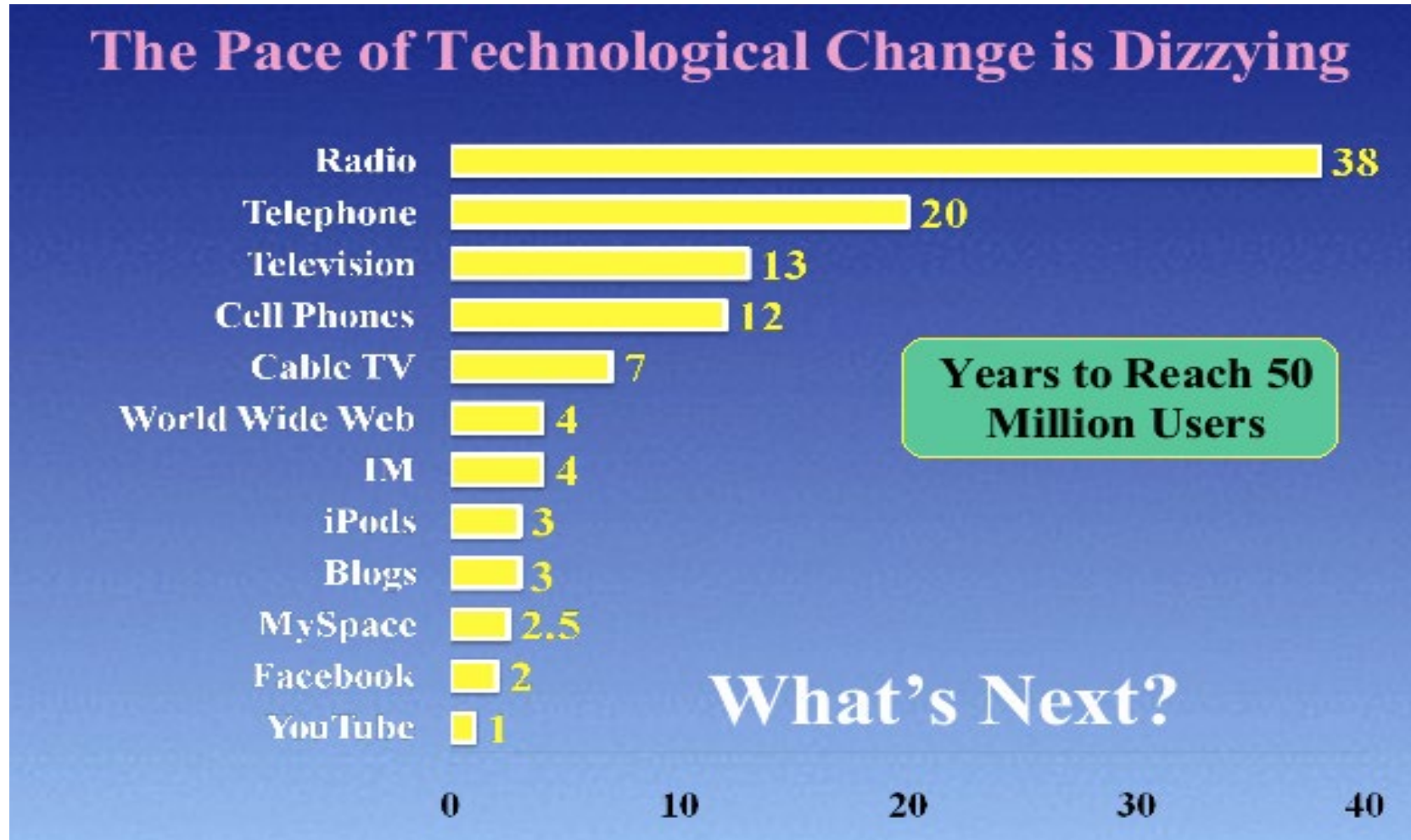
- Change
- Why Fintech?
- Innovation as a Concept
- ICBA Thought Leadership
- Q&A?

“We always **overestimate** the change that will occur in the next two years and **underestimate** the change that will occur in the next ten.

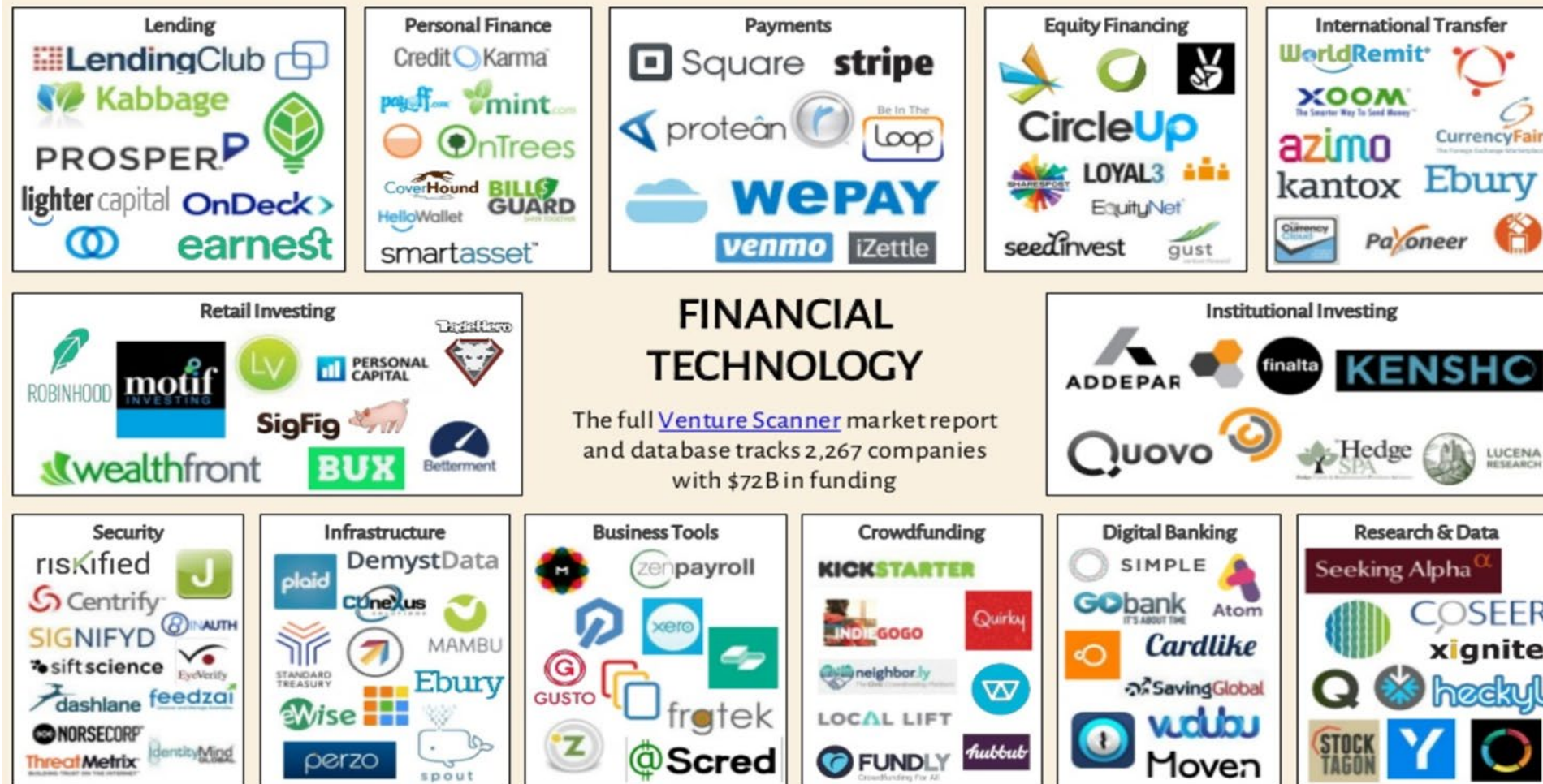
Don't let yourself be **lulled** into inaction.



Embracing Change at a Faster Pace



The Changing Fintech Landscape



FINANCIAL TECHNOLOGY

The full [Venture Scanner](#) market report and database tracks 2,267 companies with \$72B in funding



The graphic above shows only a sampling of companies in each category, data as of July 2017 4

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

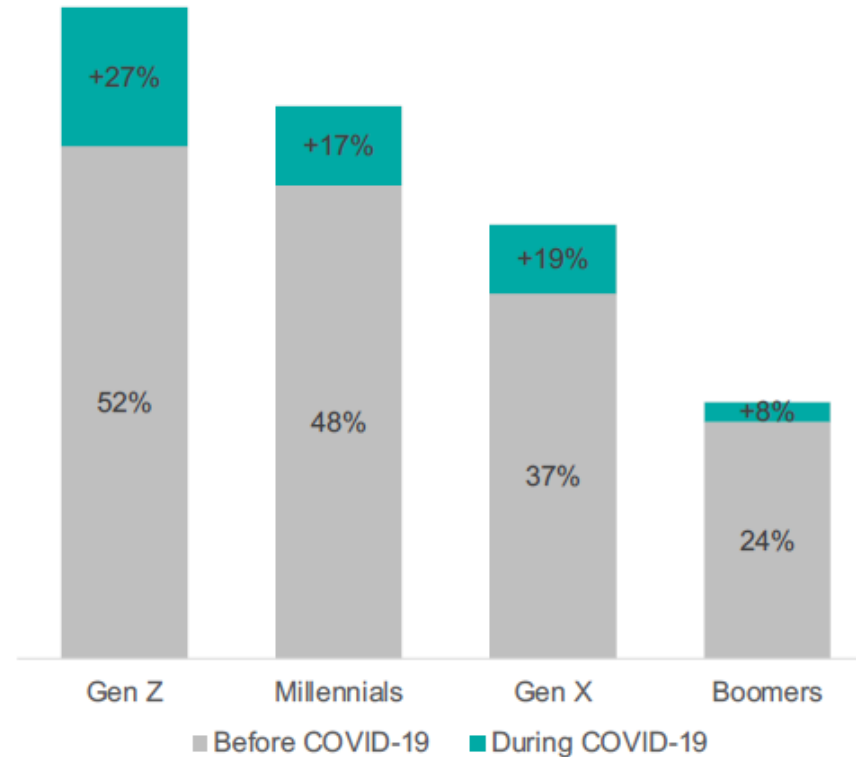


Greater access

76%

Fintech helps find new/better financial products

Fintech Usage Changes¹



1. Represents relative percentage changes

Sources: State of Fintech Apps 2020, Sensor 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

FINANCE
Square is building a decentralized finance business using bitcoin
PUBLISHED FRI, JUL 16 2021 8:49 AM EDT | UPDATED 5 HOURS AGO
Tanaya Stachel
@TANAYASTACHEL

Facebook's payment system extends to online retailers in August

Shopify stores are up first

FINANCE - WALMART
Walmart poaches two Goldman Sachs bankers to lead new fintech startup
BY SRIHAR NARAYAN AND BLOOMBERG
February 23, 2021 11:57 PM EST

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

US open-banking regulation gets Biden's backing

Revolut confirms a fresh \$800M in funding at a \$33B valuation to supercharge its financial services superapp

BRIEF
Chime, Current lead US banking app downloads in first half of 2021: report
Published July 6, 2021

Across the fintech landscape, the pace of partnership and product announcements is accelerating

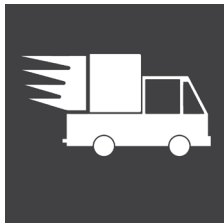
Sources: Press search



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?



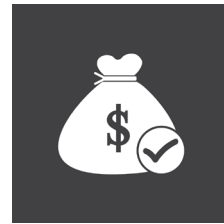
FAST



SECURE



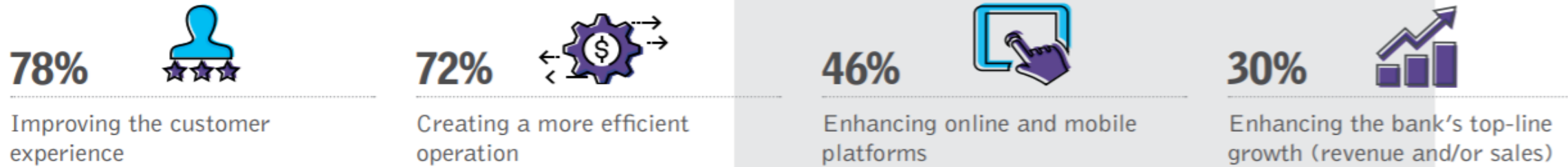
SIMPLE



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.

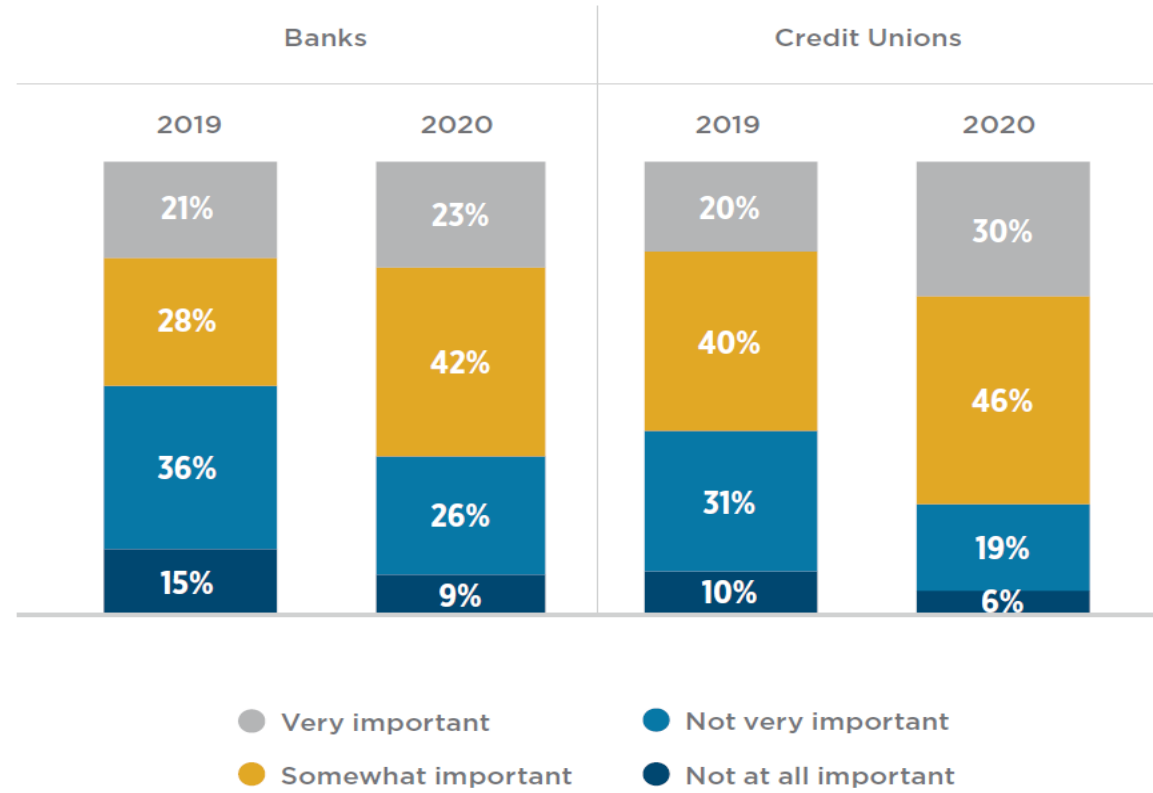


Bank Asset Size	>\$10B*	\$1B - \$10B	\$500M - \$1B	<\$500M	Total
Improving the customer experience	75%	75%	72%	85%	78%
Creating a more efficient operation	88%	63%	84%	71%	72%
Enhancing online and mobile platforms	75%	43%	52%	38%	46%
Enhancing the bank's top-line growth (revenue and/or sales)	50%	30%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

Source: Bank Director 2019 Technology Survey

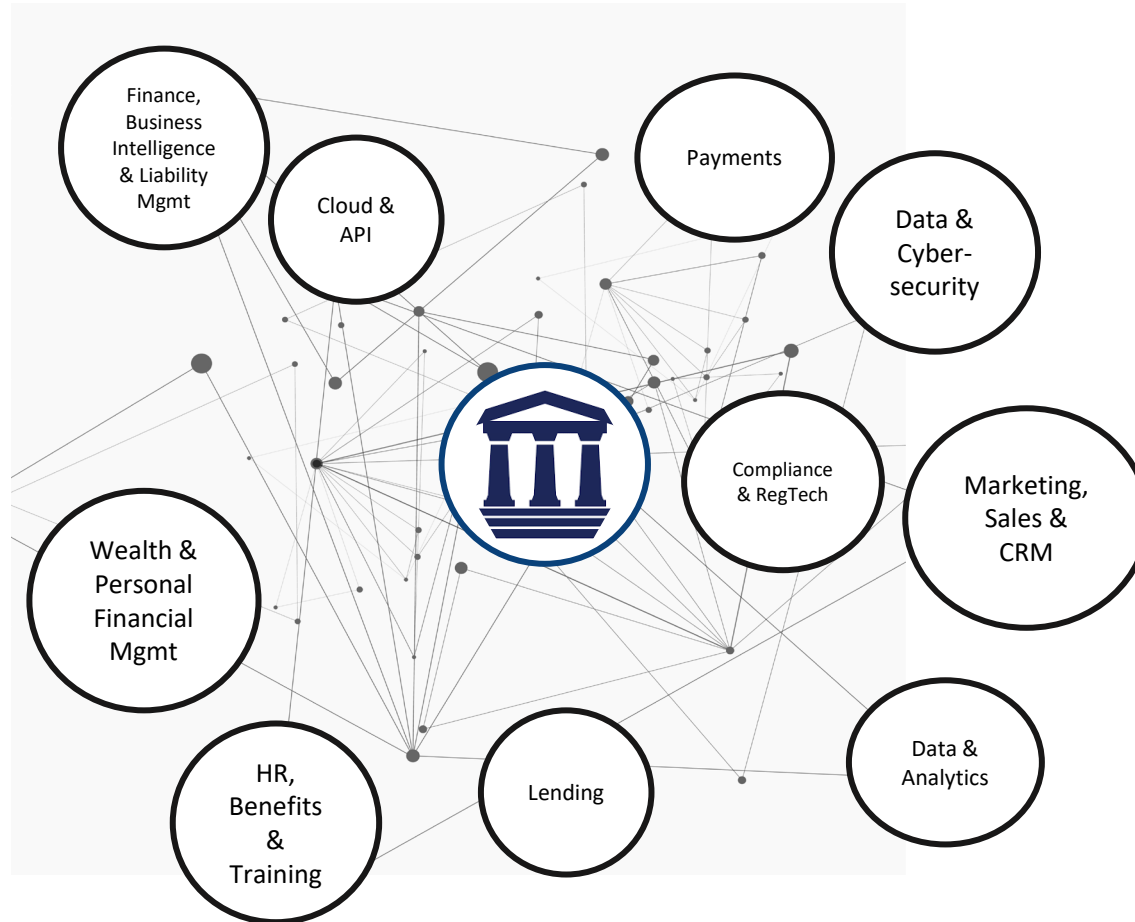
Importance of Fintech Partnerships

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



SOURCE: Cornerstone Advisors surveys of community-based financial institution executives, 2020

Fintech's Wide Reach



“...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

PPP



“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



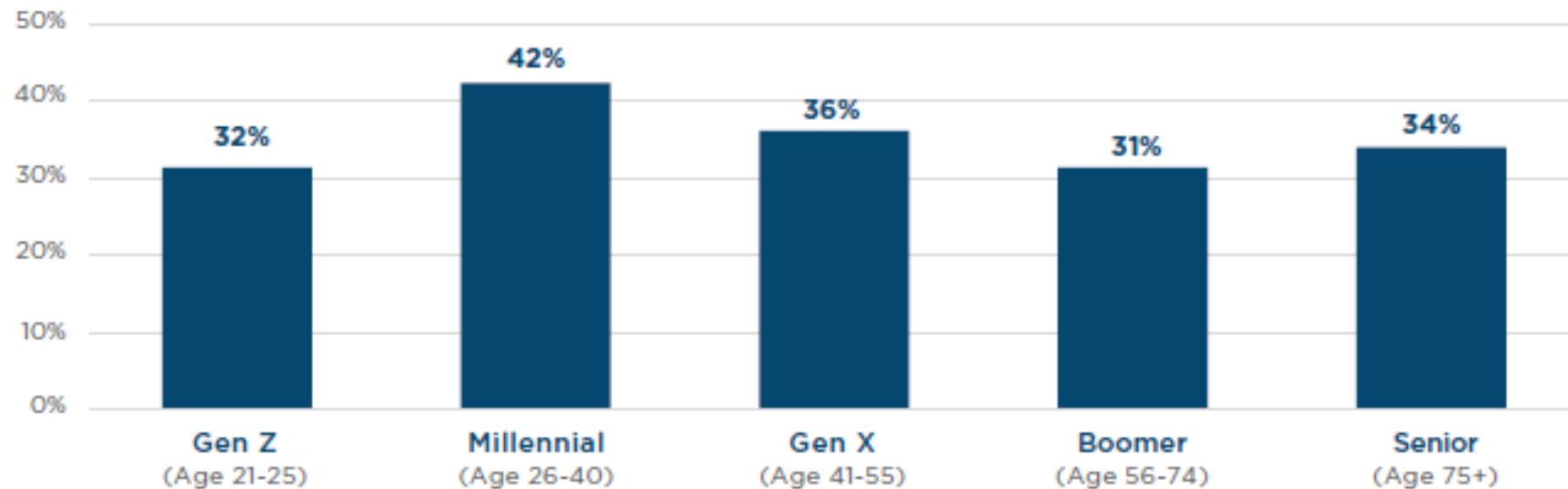
Components of digital disruption in banking



Source: Accenture © August 2015 The Financial Brand

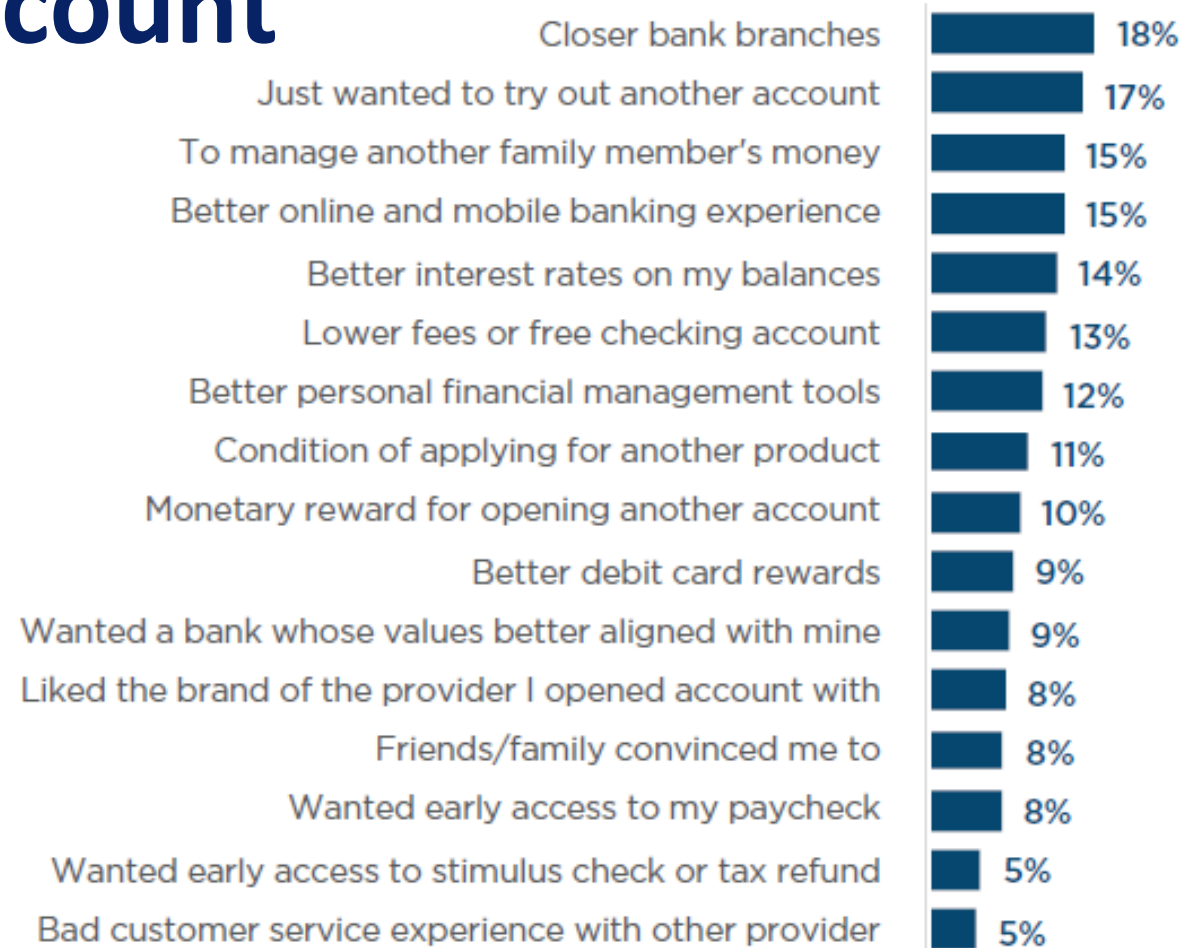
Consumers with More Than One Checking Account

Percentage of Consumers With More Than One Checking Account



Source: Cornerstone Advisors survey of 3,016 U.S. consumers, Q4 2020

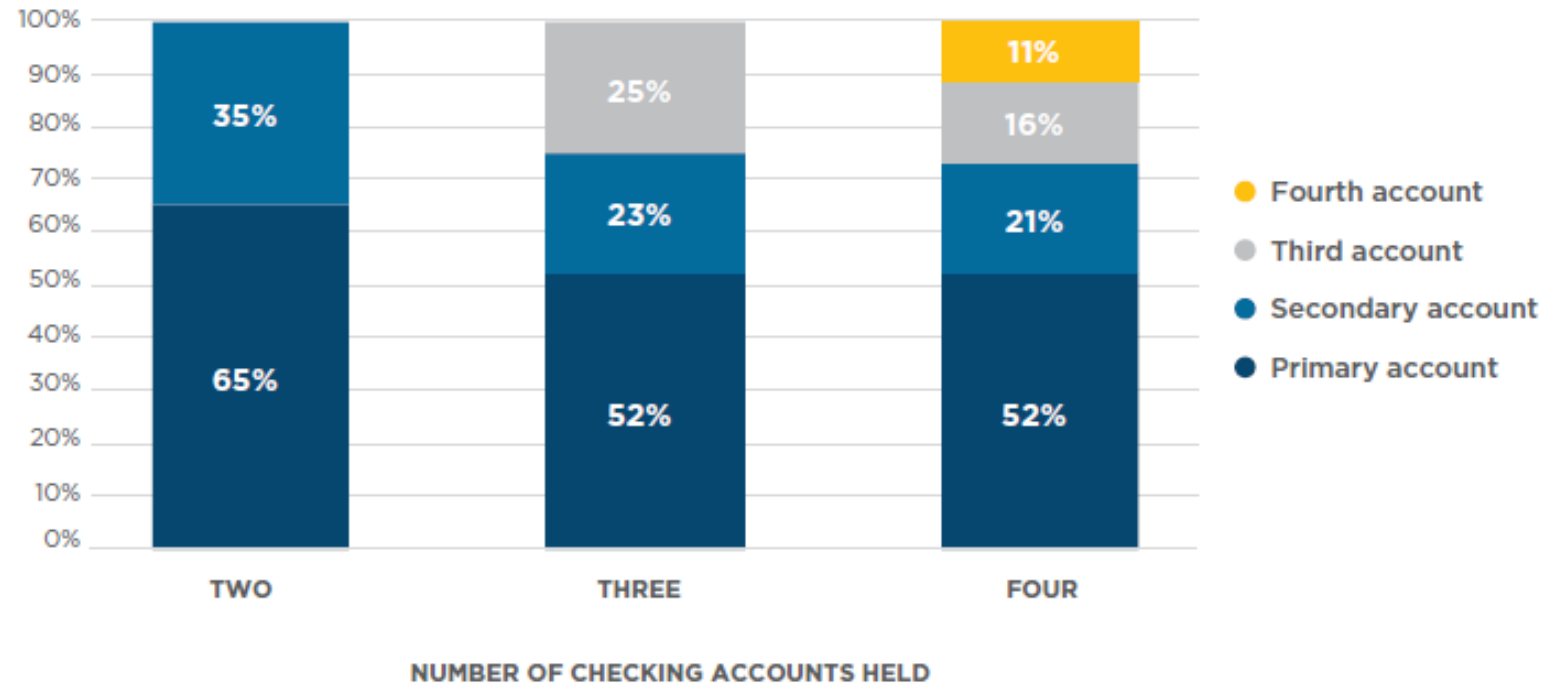
Reason why Consumers have more than one checking account



Source: Cornerstone Advisors survey of 3,016 U.S. consumers, Q4 2020

Number of Checking Accounts Held

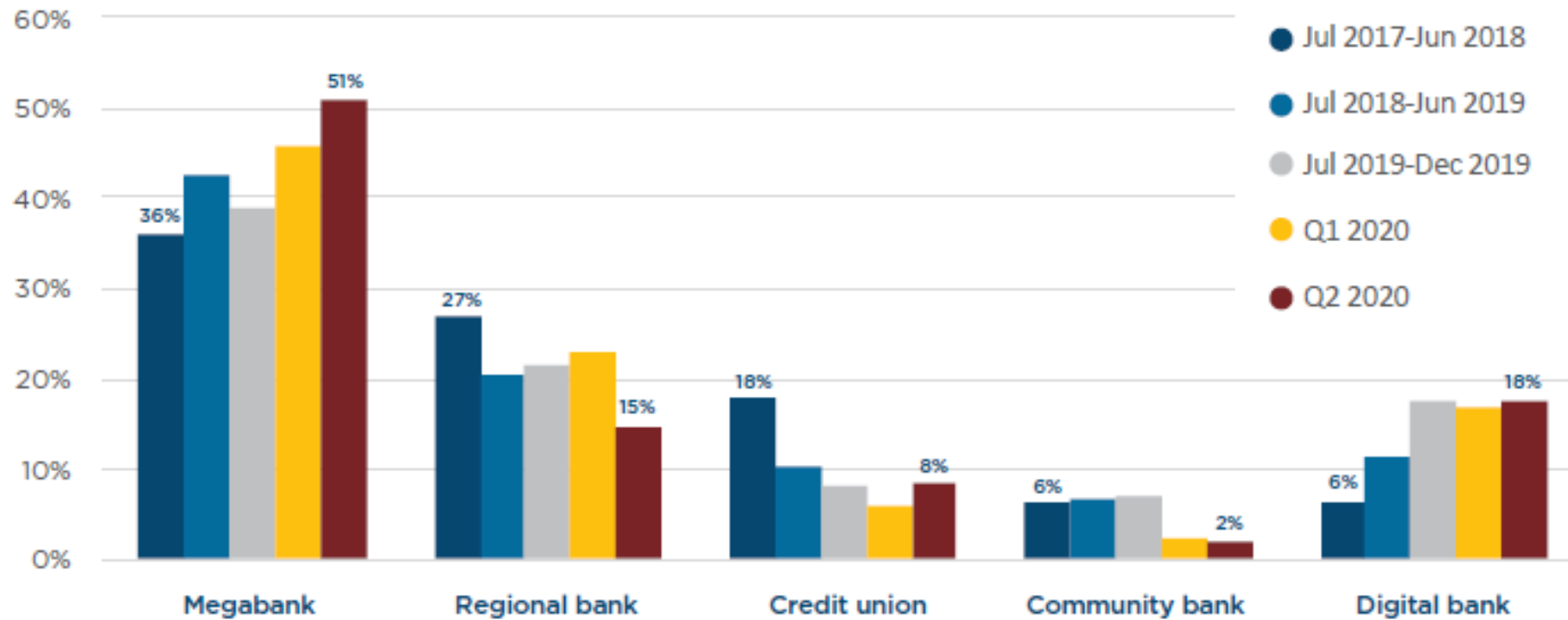
Allocation of Funds in Checking Accounts (by # of accounts)



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?

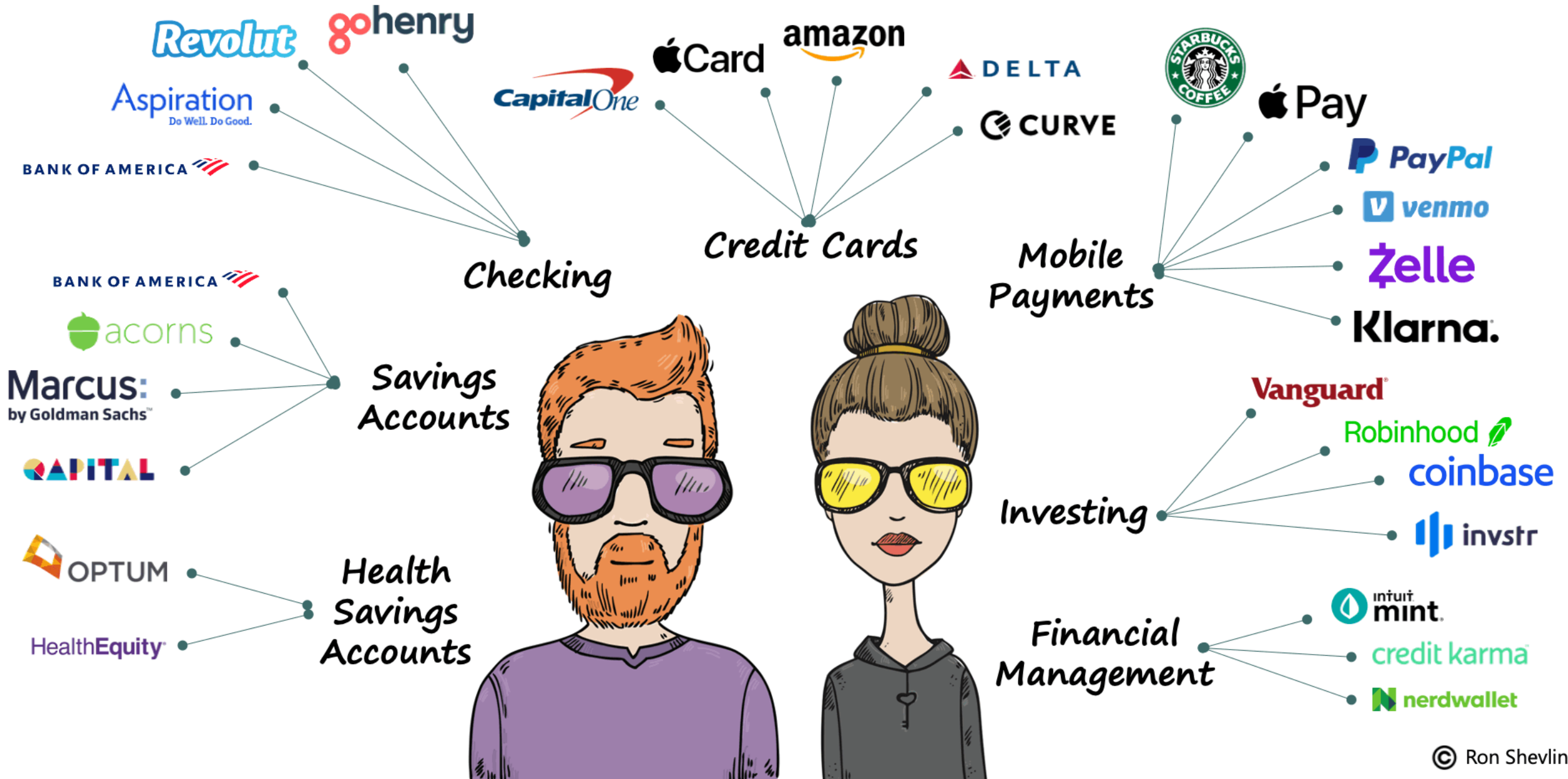
Rates and fees. Roughly three in 10 challenger bank adopters chose a digital bank to get better interest rates on their deposits or lower rates on their accounts.

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.

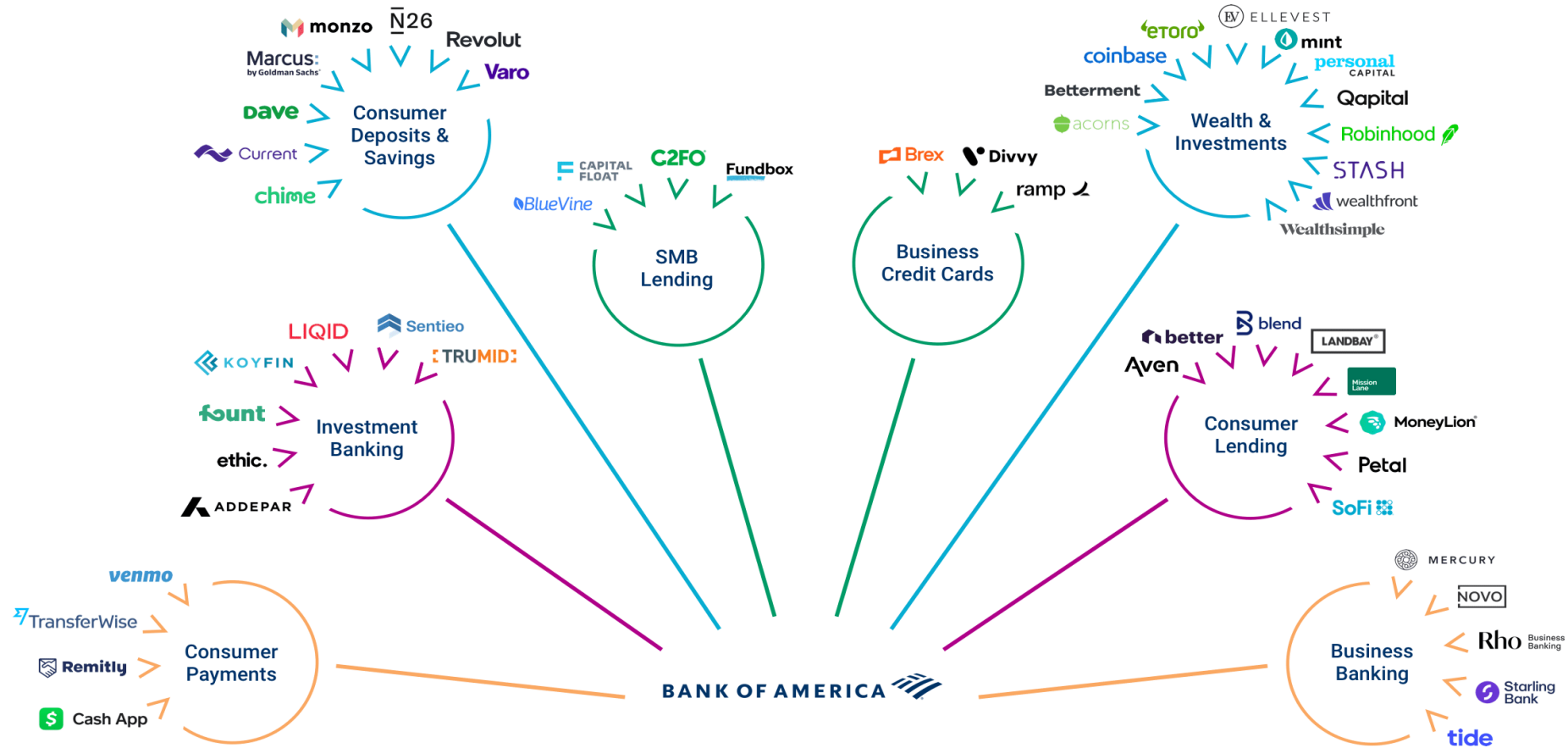
Affinity (or specialization). Challenger banks like Aspiration, Joust and Tenth focus on serving specific niches of the market: environmentally conscious consumers, gig workers and African Americans, respectively.

Americans' Shadow Financial Lives



UNBUNDLING BANK OF AMERICA

Companies targeting the traditional bank



Source: cbinsights.com

CBINSIGHTS

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



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



- \$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



ICBA®



ICBA THINKTECHSM ACCELERATOR

POWERED BY THE VENTURE CENTER



ICBA®



THE
VENTURE
CENTER



ARKANSAS
INC

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?

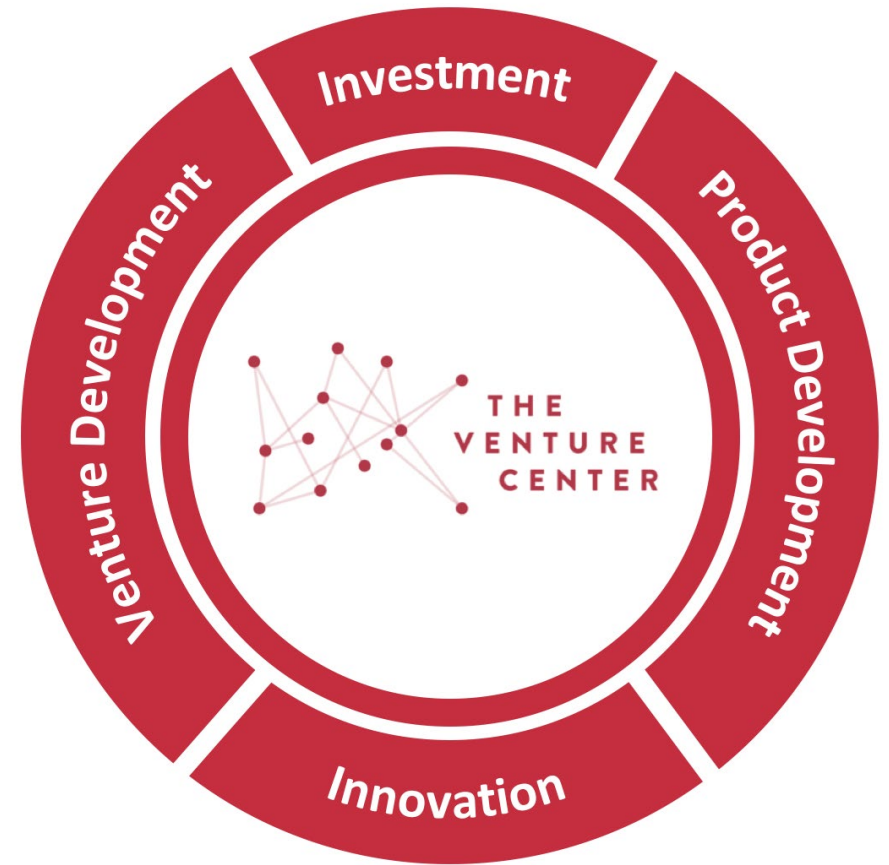
- “Skin in the game” to improve/influence outcome of solution providers
- Continue to educate fintech companies about community banking
- Policymakers look to the ICBA for innovation
- Build upon our reputation within the industry as a leader in innovation and enabler of fintech partnerships

High-Tech, High-Touch: The Future of Community Banking



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)

weeks

1 kickoff	2 customers matter	3 product development	4 regulatory + compliance	5 pricing	6 strategic partnerships
7 marketing	8 funding strategy	9 vendor due diligence	10 legal + IP	11 leadership culture + HR	12 demo day

100+

community banks hosted
at the ThinkTECH
Accelerator program



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ThinkTECH™
ACCELERATOR 2021

POWERED BY



THE
VENTURE
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500+

community bankers
attended the program



ThinkTECH™ 2021
ACCELERATOR

POWERED BY



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1,000+ pitches

honed with help from community bank mentors



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500+ hours

of thoughtful discussion about the opportunities
and challenges of community banking



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CENTER

alumni

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

The screenshot shows the top navigation bar with 'Admin', 'Dashboard', and 'About' links, and a settings icon. Below is a dark blue header with the ICBA logo, the text 'ICBA THINKTECHSM NETWORK', and 'POWERED BY FINXTECH CONNECT'. A search bar contains the placeholder text 'Search for a technology solution that helps...' and a 'SEARCH' button. The main content area is titled 'BROWSE TECHNOLOGY SOLUTIONS' and features three columns of solution categories: 'Security' (with a server and lock icon), 'Data + Analytics' (with a brain and circuit icon), and 'Internal Systems' (with a factory icon). A fourth column, 'Our Algorithm', is highlighted in dark grey and contains text describing the platform as a curated directory of emerging financial technology companies.

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!

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