

State of Everything

...and what it means for the future of credit unions



Lee Wetherington

Director of Strategic Insight
Jack Henry & Associates, Inc.

 [@leewetherington](https://twitter.com/leewetherington)



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LLP
FOCUSED. ON YOU.

jack henry Banking
A DIVISION OF JACK HENRY



dis·rup·tion

/dis'rəpSH(ə)n/

noun

disturbance or problems which interrupt an event, activity, or process.
"the schedule was planned to minimize disruption"

Similar:

disturbance

disordering

disarrangement

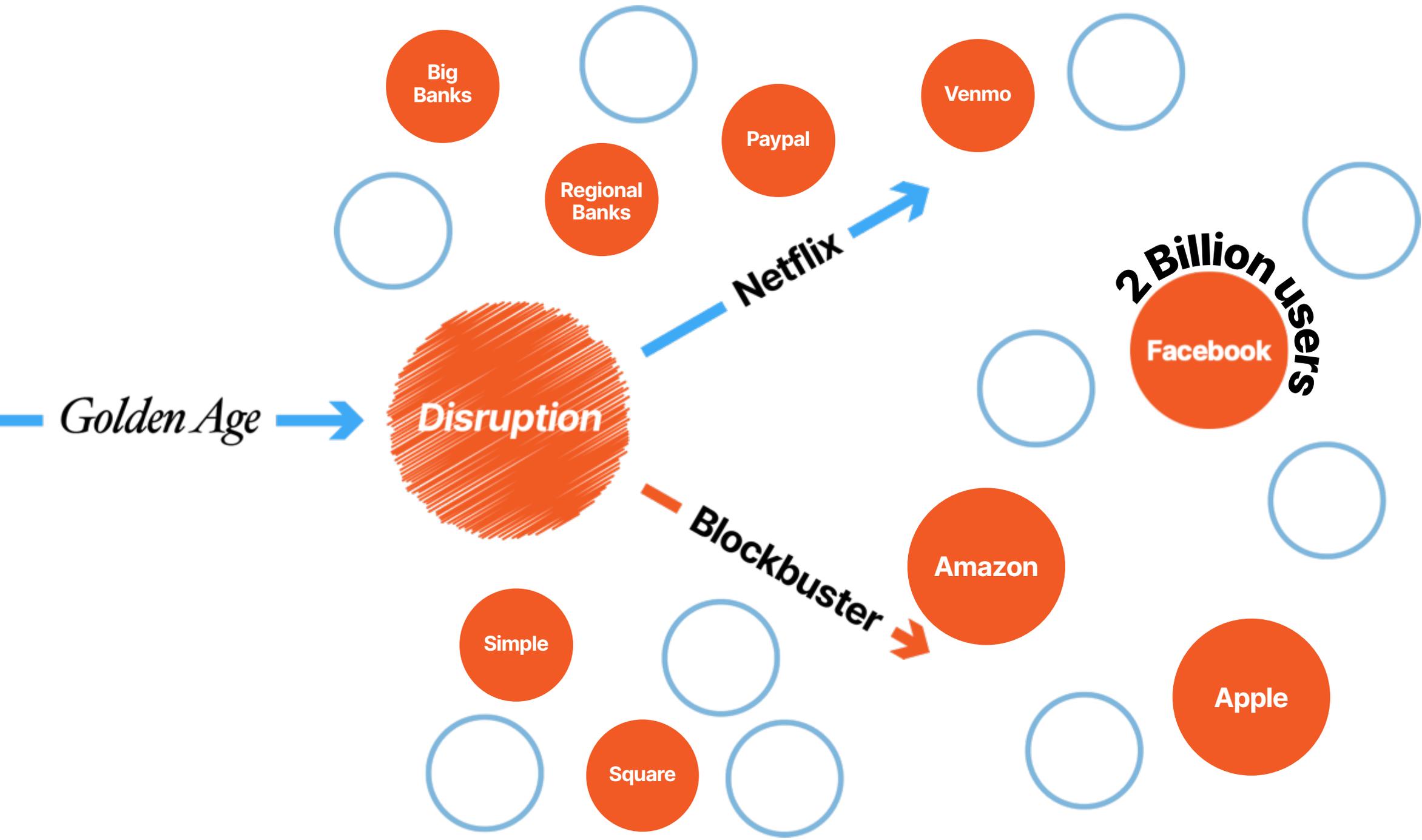
disarranging



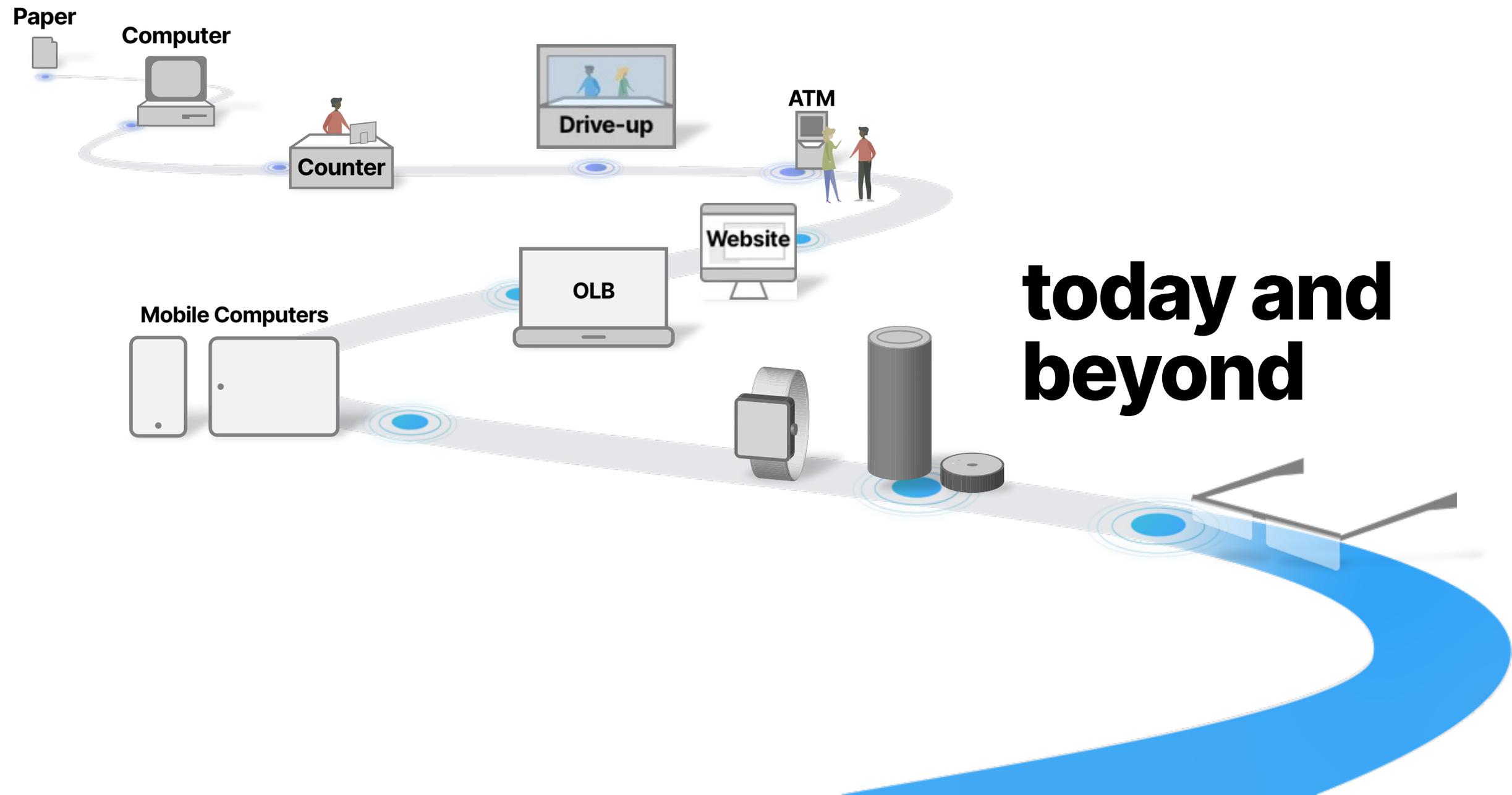
What is “disruption” in financial services?

In **business** theory, a disruptive innovation **is** an innovation that creates a new market and value network and eventually disrupts an existing market and value network, displacing established market-leading firms, products, and alliances. ... Not all innovations **are** disruptive, even if they **are** revolutionary.

How we think of
disruption today...



But **disruption** in banking
started **50 years ago...**



**today and
beyond**

We're caught in a **trap**

Credit unions differentiate on service (and sell in the context of service) **but technology** has systematically **eliminated the people** at the CU **who provide that service** (and sell within it).

“FIs **overestimate** preference for **digital**...
and **underestimate** preference for
in-person experiences.”



*David Kerstein, President
Peak Performance Consulting Group*

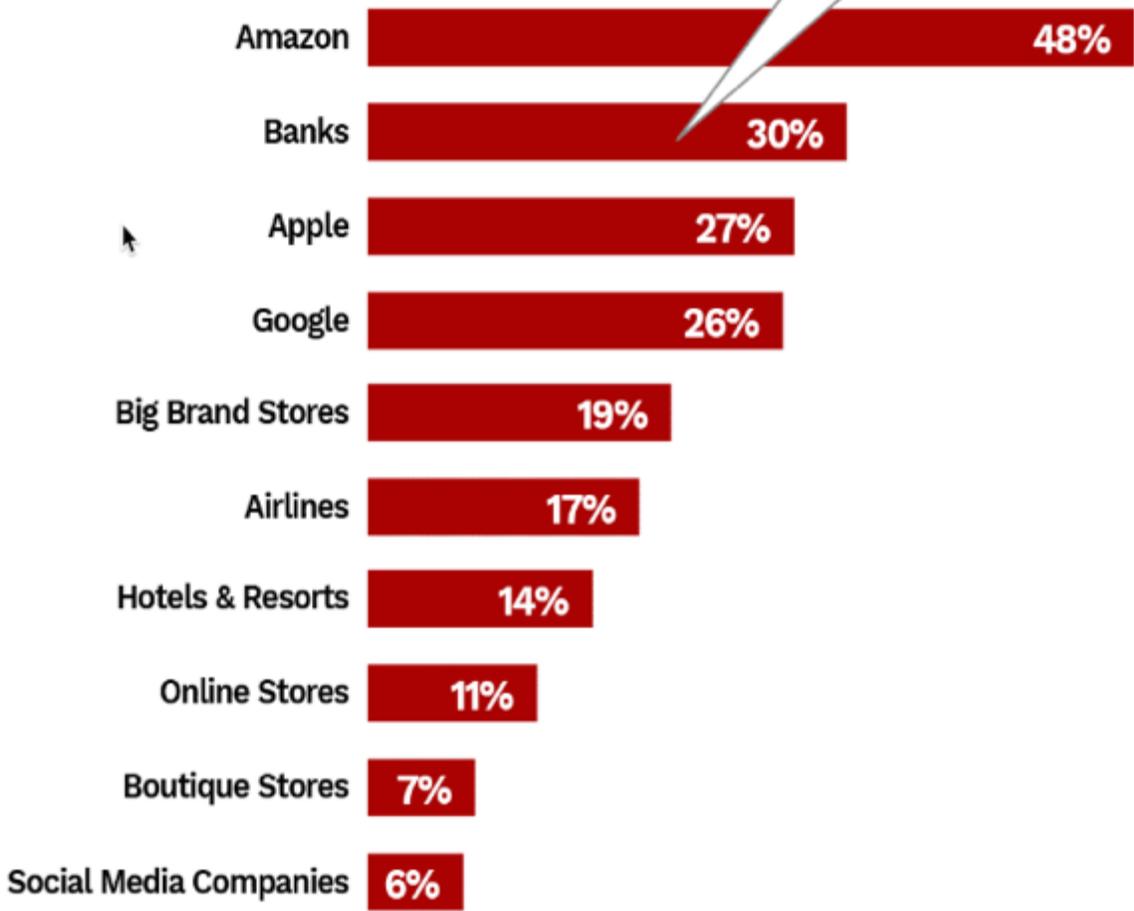
Communication-channel preference by age

Customers who prefer the following channels when communicating with companies

Channel	Overall	Millennials/ Gen Zers	Gen Xers	Silents/ Baby Boomers
Email	64%	64%	65%	62%
In-person	59%	59%	59%	62%
Phone	56%	53%	57%	58%
Online chat/live support (e.g., pop-up windows on website)	45%	55%	45%	28%
Mobile app	43%	56%	42%	24%
Social media	32%	45%	30%	15%
Text/SMS	31%	35%	30%	25%
Voice assistants (e.g., Siri, Alexa)	22%	28%	22%	13%

Trust disruption...

Brands and industries people trust to use their data responsibly

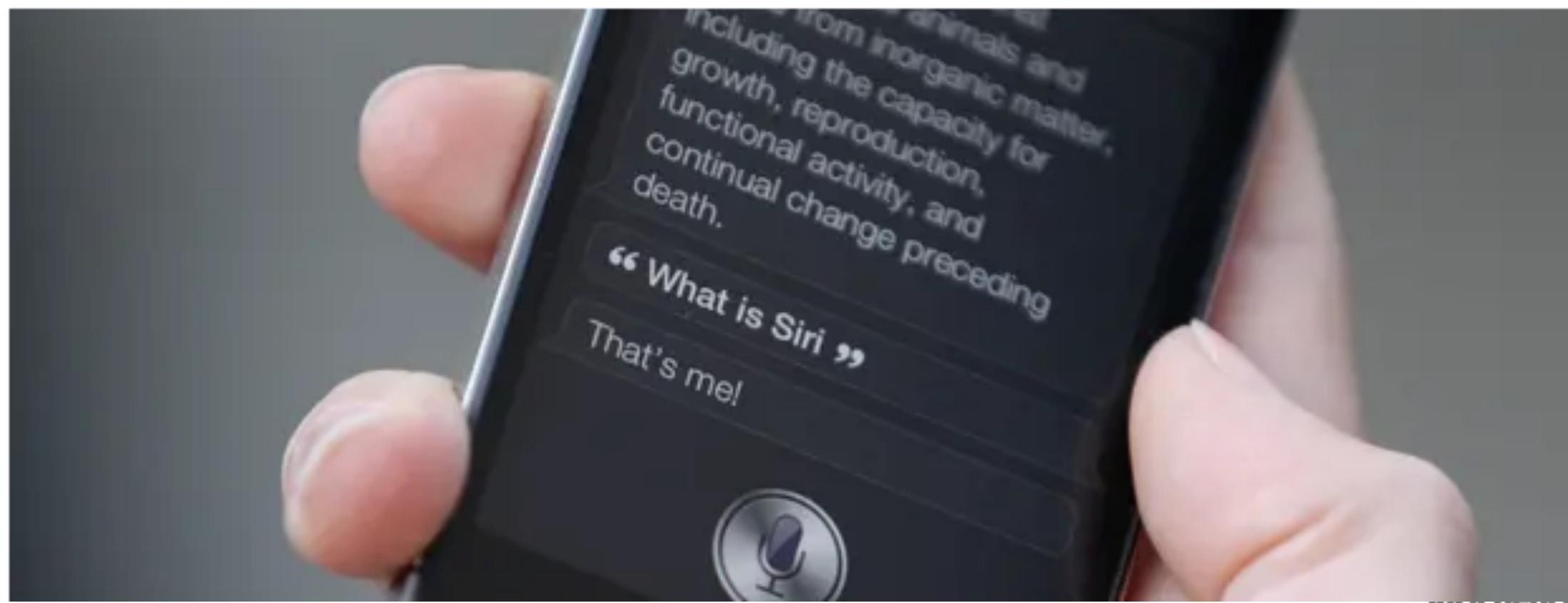


SOURCE: SmarterHQ © August 2019 The Financial Brand

Who do you trust?

Apple contractors 'regularly hear confidential details' on Siri recordings

Workers hear drug deals, medical details and people having sex, says whistleblower





"Trust me: this is a book you need to read." —ADAM GRANT

WHO CAN YOU TRUST?

How Technology
Brought Us Together *and* Why
It Might Drive Us Apart

RACHEL BOTSMAN

TRUST IS A CONFIDENT
RELATIONSHIP WITH
THE UNKNOWN.



RACHEL
BOTSMAN

TRUST IS A RELATIONSHIP
THAT GIVES YOU CONFIDENCE
WITH THE UNKNOWN.



Economic disruption...

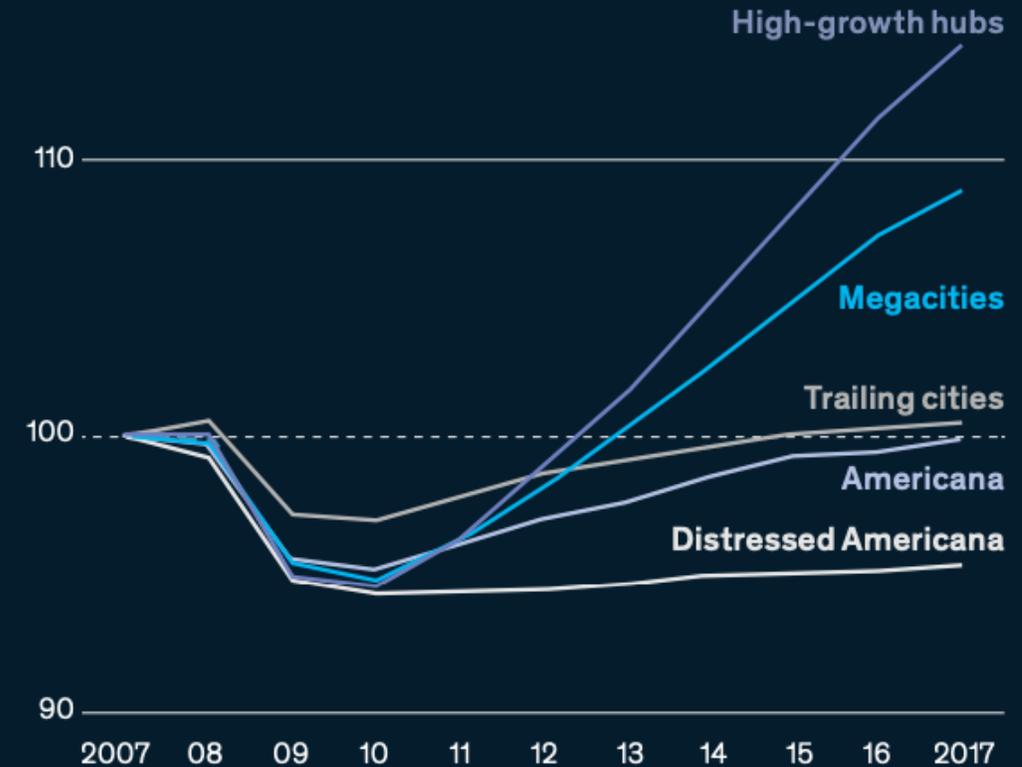
America is a mosaic of local economies on diverging trajectories

Automation could widen existing disparities

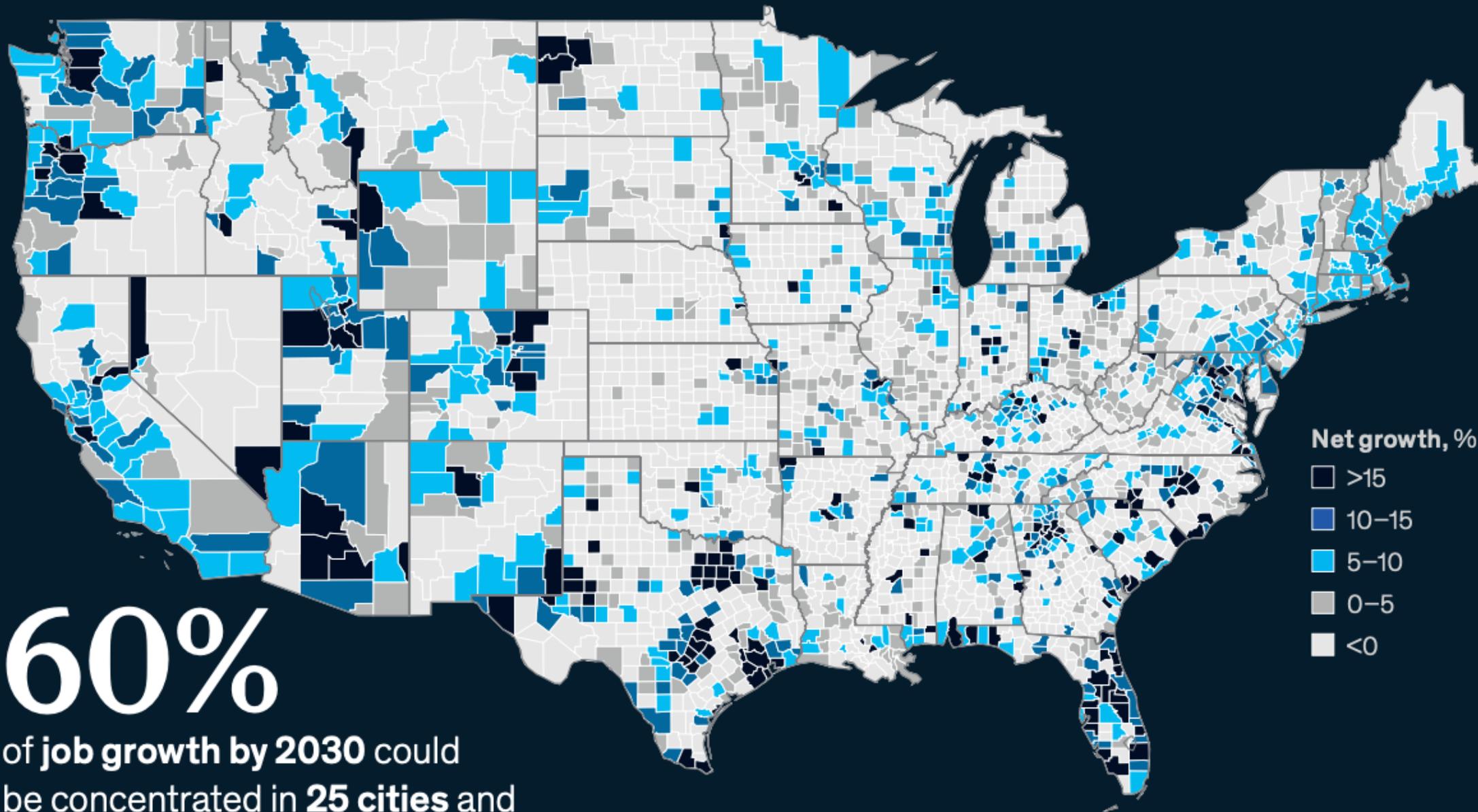
13 community segments have varying economic and demographic profiles

Economic dynamism	Most			
	Urban core	Megacities; High-growth hubs	63 counties	30% of US population
	Periphery	Urban periphery	271 counties	16% of US population
	Niche cities	Small powerhouses; Silver cities; College-centric towns	89 counties	6% of US population
	Mixed middle	Stable cities; Independent economies; America's makers	325 counties	24% of US population
	Low-growth/rural areas	Trailing cities; Americana Distressed Americana; Rural outliers	2,365 counties	24% of US population
Least				

Employment change for select community segments, % of 2007 employment



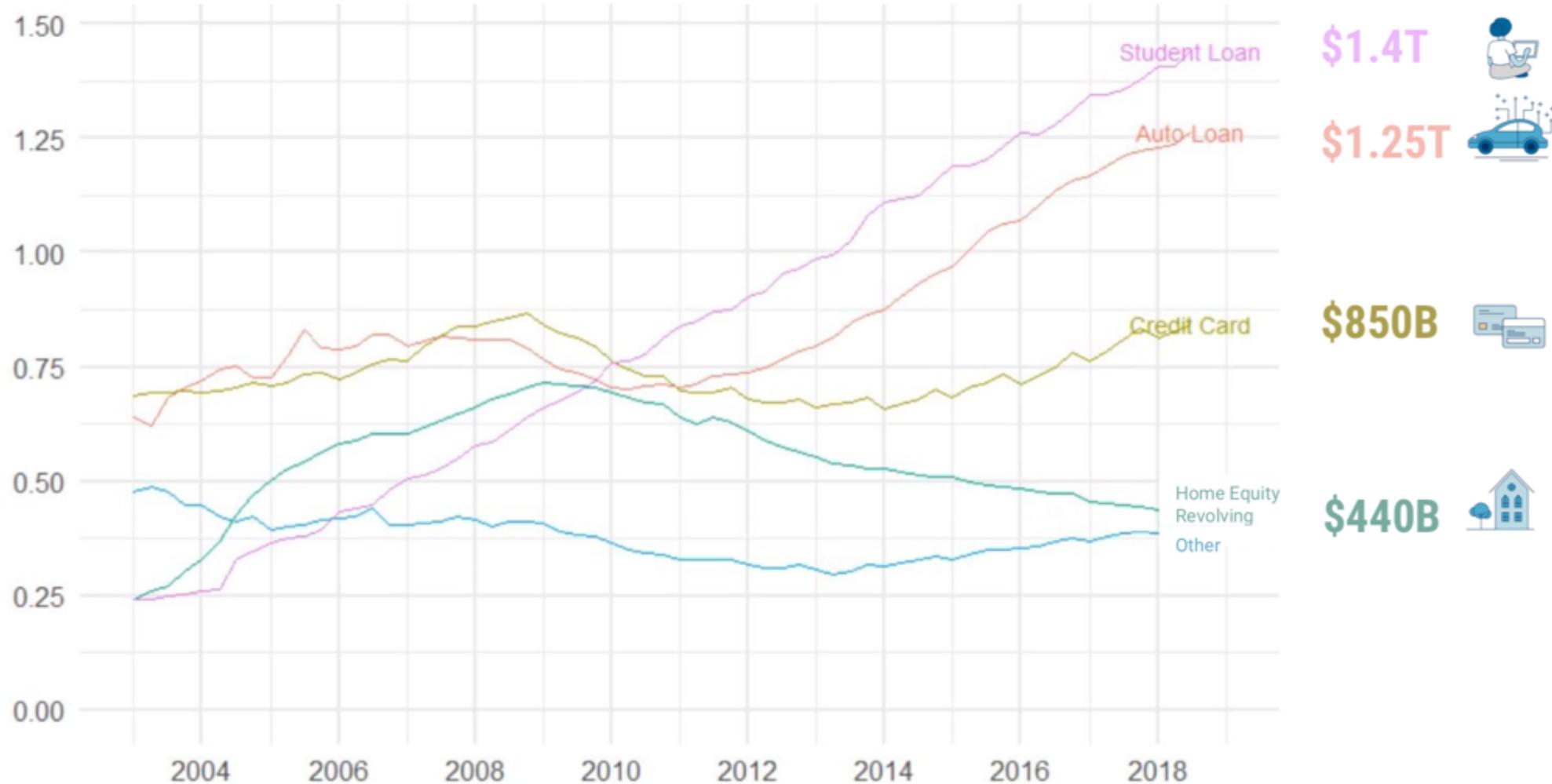
Estimated net job growth in midpoint adoption scenario, 2017–30, %



60%

of job growth by 2030 could be concentrated in **25 cities** and their peripheries

Household debt balances have accelerated and total over \$13 trillion



75% of working Americans live “paycheck-to-paycheck”



Fintech firms are unbundling the paycheck to alleviate and prevent predatory debt

PAYROLL FLEXIBILITY



DEBT PAYOFF



PRE-TAX SPENDING



PAYDAY ADVANCE



The University of North Carolina at Chapel Hill		Pay Group: SPN-SBRA Non-Exempt	Business Unit: UNCCH																																																																																		
101 South Building, Campus Box 9100 Chapel Hill, NC 27599-9100		Pay Begin Date: 01/19/2017 Pay End Date: 07/23/2017	Advice #: 000000002214873 Advice Date: 08/04/2017																																																																																		
Employee Name: CHAPEL HILL, UN	Employee ID: 00000000	TAX DATA: Federal: Single, NC State: 0																																																																																			
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DIRECT DEPOSITS



EMERGENCY FUND



FINANCIAL LITERACY



EARNED-INCOME ADVANCE



STUDENT LOAN PAYOFF



Startups are partnering with employers to offer salary linked benefits

earnin

MAKE ANY DAY
PAYDAY.

Join Earnin to get paid the minute you leave work with no loans, fees, or hidden costs.

Enter phone number



DOWNLOAD EARNIN

Last Funding: \$125M Series C in Dec'18

Select Investors: DST Global, Andreessen Horowitz, Spark Capital, Matrix Partners, Coatue Management, Ribbit Capital

Earnin is an app that allows employees to access earned income ahead of a scheduled payday. Earnin partners with Starbucks, Pizza Hut, Walmart, and other white-collar job employers.

Earnin reported they work with employees across 50K companies and that the app has been downloaded 1M times.

SALARY
FINANCE



ADVANCE EARNED PAY

Sometimes having to wait until payday can mean falling back on high-cost debt like a payday loan or overdraft. We allow employees to draw down their pay as they earn it, making it easier for them to budget.

ADVANCE

Last Funding: \$20M Series B-II in Aug'18

Select Investors: Blenheim Chalcot, Legal & General

UK-based Salary Finance offers installment loans that deducts loan repayments directly from an employees Salary. In December 2018 they launched a payday advance service allowing employees to access earned income.

In Q4'18 they launched in the and announced partnering with the United Way as a preferred solution for their network of 10K employers.

DISRUPTING PAYROLL, STARTING WITH PAYDAY



2018 PARTNERSHIPS



529 College Savings



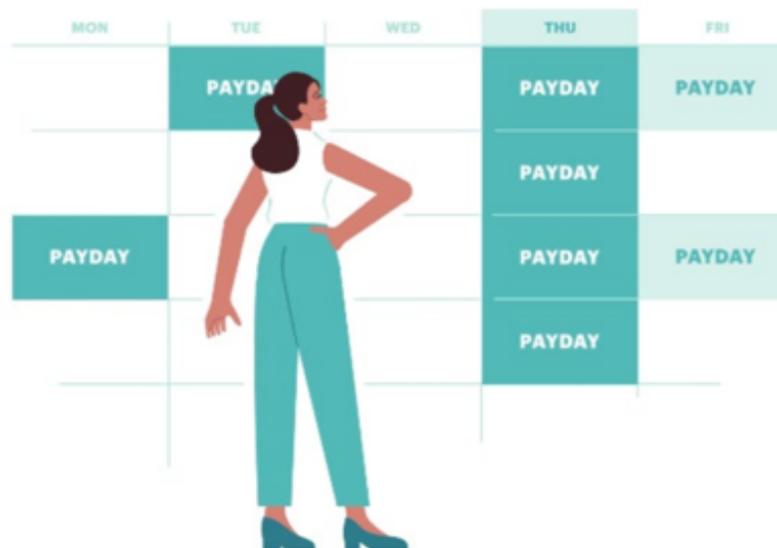
Workers' Compensation



Accounting



401(k)



SOURCE: CBINSIGHTS; 2019 Fintech Trends To Watch

Last Funding

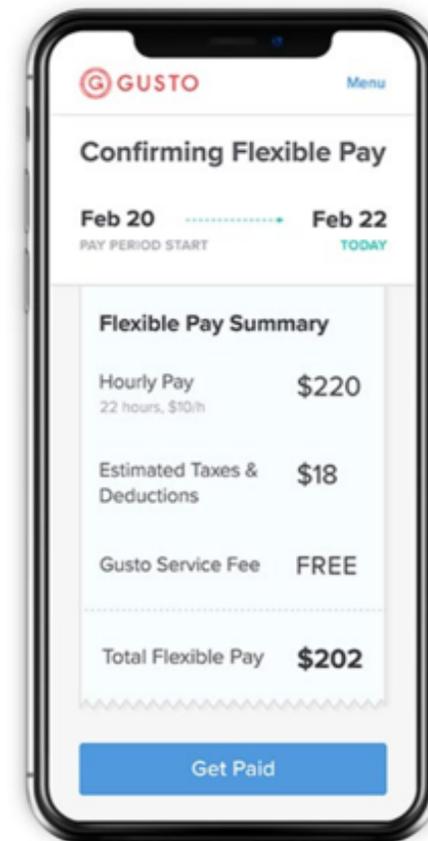
\$140M Series C // Jul'18

Valuation \$2B

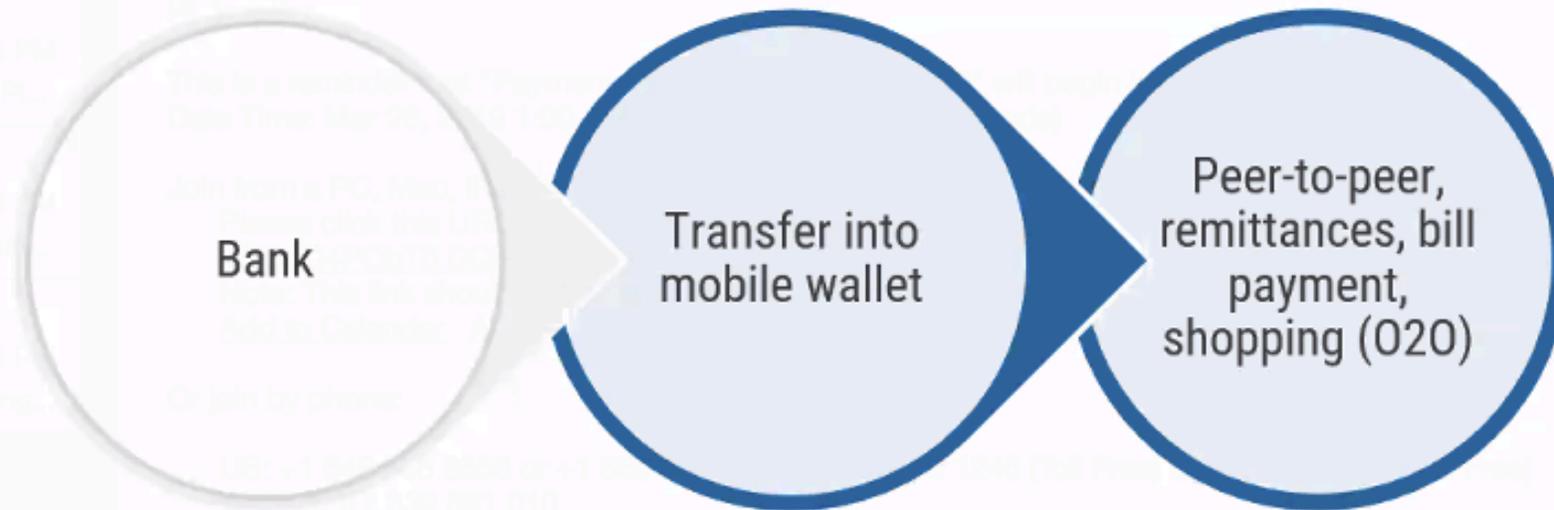
Gusto is an HRIS platform that provides HR, benefits administration, and payroll automation software.

Since February of 2015 the company has added over 60K+ small businesses (~1% US SMB population).

In June 2018, at the CB Insights' Future of Fintech conference, Josh Reeves CEO and co-founder announced Flexible Pay, the company's digital paycheck advancement service that allows employers to offer earned income to employees in advance of a traditional bi-weekly pay cycle.



Faster income could shift how consumers bank



If payroll is more liquid, then employees might start treating mobile wallets like de-facto bank accounts

SOURCE: Payments Landscape, CB Insights, 2019

Competitor disruption...

Amazon's growing financial services ecosystem

Wallet and payments network		Amazon Pay is a wallet for users and a payments network for both online and brick-and-mortar merchants. The mobile wallet has 33M+ users.
Cash deposits		Amazon Cash connects offline and online commerce by allowing users to top up digital accounts (with cash) at partnering retailers.
SMB lending		Amazon Lending offers loans to Amazon sellers, ranging from \$1K to \$750K (for one year). The program has lent \$3B+ since 2011.
Member rewards		To minimize Amazon's interchange fees, Amazon Reload incentivizes Prime users with 2% cash back when they use a digital Amazon debit card.
Insurance		Amazon Protect offers accidental and theft insurance in select EU countries, partnering with the Warranty Group's London General Insurance Company.
Credit cards		Amazon offers the Store Card and Prime Store Card in partnership with Synchrony Bank. The card can be used at select websites and retailers.
		A consumer credit card offered via Chase offers 3% back on Amazon.com and at Whole Foods. Chase and Amazon are reportedly in talks to offer an SMB commercial card as well.

Apple deepens its foray into financial services

ANT FINANCIAL COULD SERVE AS A BLUEPRINT FOR APPLE'S EXPANSION IN FINANCIAL SERVICES											
	P2P	In-store payments	In-app payments	In-browser payments	Consumer lending	Digital remittances	Wealth management	Credit card	Debit card	Mobile top up	Insurance
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BUSINESS INSIDER INTELLIGENCE

Source: Apple, Ant Financial, CB Insights

SOURCE: Apple's push into financial services is just getting started — here's why incumbents should worry, BI Intelligence, May 2019

Apple Pay Pop Quiz



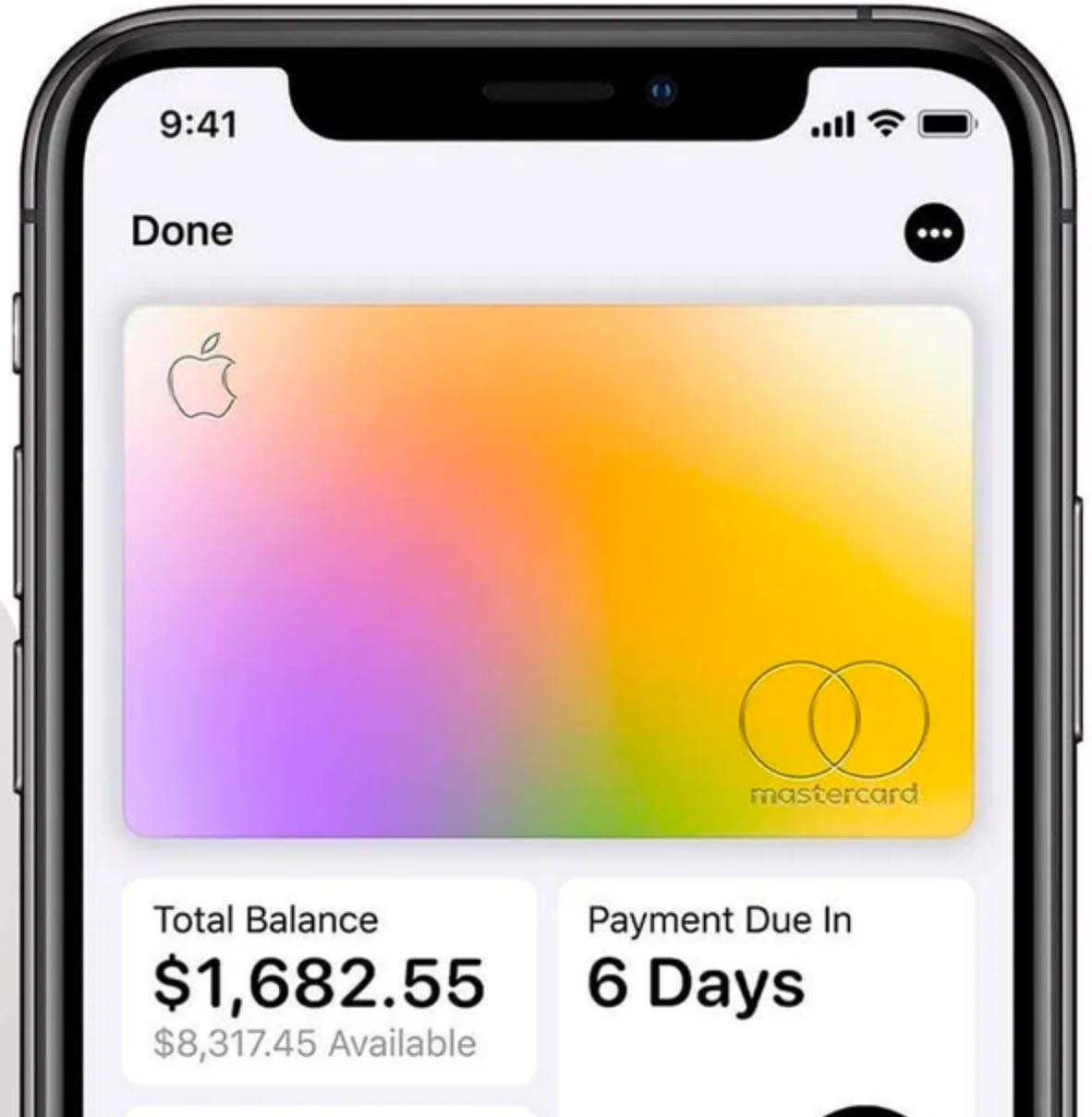
9%

Share of U.S. consumers using Apple Pay

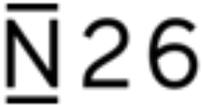
Q: What percentage of U.S. consumers use Apple Pay?

Apple Card: first card **designed NOT** to be used

...but first example of **real-time rewards**



Neobanks raise record \$2.5B in funding YTD 2019

Country	Challenger Banks
	         
	     
	  
	

U.S. Challenger	Checking Account	Savings Account	Debit Card	Credit Card	Personal Loans	Budgeting & Savings Tools	Additional Features
 SIMPLE	✓	✗	✓	✗	✗	✓	Joint checking
 chime	✓	✓	✓	✗	✗	✓	Early direct deposit for paychecks
 VARO	✓	✓	✓	✗	✓	✓	Early direct deposit for paychecks
 Moven.	✓	✗	Prepaid card	✗	✗	✓	Track spending from existing accounts
 Empower	✓	✓	✓	✗	✗	✓	2% cashback on first \$1000 of purchases
 zero	✓	✗	✗	✓	✗	Automated payments to prevent negative balance	Credit card with debit experience
 Aspiration	Cash management account		✓	✗	✗	✗	Investing products, socially conscious
 Oxygen	✓	✗	✓	✗	✓	✓	Flat-fee access to credit, no interest on balance
 JOUST	✓	✗	Coming soon	✗	✓	✓	Comes with merchant account to accept payments
 COGNI	✓	✗	✓	✗	✗	✓	Up to 12% cashback lifestyle perk, multi-currency wallet, invoicing

Is the neobank business model viable?



monzo

Are neobanks a threat



3%

Millenials with primary checking at a neobank

Neobanks (aka “challenger banks”, aka “direct banks”, aka “digital banks”) **launched 10 years ago in the U.S.**

Q: What percentage of **Millennials** have a primary checking account with a neobank?

Deposit disruption?

The generations defined

Post-Millennial generation (Z)

Born: 1997 and later
Age of working-age adults in 2017: 16 to 20

Millennial generation (Mil)

Born: 1981 to 1996
Age in 2017: 21 to 36

Generation X (X)

Born: 1965 to 1980
Age in 2017: 37 to 52

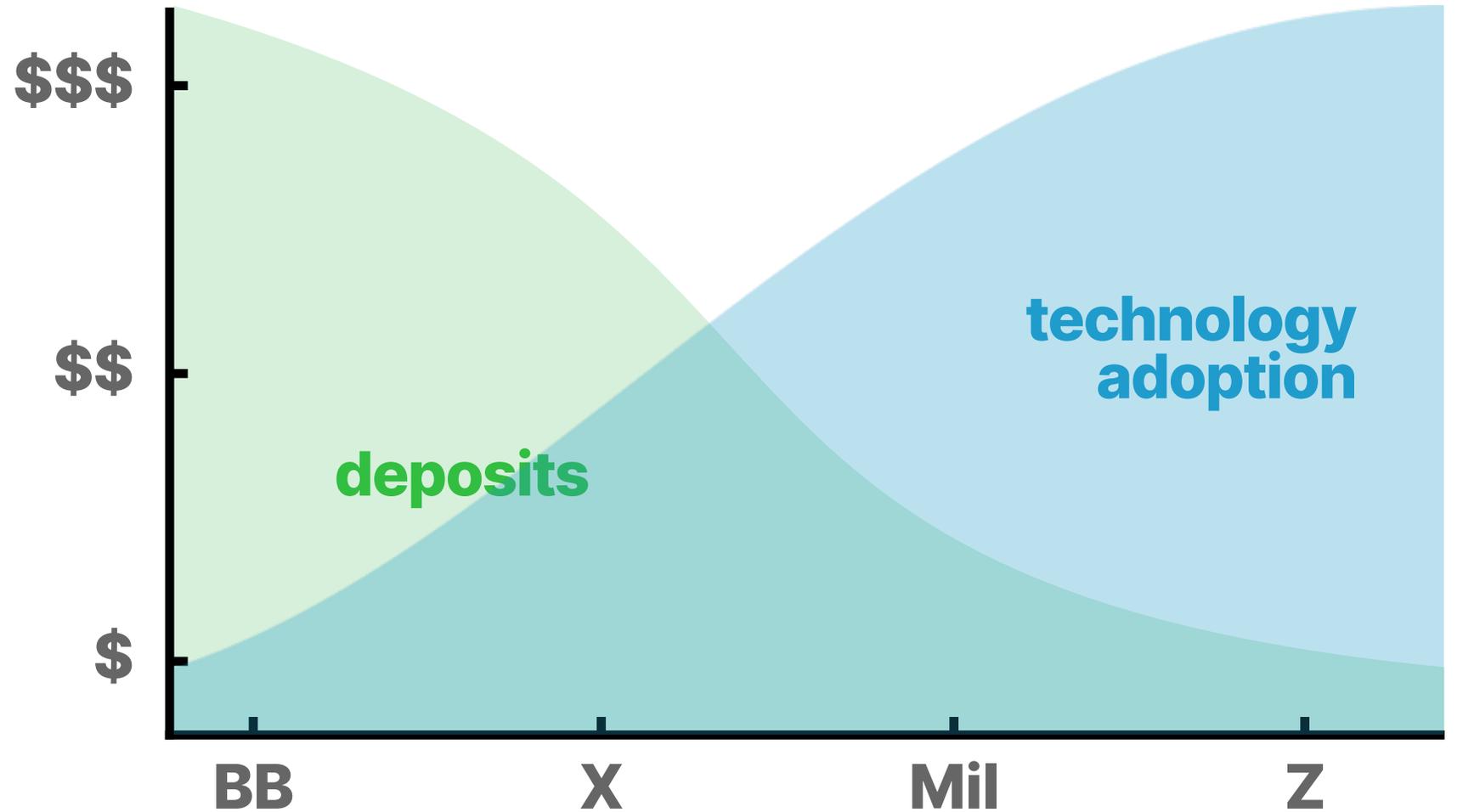
Baby Boom generation (BB)

Born: 1946 to 1964
Age in 2017: 53 to 71

Silent and Greatest generations (S&G)

Born: 1945 or earlier
Age in 2017: 72 and older

PEW RESEARCH CENTER



The generations defined

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Born: 1965 to 1980
Age in 2017: 37 to 52

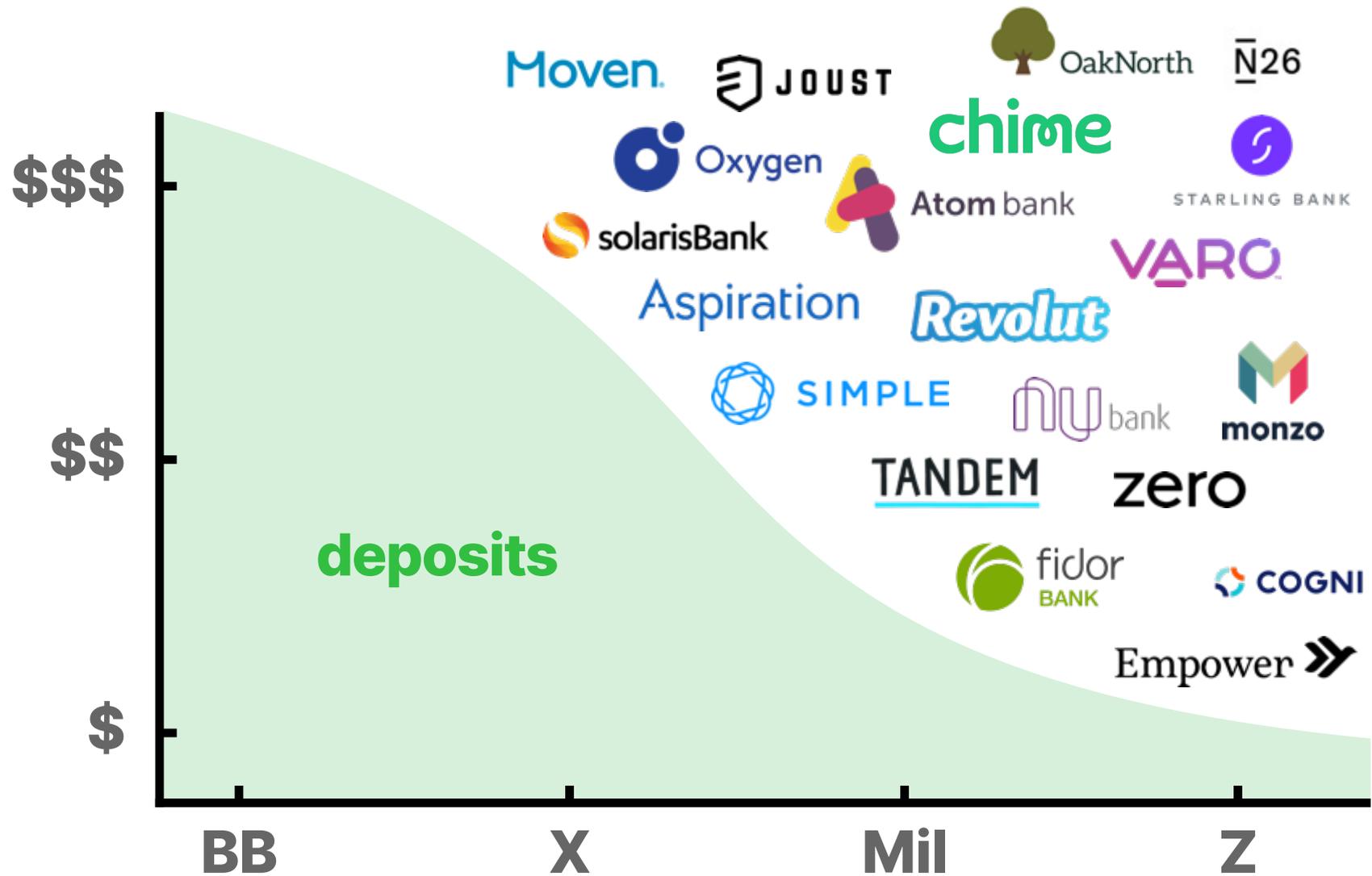
Baby Boom generation (BB)

Born: 1946 to 1964
Age in 2017: 53 to 71

Silent and Greatest generations (S&G)

Born: 1945 or earlier
Age in 2017: 72 and older

PEW RESEARCH CENTER



Are **neobanks** a **deposit threat**



0.014%

% of U.S. deposits held by top 7 neobanks

Neobanks (aka challenger banks, aka direct banks, aka digital banks) launched 10 years ago in the U.S.

Q: What percentage of **U.S. deposits** are **held by** the top 7 **neobanks** in the U.S.?

The generations defined

Post-Millennial generation (Z)
Born: 1997 and later
Age of working-age adults in 2017: 16 to 20

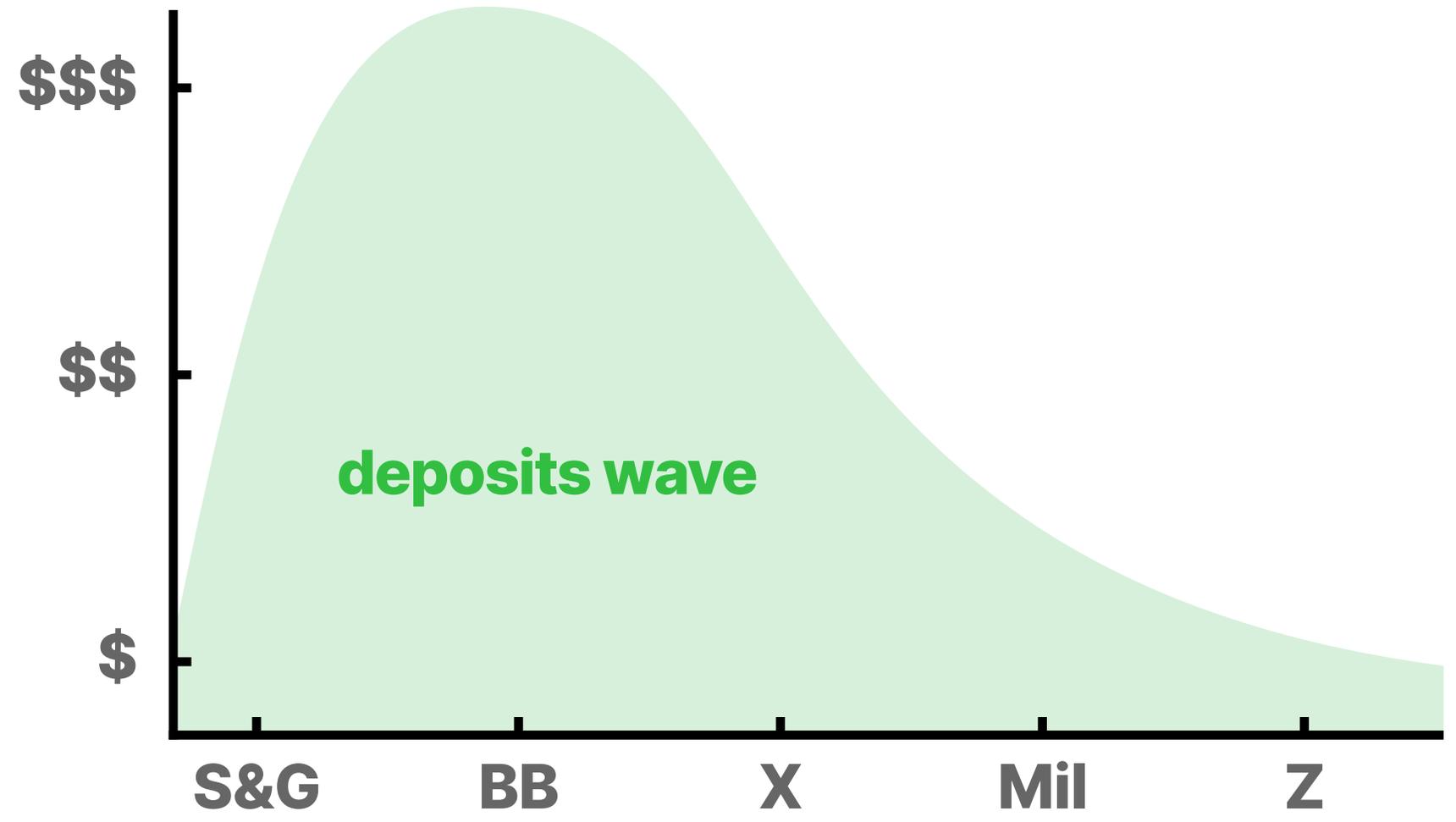
Millennial generation (Mil)
Born: 1981 to 1996
Age in 2017: 21 to 36

Generation X (X)
Born: 1965 to 1980
Age in 2017: 37 to 52

Baby Boom generation (BB)
Born: 1946 to 1964
Age in 2017: 53 to 71

Silent and Greatest generations (S&G)
Born: 1945 or earlier
Age in 2017: 72 and older

PEW RESEARCH CENTER



Real deposit **threats**?

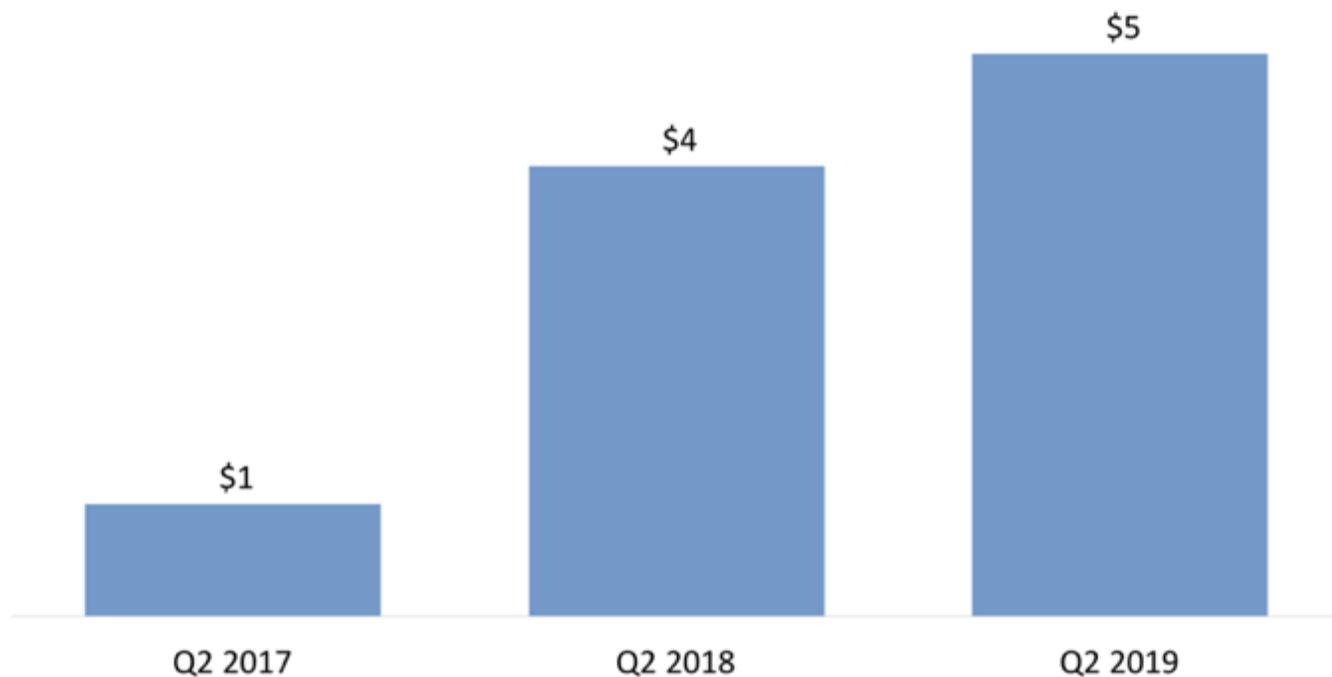
Ally reached **\$100B in deposits** and 1.9M customers by way of “bringing the best of **digital and human** into the equation.”

Dinesh Chopra
Chief Strategy Officer
Ally Financial

The Ally logo, consisting of the word 'ally' in a bold, purple, lowercase sans-serif font.

Marcus Quarterly Loan Originations

Billions



Source: Bloomberg, Company filings

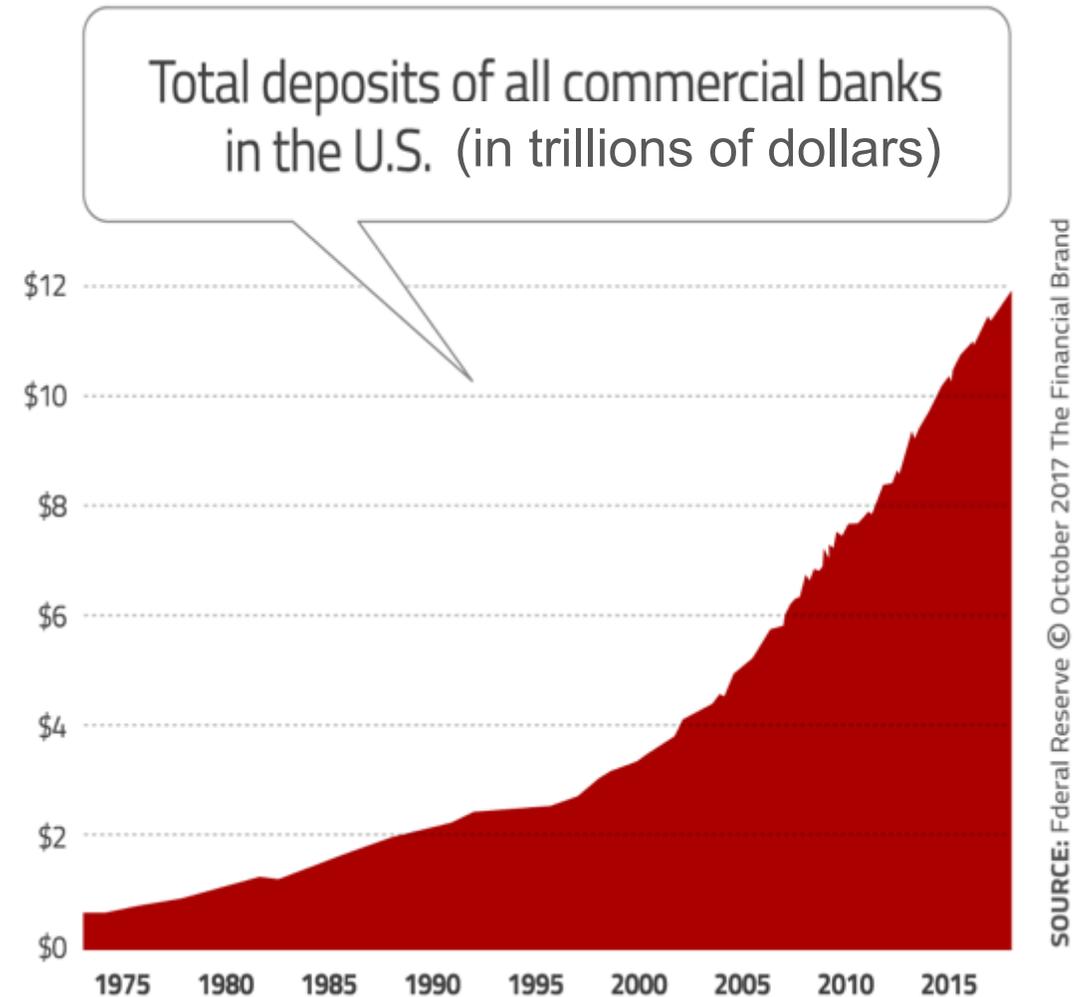


Exciting news 🎉! In just 8 short months we grew nearly 100% 📈. Our clients trust us with over \$20 billion and we couldn't be more grateful!



Deposit Displacement

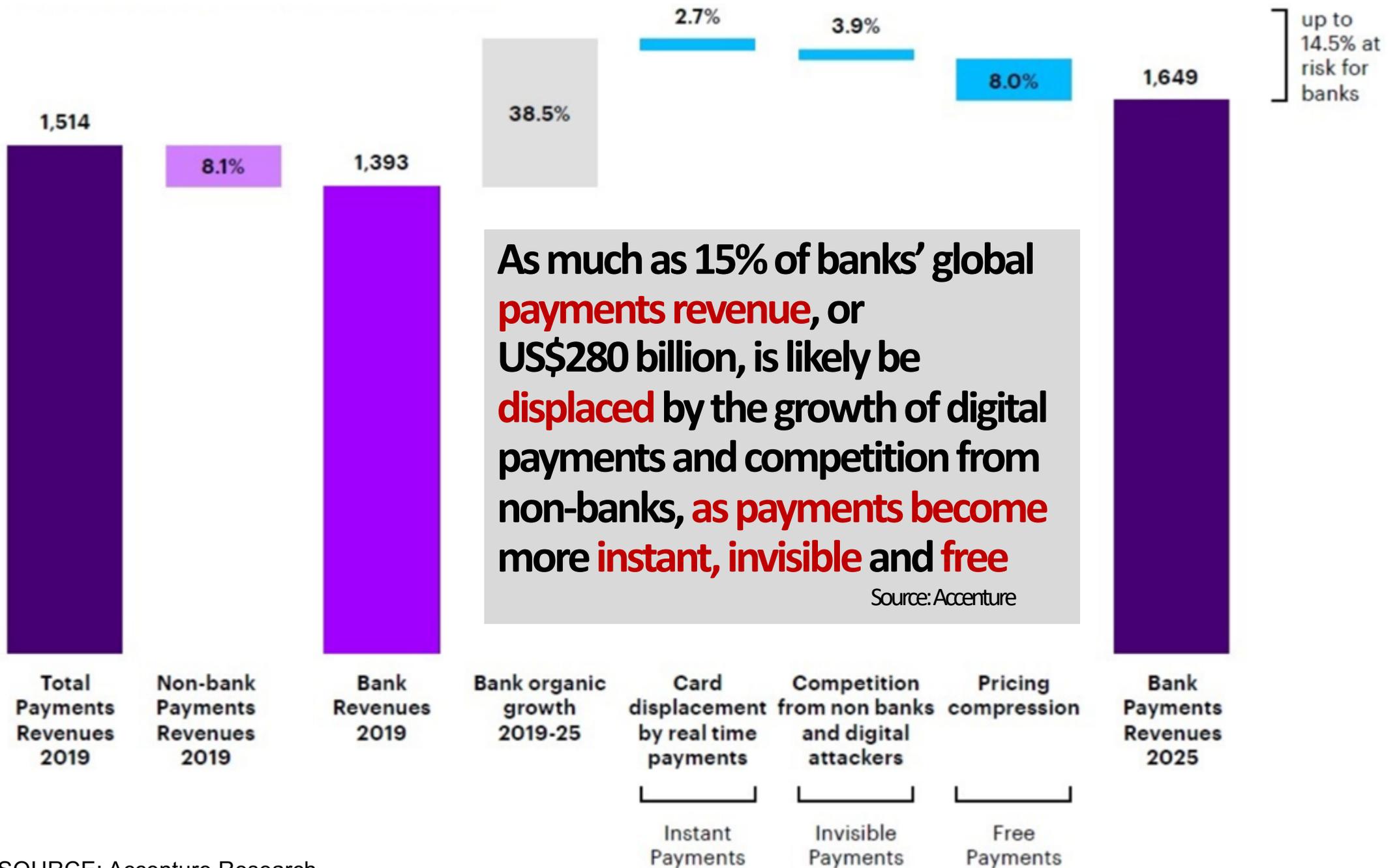
- **P2P stored value**
 - VenmoSM (\$2B)
 - Square[®] (\$2B?)
 - Apple Pay[®] (\$1B?)
- **Retail mobile apps**
 - Starbucks[®] (\$2B)
- **HSAs** (\$45B)
- **Robo-advisory** (\$1.4T)



Payments disruption...

What happens as more payments
become **instant, invisible** and **free**?

\$280B

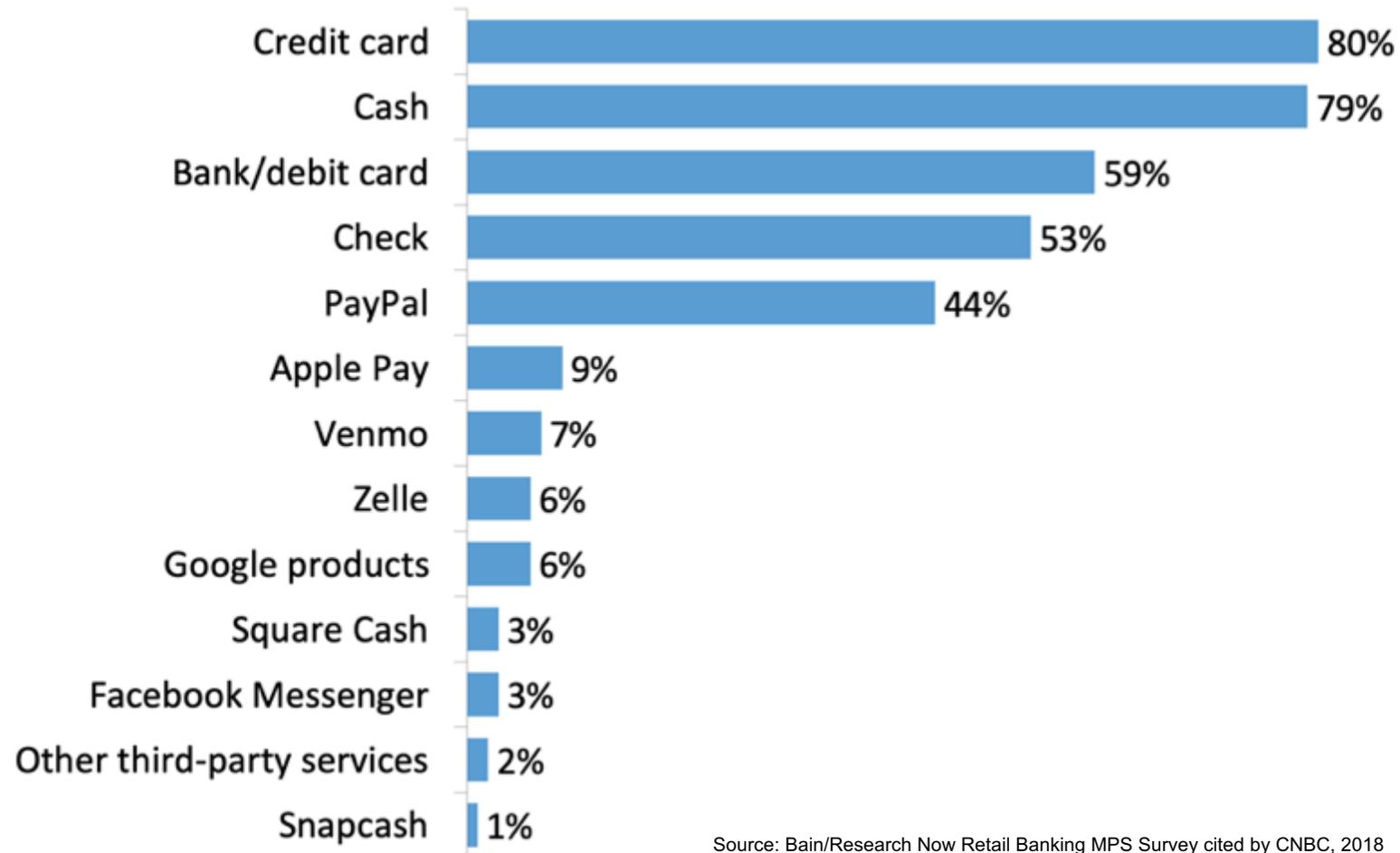


Drivers of **disruption in payments**...

Driver	Disruption
Instant payments	Card displacement by real-time payments (interchange?)
Invisible payments	Competition from non-banks and digital attackers
Free payments	Pricing compression

Consumer Use of Payment Methods

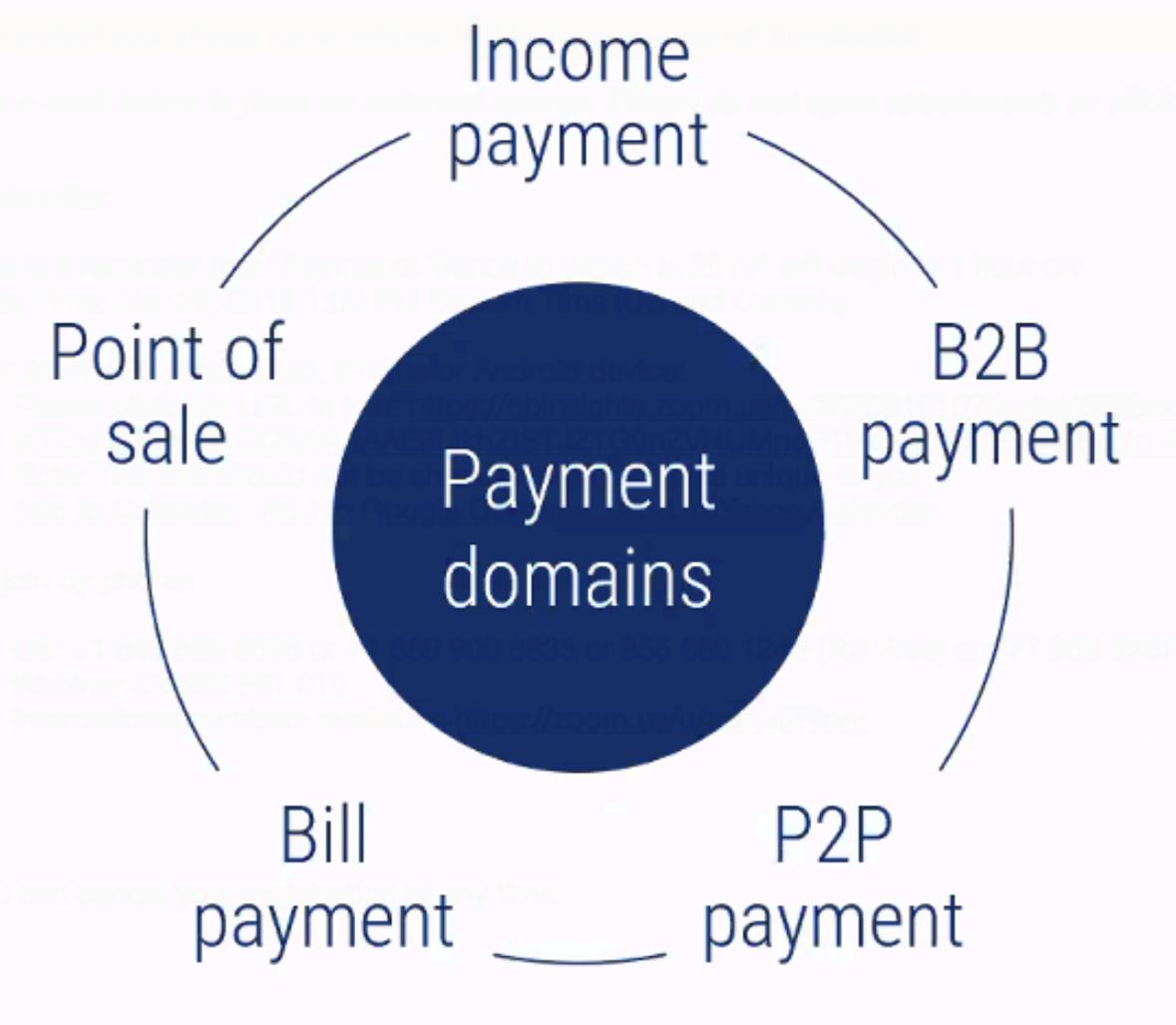
Share of US Consumers Who Used a Payment Method in 2018



Source: Bain/Research Now Retail Banking MPS Survey cited by CNBC, 2018

We need to **think**
about payments
differently...

Payments are usually grouped into these domains...



...but these **UX categories** are more helpful/strategic:

MUNDANE

POS, P2P
(small \$)

MEANINGFUL

Income, Bills, B2B
(bigger \$)

**One meaningful
payment can make or
break a relationship...**
(and the revenue that relationship represents)

Hahira, GA

#MomentOfNeed

Where does
the moment of need
happen?

Everywhere but the branch.

Real-time adds complexity
...not just speed

RTP
The Clearing House®



FedNowSM

VISA Direct

SDA

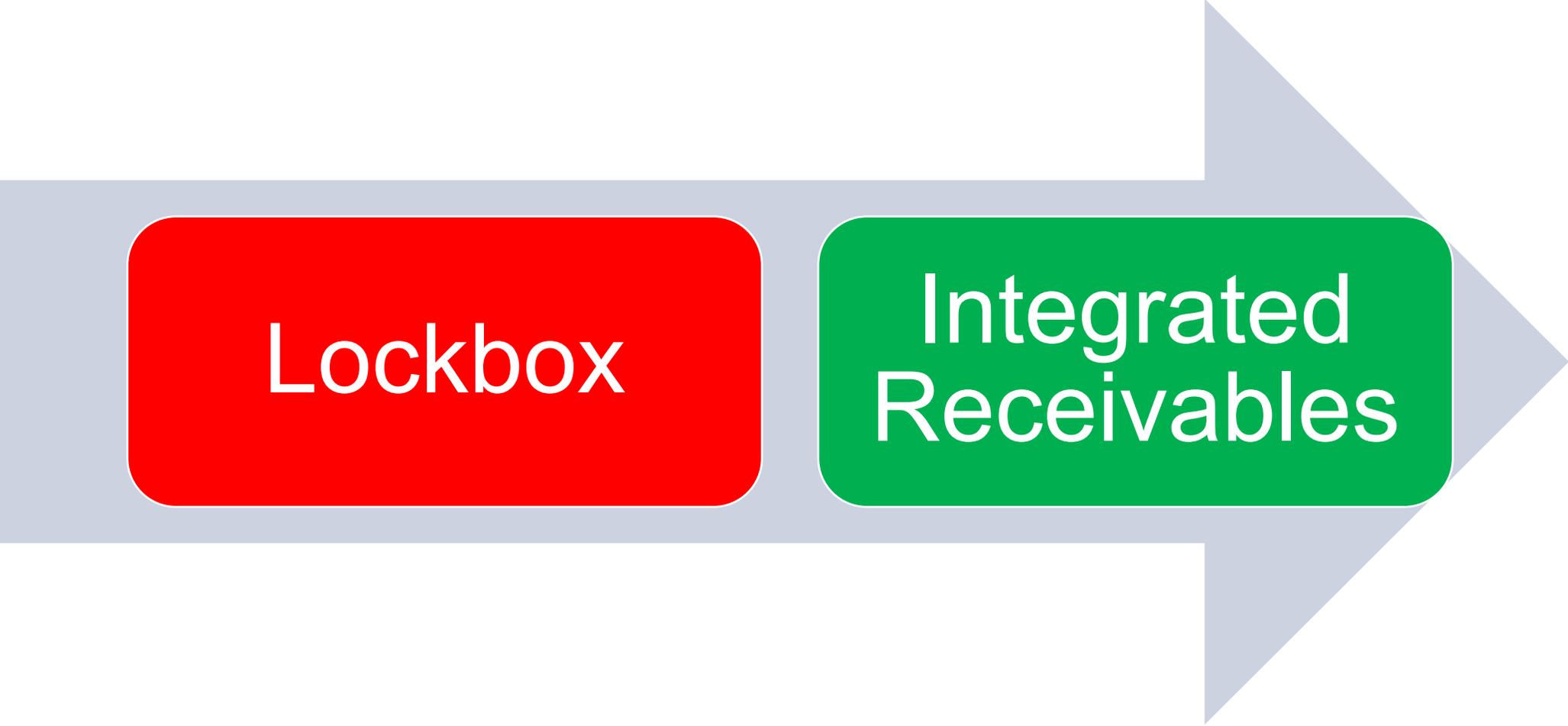
 **NachaTM**

zelleSM



 **libra**

Complexity of payments expands need for **simplicity**



Lockbox

Integrated
Receivables

**Make personal
service real-time
in payments...**

Moment of Need

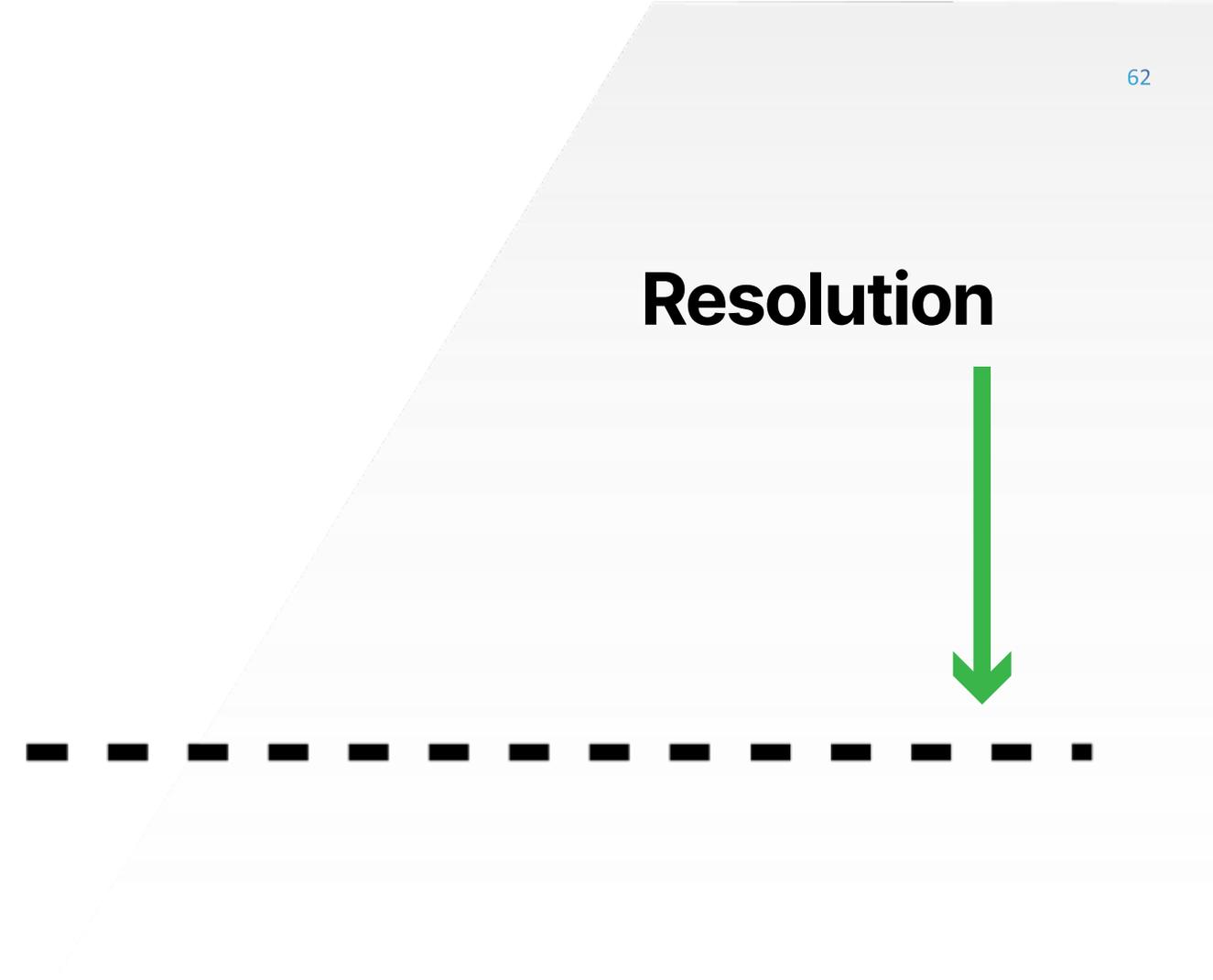


t



Acknowledgement

Resolution



Moment of Need



Resolution



Acknowledgement



Messages Details Cancel



Michelle Ben Mei

We typically reply within 2 hours

Ask us anything! We'll do our best to get back to you within 2-4 hours during regular business hours (Mon - Fri, 9am - 5pm CST).

Hello!
I just noticed a few transactions that I definitely didn't make. Can someone help me?

Send



Messages Details Cancel



Michelle Ben Mei

We typically reply within 2 hours

Ask us anything! We'll do our best to get back to you within 2-4 hours during regular business hours (Mon - Fri, 9am - 5pm CST).

Hello!
I just noticed a few transactions that I definitely didn't make. Can someone help me?

< Messages

Details



Shakti Buffalo, NY
Customer Service Champion

Hello!
I just noticed a few transactions
that I definitely didn't make. Can
someone help me?

Sent at 10:15 AM

Shakti joined this conversation



Hi Elizabeth!

Sorry to hear about the weird
charges. I'd be happy to help
you sort this out!

Sent by Shakti at 11:03 AM

+ Type a message

Send

Hello!

I just noticed a few transactions
that I definitely didn't make. Can
someone help me?

Sent at 10:15 AM

Shakti joined this conversation



Hi Elizabeth!

Sorry to hear about the weird
charges. I'd be happy to help
you sort this out!

Sent by Shakti at 11:03 AM

**Win moments of need
with payments...**

Messages

Details



Sent at 10:15 AM

Shakti joined this conversation



Hi Elizabeth!

Sorry to hear about the weird charges. I'd be happy to help you sort this out!

Sent by Shakti at 11:03 AM

I also just remembered that I have to send in my W2 for a loan I'm trying to get. Could I just send that here? I have it handy

Sent at 10:15 AM

Elizabeth_Lopez_W2_December-14-2018.pdf

64.8 KB PDF

Uploading...

I also just remembered that I have to send in my W2 for a loan I'm trying to get. Could I just send that here? I have it handy

Sent at 10:15 AM

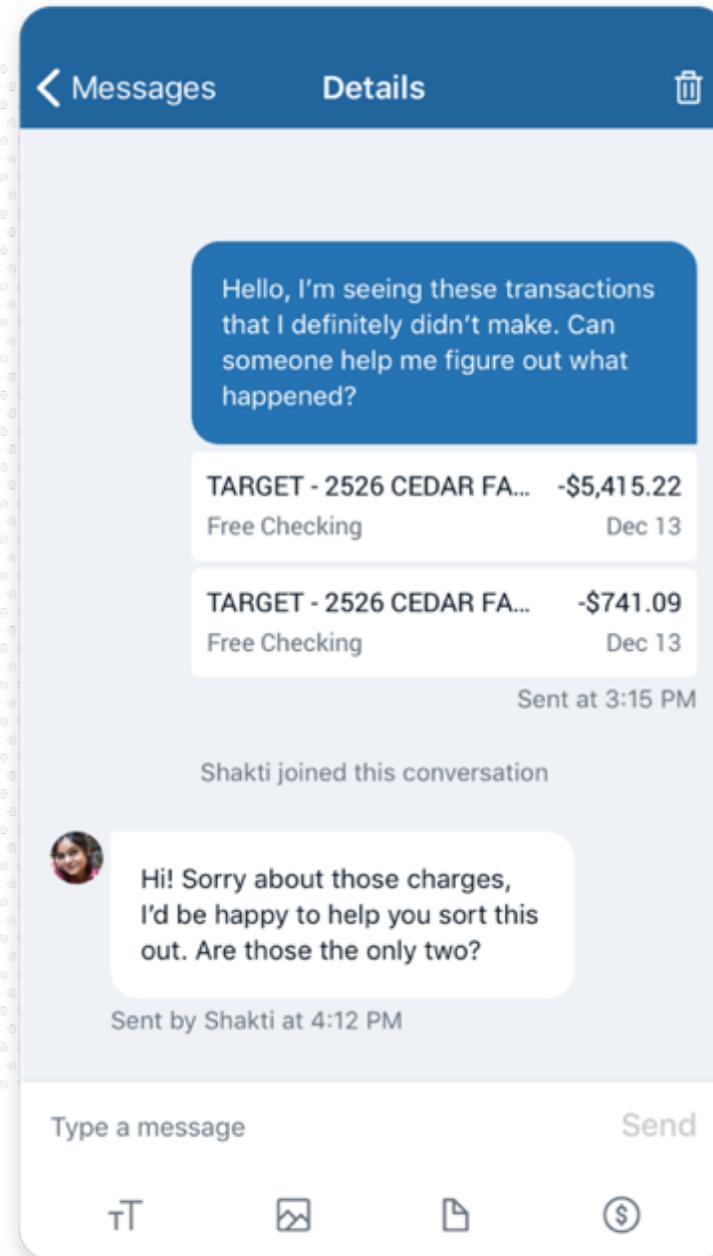
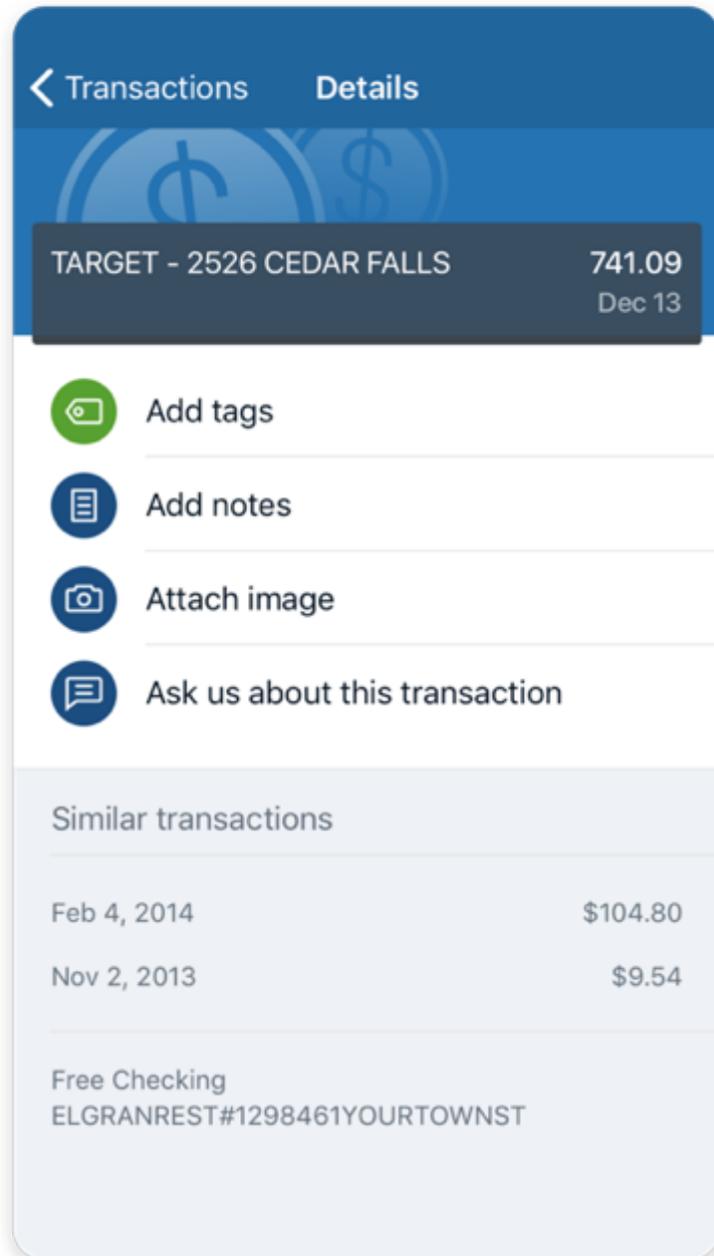
Elizabeth_Lopez_W2_December-14-2018.pdf

64.8 KB PDF

Uploading...

+ Type a message

Send



Attach context

Less typing, more helping

Attaching accounts and transactions provides clarity in less time.

6:59



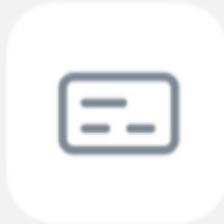
New message

Cancel

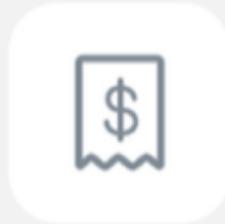


Typically reply within 2 hours

Ask us anything! We'll do our best to get back to you within 2-4 hours during regular business hours (Mon-Fri 9am - 5pm CST).



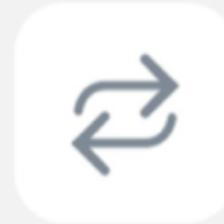
Accounts



Transactions



Deposits



Transfers



More

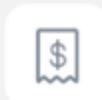


Type a message

Send



Accounts



Transactions



Deposits



Transfers

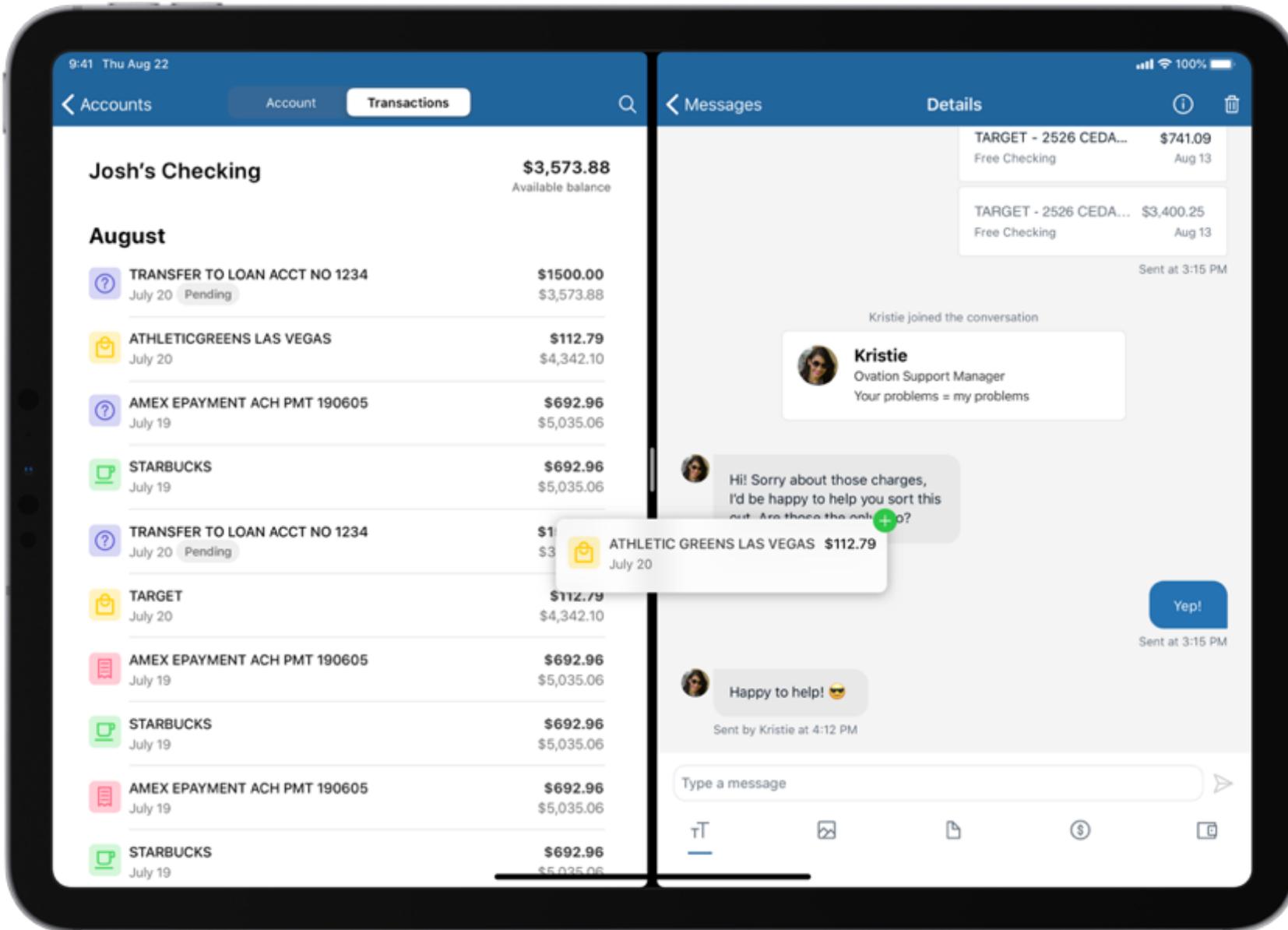


More



Type a message

Send



Attach context

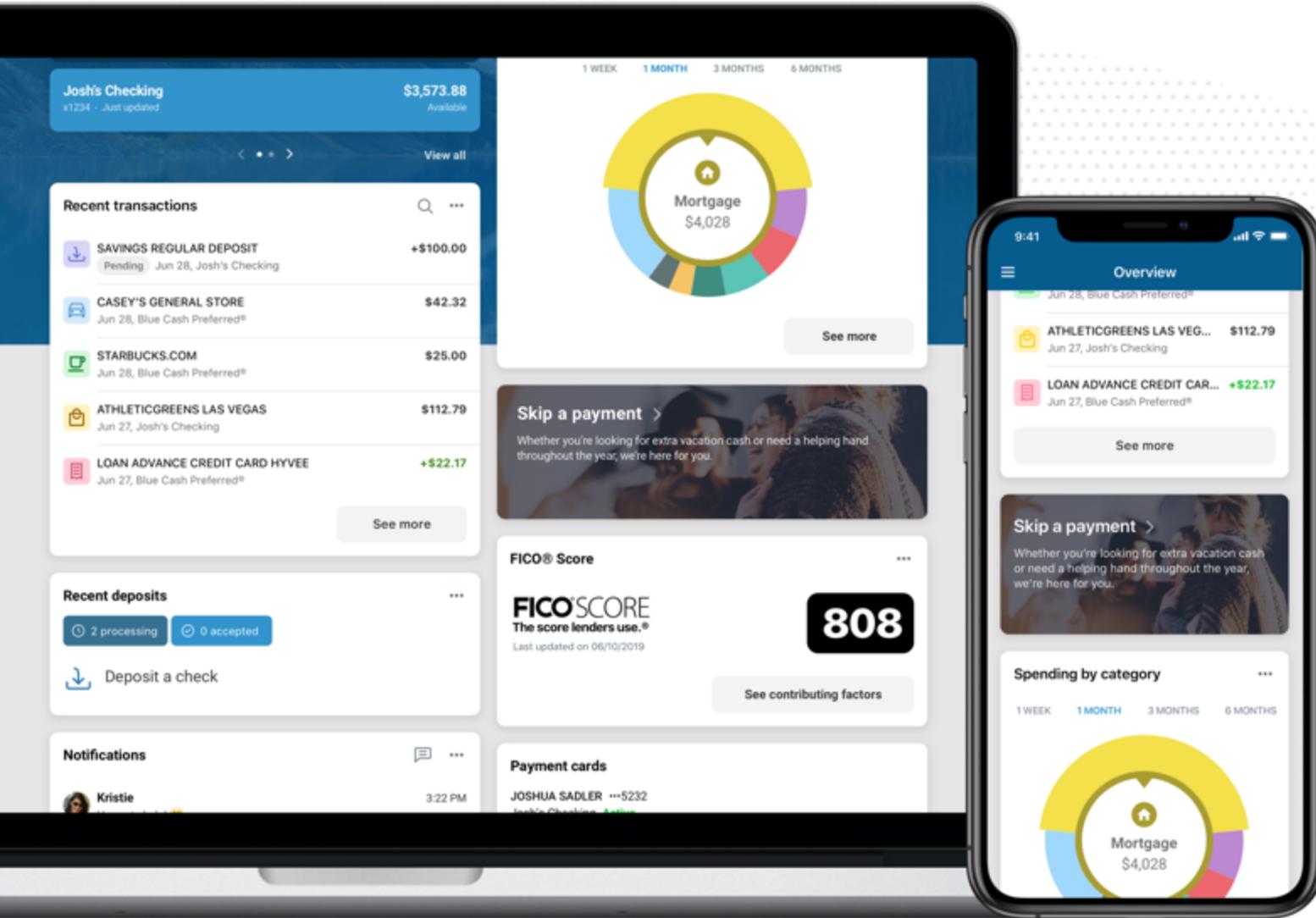
Less typing, more helping

Dragging and dropping accounts and transactions provides clarity in less time.

MUNDANE PAYMENTS	MEANINGFUL PAYMENTS
Commoditized P2P and POS	Biggest opportunity to strategically differentiate on service in digital
Tablestakes	Target highest stakes transactions: business payments, high-dollar payments, milestone payments, wires and wealth payments
Must match competition (or be top-of-wallet) to remain relevant, win moments of need, and maintain relationship as primary financial institution. (card-enable billpay)	Must offer live, local, personal service at the moment of need by integrating conversational channels in digital banking that are already authenticated and transactionalized (i.e., directly connected to core).
Must enable or have visibility into mundane payments because data is the onramp to not just relevance BUT REVENUE in the future.	Lever meaningful payments to drive sales in the context of service (inside of personal digital interactions), i.e., inside personal service

**Make the most of
meaningful payments...**

...and make **meaning** of
the mundane payments...



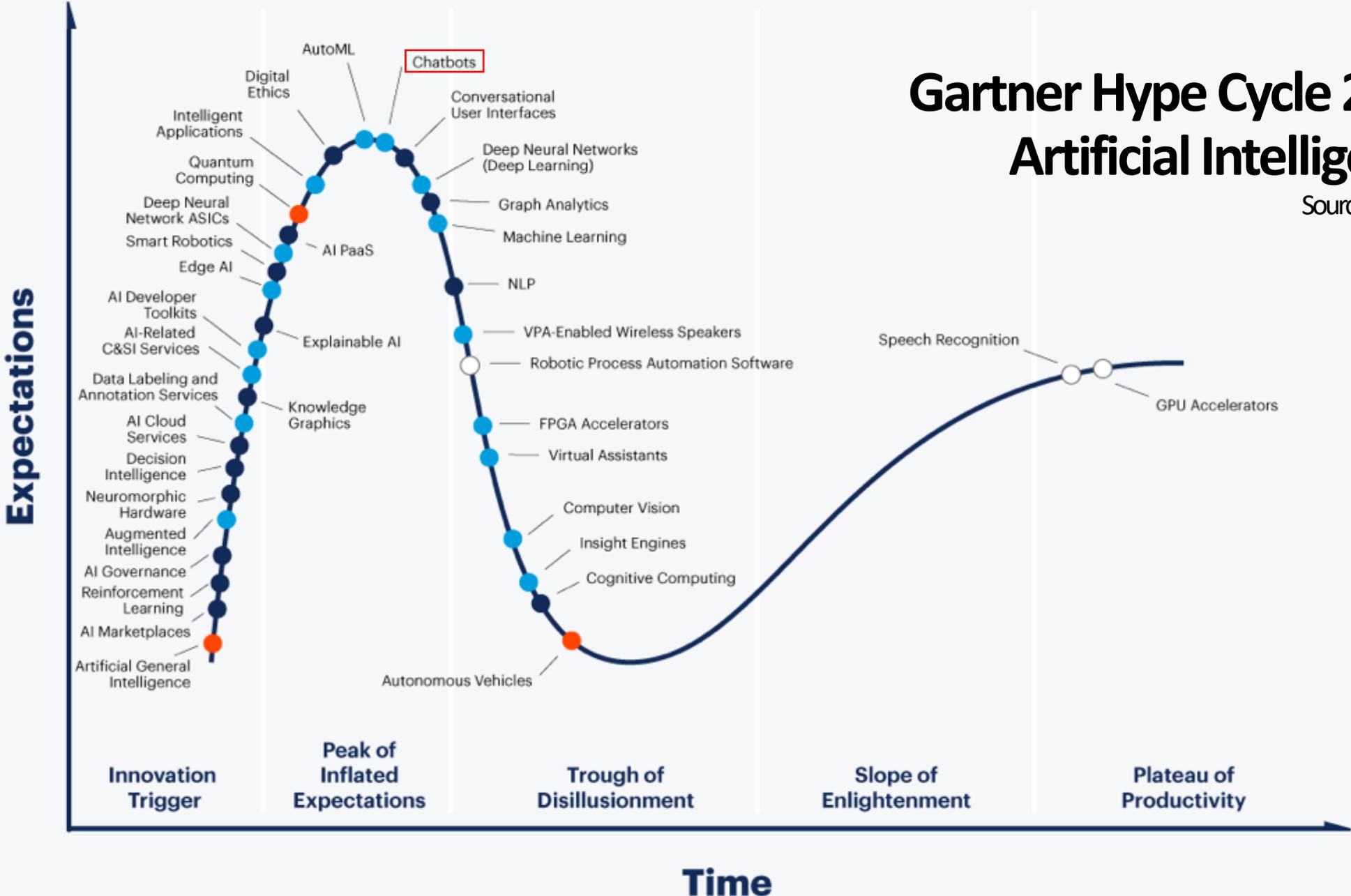
The end of bolt-on PFM

In-line transaction enrichment and financial management should be native to digital banking...because they are integral to making meaning of mundane payments over time.

Technological disruption...

Gartner Hype Cycle 2019 Artificial Intelligence

Source: Gartner



Plateau will be reached:

- less than 2 years
- 2 to 5 years
- 5 to 10 years
- more than 10 years
- obsolete before plateau

As of July 2019

The Chatbot Continuum

Dedicated Human Concierge



Fully Automated AI Assistant

2

big trends

in digital banking

1

Commodization of digital banking

2

Bot-omation

of digital banking

2

approaches to digital banking

1

**Make technology
seem more human.**

FaceMe.®

Intelligent Digital Human Platform

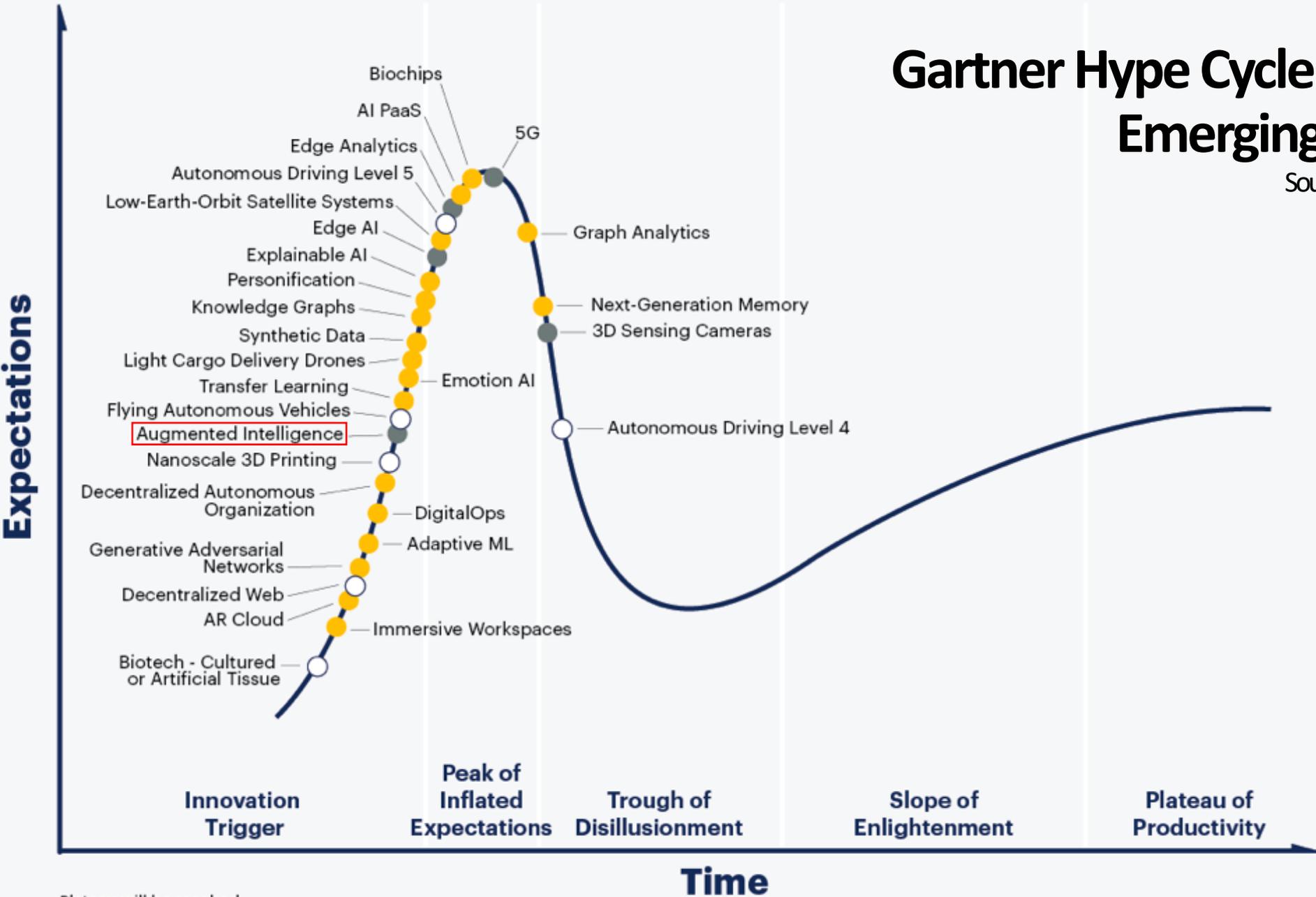


2

Use technology to
extend our humanity.

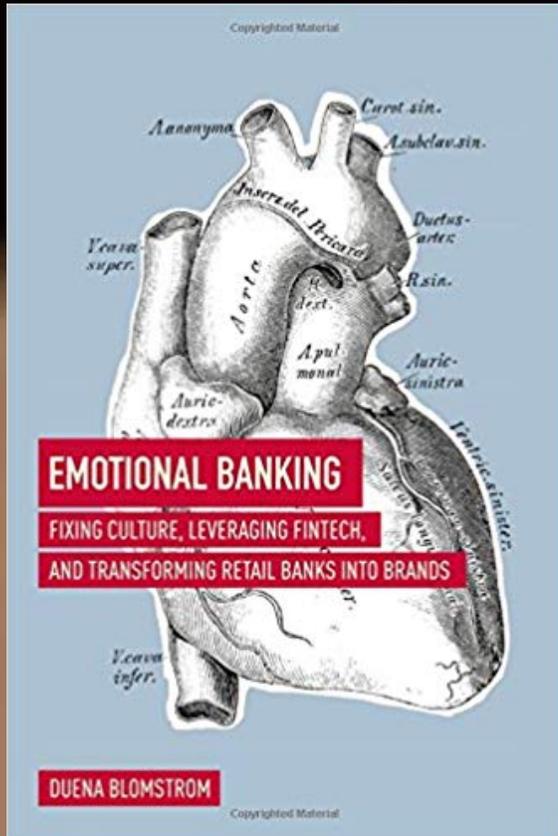
Gartner Hype Cycle 2019 Emerging Tech

Source: Gartner



Plateau will be reached:

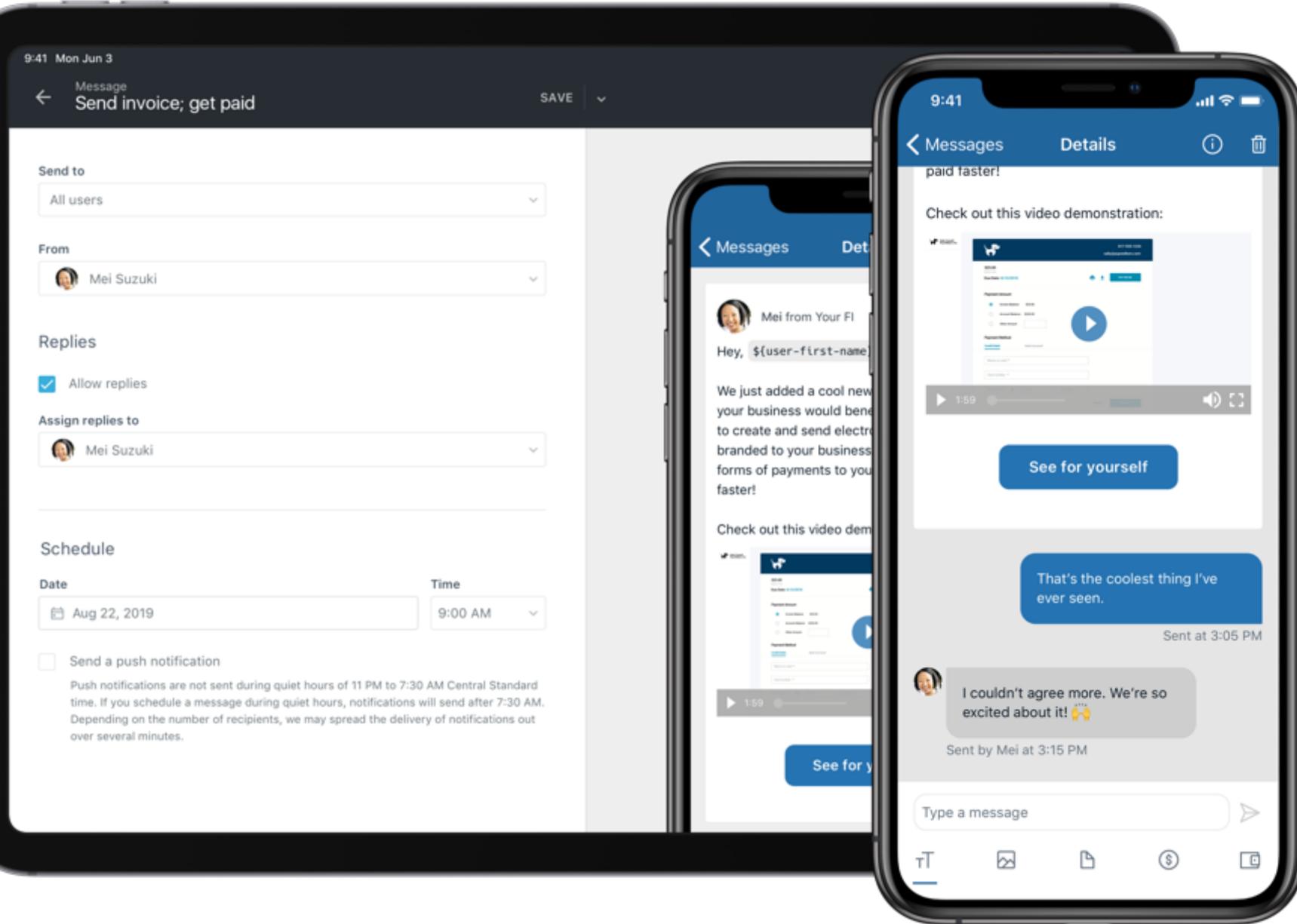
- less than 2 years
- 2 to 5 years
- 5 to 10 years
- more than 10 years
- obsolete before plateau
- As of August 2019



“Technology **without the human component** will simply deliver bad experiences faster.”

Duena Blomstrom
Author, Emotional Banking





Sales in the context of service

Community banks have always been able to sell in the context of in-person service, so translating in-person service inside digital channels is key to transforming digital banking into a revenue channel instead of a cost channel..



“More and more, **the cost of poor service is huge**. There’s complete zero tolerance for it. And when you do make a mistake, it’s all over social media. **Confident, competent people are the only thing that can deliver flawless execution.**”

Cathy Bessant
Chief Operations & Technology Officer
Bank of America



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<http://www.linkedin.com/in/leewetherington>



@leewetherington