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BANKERS REVEAL THE NEXT PHASE OF DIGITAL TRANSFORMATION

POLL RESULTS

MODERNIZING FINANCIAL SERVICES



In January and February, Bank Director's FinXTech division conducted a poll exploring technology adoption trends, primarily focused on the community banking sector. More than half of the responding bankers believe their institution will adopt application programming interface (API) platforms in 2022, and many will seek to further their technological journeys through data aggregation and analysis (44%) and workflow automation (44%).

KEY FINDINGS

- APIs, data aggregation and workflow automation surpass other areas of technology adoption for 2022.
- Banks focused on implementing lending platforms and digital account opening during the pandemic, a trend that will continue for some over the next 12 months.
- Bankers named 20 of the best solutions and platforms they used at their institutions.

The poll also asked bankers to name the best noncore solutions that have had a significant impact on their banks; you can find those later in this report. More about these solutions can also be found in the FinXTech Connect platform, a guide to financial technology companies working with banks.

APIs, data aggregation — these technologies hold the key to modernizing financial services. And some banks are leveraging these tools to transform their operations.

Mascoma Bank may be a small bank, but it has big plans to technologically transform its organization over the next two years.

"We're building what we're calling an embedded finance system," says Samantha Pause, the \$2.6 billion bank's chief marketing and product officer. Lebanon, New Hampshire-based Mascoma recently signed a contract with Thought Machine to implement its cloud-native core — dubbed Vault — over the next two years, when its contract with its current core provider will expire. Thought Machine's U.S. clients include Bentonville, Arkansas-based Arvest Bank Group, with \$27 billion in assets, and JPMorgan Chase & Co.'s retail bank. The new core will leverage APIs, intermediaries that allow different applications or systems to exchange data.

"This is an attractive direction for us to go in because everything that we are building is basically mutable," Pause says. Thought Machine will connect with other tools, including the cloud-based customer relationship management software Salesforce, giving employees access to customer information along with a new digital banking platform.

“Everything can be done with APIs and connected that way. It opens up our ability to really be creative,” she explains. This puts Mascoma in the driver’s seat to build or implement new products and services based on what their customers want.

The technology will also give Mascoma Bank control over a precious resource: its data, which is currently scattered over dozens of disparate systems. “Building this new system, we can pull everything together from every system that our customers’ data touches into one place,” Pause says. “And we can understand it; we can analyze it; we can push it out to the frontline.”

The leadership team at West Reading, Pennsylvania-based Customers Bancorp, with \$20 billion in assets, has been asking similar questions about the role their organization will play in the financial services evolution. Chief Administrative Officer Jennifer Frost notes the important shift that took place during the pandemic, with the rush to engage customers digitally. Now, Customers Bancorp is seeking to further that transformation in the back office. Carla Leibold, the bank’s CFO, has spearheaded efforts to automate the accounting and finance functions, and there’s a huge focus on data, with the bank bringing Chief Data Officer Karen Stine on staff last year.

“We’ve got a lot of data initiatives going on in our company right now, data science and general data governance,” says Frost. The bank is moving to a new data warehouse, Snowflake, which is used by financial providers including Capital One Financial Corp., Citigroup and Block (formerly Square), along with a host of other larger, non-financial companies. Most data warehouses rely on batch processing — taking large amounts of data and processing it at once, often overnight. That doesn’t provide real-time insights, Frost explains. Snowflake’s APIs, however, will enable Customers Bancorp to “access data [in] real time, so it’s up to the minute, and we can have real-time insights and suggestions coming out of our data warehouse.”

Legacy core provider Jack Henry & Associates is among the technology companies responding to these trends. “We saw open banking emerging in the United States — market driv-

en, not mandate driven,” says Lee Wetherington, senior director of corporate strategy at Jack Henry. Banno’s open-API digital banking platform, which Jack Henry acquired in 2014, set the foundation for its open banking journey. Jack Henry has since rewritten the core’s middleware layer — APIs that connect applications to the core system — for the cloud.

Banks want to partner with the technologies they choose to create differentiated experiences for their customers, Wetherington adds. With that in mind, “We’re trying to become the best open banking platform there is, period. And the only way to get there first is to remove friction from fintechs and other third parties that want to join our ecosystem. That means getting rid of cost and getting rid of complexity, and making integration as easy and seamless as possible through beautifully documented, open APIs.” As of March, 850 fintechs and third parties used APIs to integrate with Jack Henry.

APIs represent the next phase in the digital transformation journey for many banks. But most spent the past 18 months focused on digital account opening and digital lending capabilities, according to the FinXTech poll. Looking at 2022, 42% indicate that they plan to further their digital journey via these tools.



For fiscal year 2021, 78% of bank executives and directors said their technology budget increased, by a median 10%.

Source: Bank Director’s 2021 Technology Survey

St. Louis-based Midwest BankCentre had a leg up on account opening compared to many similarly-sized banks — it already offered the service through its Rising Bank subsidiary, a digital-only platform launched in 2019 through a partnership with MANTL. In 2023, \$2.4 billion Midwest BankCentre plans to expand digital account opening to its business clients, according to Erin Erhart, executive vice president of bank operations. This will reduce its commercial teams’ reliance on retail branches for business.

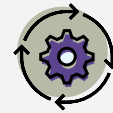
Digital account opening and consumer lending automation — that’s table stakes today. Given the pandemic-fueled shift to digital services, along with a deluge of deposits, it’s difficult to assess the success of banks’ digital transformation efforts, says Ron Shevlin, chief research officer at Cornerstone Advisors. But leveraging APIs and updating core technology will prove vital to these efforts. “You have to replace your core in order to be digitally transformed,” says Shevlin.

Mascoma Bank’s Pause, a community banking veteran with three decades in the industry, believes technological transformation to be a matter of survival.

“Community banks are instrumental for the success and well-being of communities. They’re the economic drivers ... if community banks go away, there is going to be a negative impact to a lot of communities throughout this country,” says Pause. Mascoma Bank serves a largely older demographic in New Hampshire and Vermont, she notes, but a wealth transfer is coming — and younger generations expect a strong digital experience. “We need to be able to move faster; we need to be able to be more agile to meet our customers’ needs. So, with that lens in mind over the last several years, we as a bank have really taken a step back and gone, ‘OK, how are we going to remain relevant?’ It really comes down to technology, and how we think about technology.”

What are the top three objectives that drive your bank’s technology strategy?

Top three options.



70%
Creating a more efficient operation



68%
Improving the customer experience



34%
Improving online and mobile offerings

Source: Bank Director’s 2021 Technology Survey



46% have collaborated with one or more technology partners to develop specific solutions.

Source: Bank Director’s 2021 Technology Survey

Do your board and executive team regularly discuss long-term prospects for your bank and the industry, looking ahead at the next five to 10 years to consider strategic risks and opportunities?

Question asked of CEOs, CFOs and independent board members.


Source: Bank Director’s 2022 Risk Survey

■ Yes, we discuss these risks and opportunities frequently (more than once a year)

■ Yes, we discuss these risks and opportunities at least annually

■ No, we don’t discuss strategic risks





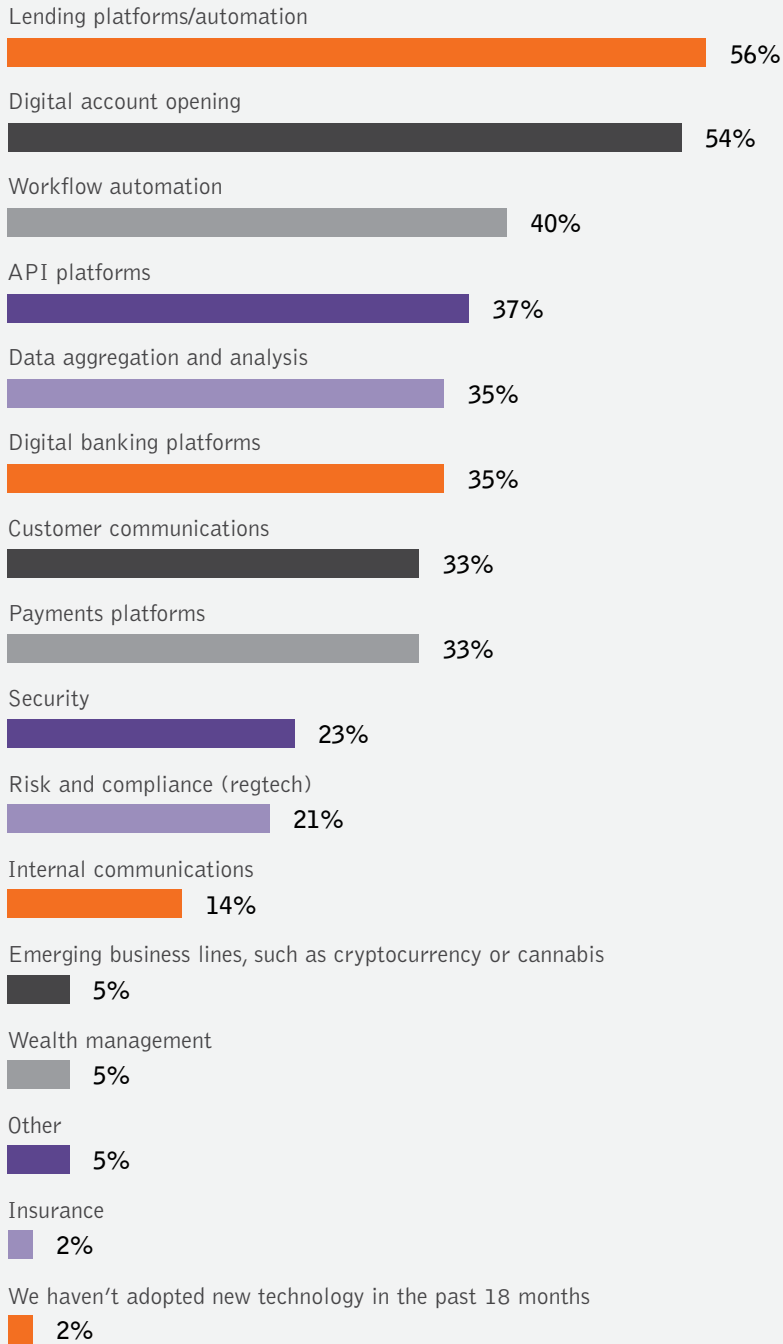
"COMMUNITY BANKS ARE INSTRUMENTAL FOR THE SUCCESS AND WELL-BEING OF COMMUNITIES. THEY'RE THE ECONOMIC DRIVERS ... WE NEED TO BE ABLE TO MOVE FASTER; WE NEED TO BE ABLE TO BE MORE AGILE TO MEET OUR CUSTOMERS' NEEDS."

Samantha Pause, Mascoma Bank

TECHNOLOGY ADOPTION TRENDS

Over the past 18 months, in which areas have you adopted new technology solutions?

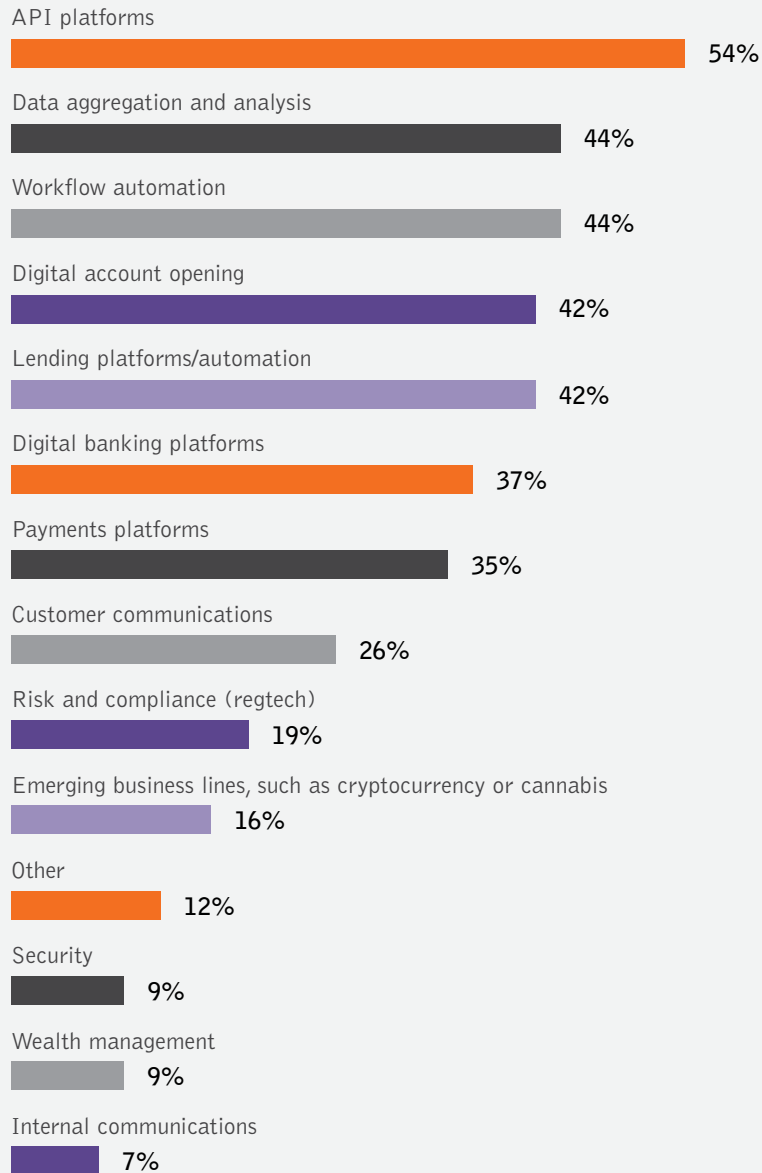
Respondents were asked to select all that apply.



Source: FinXTech poll, January-February 2022

Looking ahead over the next 12 months, in which areas does your bank plan to adopt new technology solutions?

Respondents were asked to select all that apply.

















Source: FinXTech poll, January-February 2022

TOP TECHNOLOGIES IN FINXTECH CONNECT



Bank executives named the best solutions based on innovation, ease of use, service and return on investment. These are categorized here by the most popular areas of technology adoption. More information about these and other technologies serving banks can be found in FinXTech Connect.





Source: FinXTech poll, January-February 2022

	LENDING PLATFORMS/AUTOMATION		DIGITAL ACCOUNT OPENING
 NUMERATED	Numerated Small Business Lending	 Q2/Q2 Gro	Digital Banking Platform
 blend	Blend Mortgage Lending	 Alkami	Alkami Digital User Experience
 TESLAR Software	Teslar Software Loan Portfolio & Operations Management	 meridianlink	MeridianLink Account Origination & More
 built	Built Construction Lending	 APITURE	Apiture Digital Banking Platform
 bakerhill NextGen	NextGen (Baker Hill) Origination & Decisioning	 MANTL	MANTL Digital Account Opening
 SIMPLENEXUS. <small>an ncino company</small>	SimpleNexus (nCino) Information Management	 narmi	Narmi Digital Banking Platform
 BHG BANKERS HEALTHCARE GROUP	BHG Bank Group Healthcare-Focused Loans	 NCR	NCR Digital Banking Platform

“nCino produced a large [return on investment] with the [Paycheck Protection Program] capabilities it brought to us. I would say that we are seeing an ROI of about 125% based on the salary savings from not having to hire people to manage loan growth.”

Bank chief operating officer responding to FinXTech poll

API PLATFORMS	
	nCino Bank Operating System
	Finzly Bank Operating System

DATA AGGREGATION AND ANALYSIS	
	Sageworks (Accel-KKR) Credit Analysis
	KlariVis Data Aggregator
	Segmint Customer Insights
	Saylent (MeridianLink) Data Aggregator

“Q2 Gro is our top producing channel for consumer deposit accounts in its first month in production.”

Bank chief information officer responding to FinXTech poll

“[With] MANTL ... We opened more accounts online than the vast majority of our branches combined within only 3-4 months. [With] Blend, the omni-channel experience [and] the additional connectivity via fintechns like Plaid have improved the customer experience exponentially in addition to allowing us to market mortgage more broadly ...”

Bank head of operations responding to FinXTech poll

SUCCESS CHECKLIST

FIVE QUESTIONS TO STRENGTHEN YOUR STRATEGY

Bankers and technology experts offer the following questions for boards and leadership teams to ask as they move their technology transformation forward.



1. What are our strengths? What are the potential opportunities?

“Where are we strong and weak? What should we stop doing? Where should we refocus? Who are we going after? How are we competing? Why are we winning business? Why are we losing business?” asks Ron Shevlin of Cornerstone Advisors. From there, consider what technologies the bank has in place to build on its strengths, and what technologies to adopt to fulfill its strategic goals.



2. What solutions will help us differentiate our institution in the marketplace?

Lee Wetherington of Jack Henry & Associates advises that banks consider anywhere from two to five fintechs that will help the bank differentiate its user experience, products and services. From there, community banks can leverage their strengths digitally, providing “live, local, personal service in the moment of need.”



3. How do we benefit from collaboration?

Midwest BankCentre partnered with MANTL to develop its digital account opening capabilities, which it will expand to business clients in 2023. “We enjoy bouncing ideas off each other. They let us know what they’re thinking from a road map perspective, and we give input on those things,” says Erin Erhart, executive vice president of bank operations.



4. How will we measure our progress?

All projects should have an end goal in mind, says Shevlin. Understand why the bank is using the technology — the specific need being addressed — and how you’ll measure the impact on the bank, even if that’s difficult to quantify.



5. Do strategic discussions consider the future of banking?

Bank leaders need to understand how open banking and real-time payments connect to their strategy, says Wetherington. As the financial ecosystem grows more fragmented, banks need to determine how to put themselves at the center of the customer relationship.

Methodology

In January and February 2022, FinXTech polled 48 bank executives about technology adoption at their banks and the best solutions implemented by their institutions. One-quarter serve as their bank's chief information officer or chief technology officer, and 27% as CEO. Half of the respondents represent a bank between \$1 billion and \$5 billion in assets; 31% represent a bank under \$1 billion in assets. Forty-four percent use the core provider Fiserv; 34% work with Jack Henry & Associates and 20% with FIS.



About FinXTech

Launched in 2014, FinXTech is a resource powered by Bank Director, which specializes in connecting a hugely influential audience of U.S. bank leaders with technology partners at the forefront of innovation. FinXTech makes it easier for banks and technology companies to work together — through its exclusive in-person events, editorial content and online FinXTech Connect platform. For more information, please visit FinXTech.com.



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