

FinTech/RegTech – What Do You Need to Know?

Wisconsin Bankers Association Bank Executives Conference



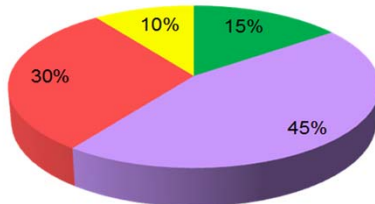
February 2018

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Workforce Demographics in 2010 and 2020

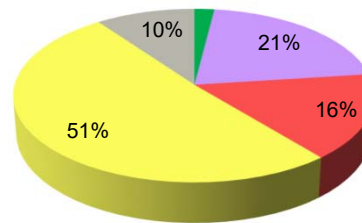
2010



- Traditionalists
- Boomers
- X'ers
- Millennials
- Gen Z (1997-present)

- Traditionalists (1925-1945)
- Boomers (1946-1964)
- X'ers (1965-1980)
- Millennials (1981-1996)

2020*




*Projected data

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These Are Your Customers of the Future!



One out of every three is willing to change banks

27%

prefer not to have a bank.

32%

have never stepped inside a bank

33%

think they will no longer need a bank in 5 years

73%



are more receptive to Apple, Google, Amazon service...

62%

use online banking on their cell or tablet.

“Gen Next” spend most of their lives on the screen:



- Digital natives
- Multi-screen and multi-device
- “NoMophobes” and “Appdicts”
- Social and connected
- Critical and demanding

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Estimated FinTech Spending by Some of the Big Banks

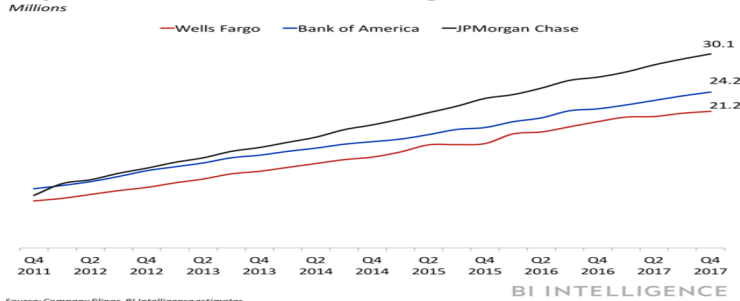
J P Morgan Chase	\$600 million of the company's \$9.5Billion tech budget was spent on emerging FinTech solutions	<p><i>Big banks are investing heavily into FinTech, developing newer ways to reach customers, build innovative delivery channels, increase efficiency, and reduce costs.</i></p> <p><i>Bank of America is reported to have 43 patents related to blockchain technology, more patents than compared to those of IBM and payment firms.</i></p>
Bank of America	Total technology budget is \$17 billion, which includes a \$3 billion innovation budget	
Citibank	Has a separate group “Citi FinTech” with a \$3 billion budget	

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Number of Active Mobile Banking Users Is Steadily Growing

Major US Banks' Active Mobile Banking Users



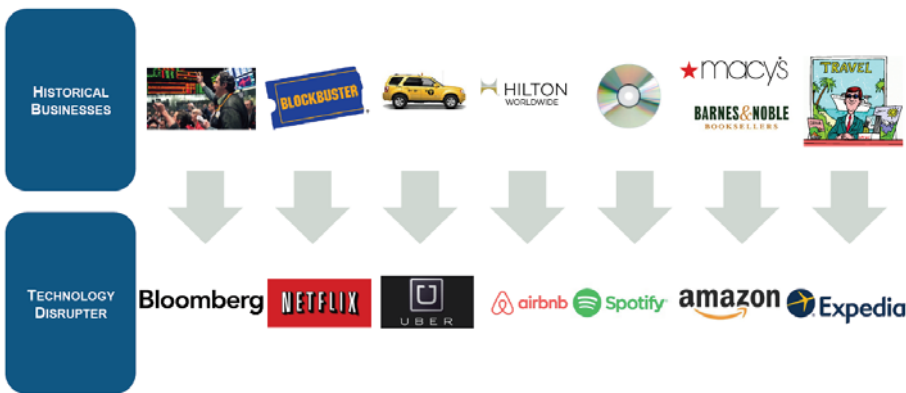
Smartphones are ubiquitous. Usage of smartphones is growing among millennials. It's only a matter of time before regional banks feel the impact of mobile banking, which is aggressively pursued by larger banks and emerging FinTech companies.

Customers will soon realize mobile banking is more convenient!



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Technology Is Disrupting All Industries



Disruption is ruthless. Airbnb has disrupted hotels of all sizes. Expedia has impacted small-time travel agents. Disruption comes "big bang."



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Disruption Is Not Evolution

Community Banks



Technology Disrupter



We may be thinking this is not the first time banks have adopted technology. There has been an evolution:

- Drive-up branches
- Advances in data processing
- ATMs
- Digital loan files
- Bank by phone
- Internet banking



Disruption Is Not Evolution (cont'd...)

The **FinTech/RegTech** phenomenon is more than an evolution – it's a new way of thinking about **banking** with **no banks**, a **paradigm shift!**

Time for a Paradigm Shift?



So What Is FinTech?

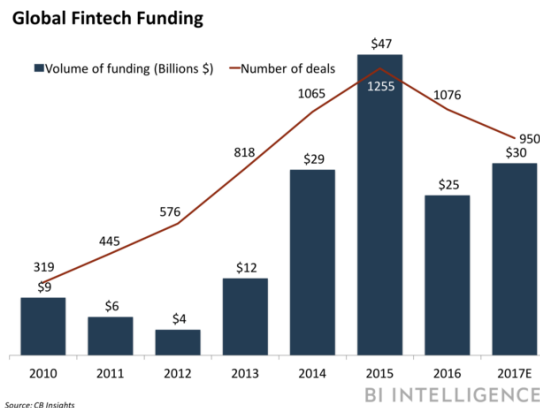


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Funding to FinTech Firms Will Remain Strong



Funding will remain strong, despite cyclical dips. Increased number of VC funds today are interested in the FinTech space as compared to 2016 and 2017.

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There is a FinTech startup for almost any banking service – deposits, loans, payment systems, wealth advisory, etc.

These FinTech firms are constantly innovating and coming up with ways to reach out to “Gen Next.” They are capturing *your customers*.

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	Traditional banks	Specialty Banks	Fintech banking apps	Specialized lenders	VARO
A full financial picture through account aggregation	✓		✓		✓
Bank account and interest-bearing savings accounts	✓	✓	✓		✓
Direct deposit, Bill Pay and debit card functionality	✓	✓	✓		✓
Customer-friendly fee structure		✓	✓		✓
Competitively-priced credit products	✓				✓
Financial health-centered alerts & notifications	✓		✓	✓	✓
Automated goals and spend tracking			✓		✓
Cash flow projections to help customers spend less than they earn			✓		✓

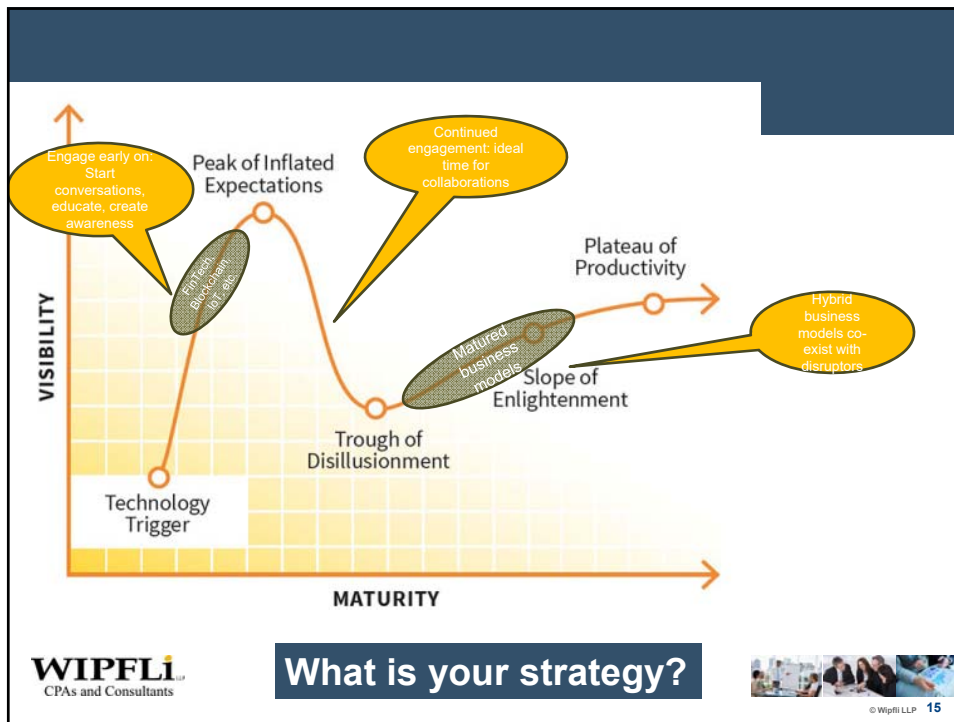
This information was based on product offerings listed on the websites of these financial institutions: Bank of America, Chase Bank, Wells Fargo, Simple, Chime, Lending Club, Lendbox, Capital One, and Ally.

This San Francisco-based startup has raised \$45million in Series B funding in January 2018, taking the total funds raised to date to \$78.4M



FinTech/RegTech and Community Banks Are a Perfect Match!

- More than 80% of community banks say* they would like to learn about FinTech/RegTech and how to collaborate
- Lower cost + better brand = a win-win
 - For banks, enhanced mobile capabilities and lower capital and operating costs are the benefits of collaborating with FinTech firms. For FinTech firms, market credibility and access to customers are the main benefits of partnering with banks.
- Education and awareness is the right first step, but what next?



Making RegTech a Competitive Advantage

- Regulatory technology, also known as "**RegTech**" is using information technology—in the context of regulatory monitoring, reporting, and compliance-benefiting, in the immediate future, the finance industry.
 - Agility – Cluttered and intertwined data sets can be decoupled and organized through ETL (Extract, Transfer, Load) technologies
 - Speed – Reports can be configured and generated quickly
 - Integration – Short time frames to get solution up and running
 - Analytics – Solve the problem of “drowned in information, but starved for wisdom.” RegTech uses analytics tools to intelligently mine existing “big data” data sets and unlock their true potential.

Technologies to Watch and Learn – Artificial Intelligence

- A group of related technologies
 - Natural language processing (improving interactions between computers and human or “natural” languages)
 - Machine learning (computer programs that can “learn” when exposed to new data)
 - Expert systems (software programmed to provide advice) that help machines sense, comprehend, and act in ways similar to the human brain



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Examples – Artificial Intelligence

- Four of India’s large banks (State Bank of India, ICICI, HDFC, and Axis Bank) are using chatbots to interact with customers and new loan applicants
- Betterment, one of the top “Robo Advisers” has \$10 billion AUM. Some of the other companies in this space are Personal Capital, Schwab Intelligent Portfolios, SigFig, Wealthfront, etc.
- Many large banks around the world are using machine learning in the area of fraud detection and data analytics



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Technologies to Watch and Learn – Blockchain

- Distributed ledger technology, being experimented with and implemented by innovators
- Immutable, incorruptible public ledgers, which can provide huge gains in efficiency
- Have the potential to disrupt the way we do business today – starting from recording transactions to tracking and settling them
- Bitcoin is the first application built using blockchain technology



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Examples – Blockchain

- The Australian Securities Exchange (ASX) has become the first major security exchange to announce the adoption of blockchain technology; the system has gone live
- Cook County in state of Illinois is considering using blockchain technology for property title registration and tracking
- R3 is a consortium of more than 70 banks, building a blockchain-based platform for banks. It is close to launching first pilot product.



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High-Level Challenges

- Data security
 - Both banks and FinTech companies are highly sensitive to the ways in which data is shared and secured. This means extra attention must be paid to cybersecurity when the two sides collaborate—especially given the cultural mismatch that can exist between them. Despite the optimism among banks for collaboration, preparedness is a large concern.
- Regulatory concerns
 - For banks and FinTech firms, structuring relationships that are regulatory compliant, including, if required, prior regulatory approval, is critical to ensuring success and the opportunity to change the way financial services are ultimately delivered.



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“Technology will determine the success or failure of banks going forward”

Thomas Curry

Comptroller of the Currency (2012-2017)



So WHAT NEXT?



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Top Six IMMEDIATE Next Steps

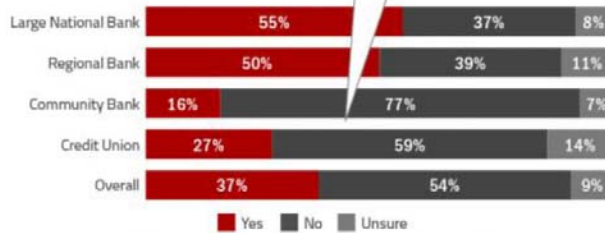
1. Improve the consumer experience
2. Expand use of data and analytics
3. Support multichannel delivery
4. Embrace open banking
5. Build FinTech partnerships
6. Explore advanced technologies



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Improve the Consumer Experience

Most organizations do not have a formal customer experience program by type



Redesign your mobile and online banking platforms, removing steps that create friction, removing the need for customers to enter a branch

SOURCE: DBR Research © December 2017 The Financial Brand



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Expand Use of Data and Analytics

- Break down the barriers within your organization that perpetuate data silos. Only after silos are eliminated can advanced analytics be the most effective.
- Establish a data analytics function or partner with an outside organization to provide help in improving the actionability of your data.
- Replace timed marketing “programs” with ongoing marketing “processes,” leveraging real-time data to take advantage of immediate opportunities.

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Support Multi-Channel Delivery



Implement a teaching platform within branches that assists visitors with the use of digital technology.

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Embrace Open Banking



SOURCE: Deloitte © December 2017 The Financial Brand

- Review existing data privacy mandates and potential changes, determining the risk/benefit appetite for new marketplace opportunities
- Explore data-sharing possibility with FinTech and non-financial services firms to be prepared for imminent changes
- Build an API strategy for both third-party data access and potential service offerings outside the traditional banking ecosystem

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Build FinTech Partnerships

- Foster a top-down culture of innovation, testing, and understanding the digital consumer.
- Investigate partnerships and/or collaboration with FinTech firms for products and processes not currently possible within the banking organization.
- Replace all or a portion of legacy systems, integrating new technologies while embracing an agile IT culture. This action step has been put on the back burner for years, which is hurting many organizations.
- Consider having an online lender power the organization's online loan application to use an online lender's credit model to better underwrite and service bank loan applications.

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Explore Advanced Technologies

- As quickly as past technologies have become the norm, a new wave of emerging technologies will combine digital technologies and the power of data to set new standards. Consider investing in exploring the following:
 - Artificial intelligence
 - Blockchain
 - The Internet of Things (IoT)
 - Augmented reality
 - Virtual reality



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Questions



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