

# Fintechs & the Future Bottom Lined

*...and why what you've heard is wrong*

## Lee Wetherington

Director of Strategic Insight  
Jack Henry & Associates, Inc.®

 @leewetherington




Regional & Community Bankers Conference



Hacking the hyperbole...

# hy·per·bo·le

/hī'pərbəlē/ 

*noun*



From the Latin:

*hyper* (extreme), *bol* (bull), *e* (excrement)

# hack<sup>1</sup>

/hak/ 

*verb*



From the Lee sense of the word:

*To deconstruct conventional wisdom with data and a playful yet wickedly righteous sense of duty and purpose*

Why are we so  
**vulnerable** to  
hyperbole?

1. **Uncertainty** about the future
2. **Narrative** bias
3. **Attentional** bias

# Does stress cause ulcers?



Dr. Barry Marshall



**Does eating fat  
make you fat?**



**94%  
FAT F**

**LOW FAT**

**Still 45%  
Less Fat**

**33% LESS  
FAT**

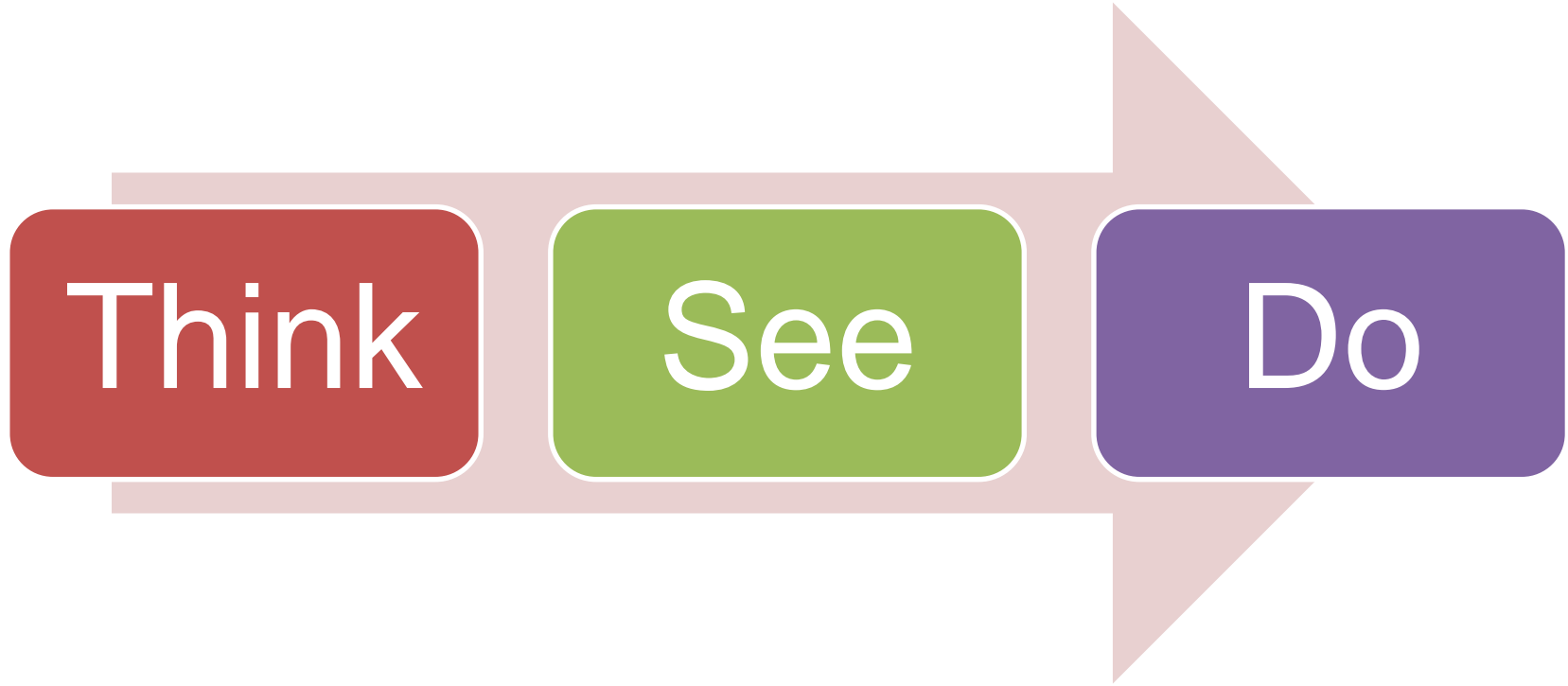
With the same amount of this in  
strong, delicious, crunchy waffles

The range of  
this brand's  
changed!



**Strategy requires  
foresight...**

**...but it's hard to  
see ahead with  
built-in **blind spots.****



“Fintechs are disrupting banks.”



Marketplace Lending



Direct Lending & Underwriting



Bill Pay / Money Transfer



Investment Management



“60% of fintech funding (in North America) now backs collaborative fintechs vs. disruptive fintechs.” --Celent

(Digital Banking Market)



Online/Mobile Banking



Personal Finance



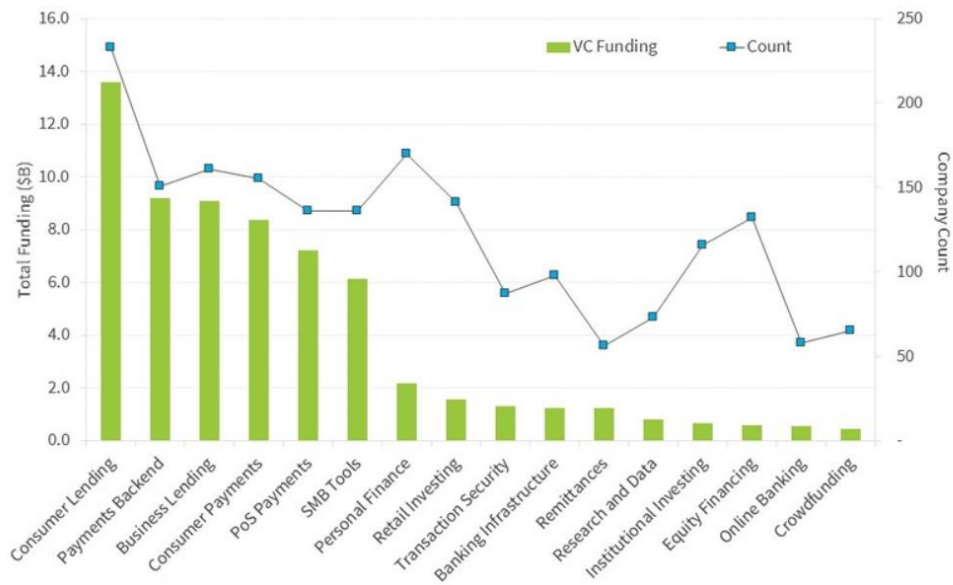
Robo-advisor



# Lending & Payments Fintechs Receive Most Funding

Lending and Payments start-ups continue to receive strongest funding.

Venture Investing in Financial Technology



Consumer Lending	Payments Backend	Personal Finance
\$13.6 B 233 companies	\$9.2 B ~135 companies	~\$2.0 B 170 companies

Source: Venture Scanner, 3Q 2016



In Q3 2017, US VC-backed fintech startups raised

**\$1.9 BILLION**

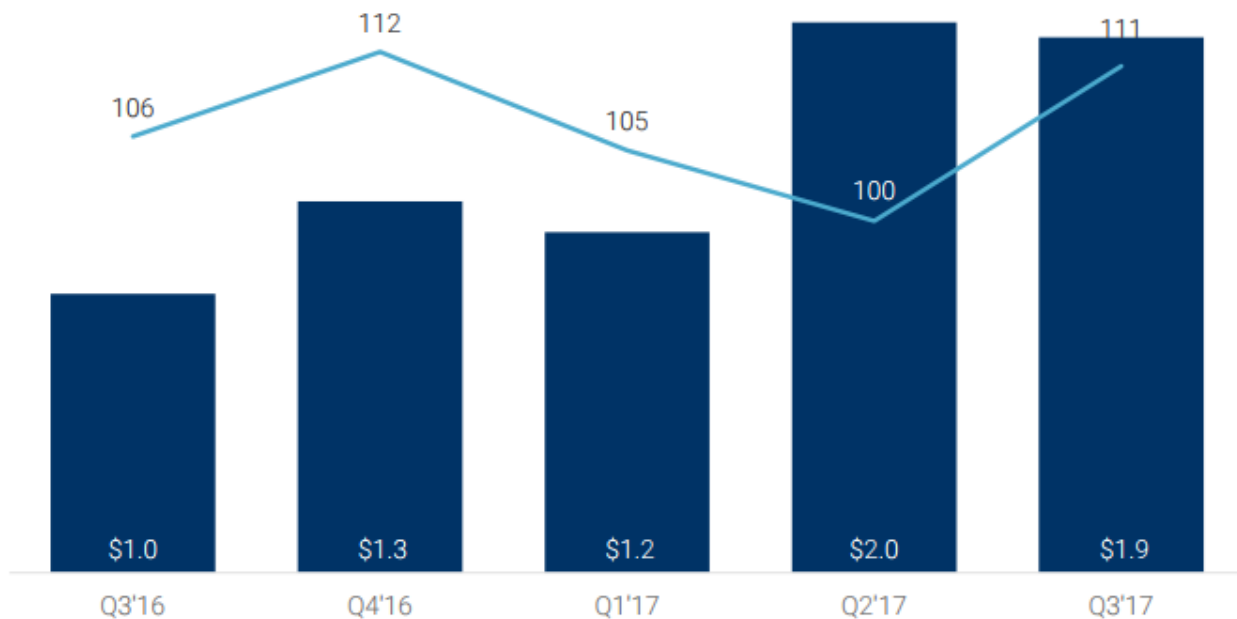
across

**111 DEALS**



## US quarterly global financing trend to VC-backed fintech companies (\$B)

Q3'16 - Q3'17



■ Amount (\$B) — Deals

## US VC-backed fintech deals rebound in Q3'17

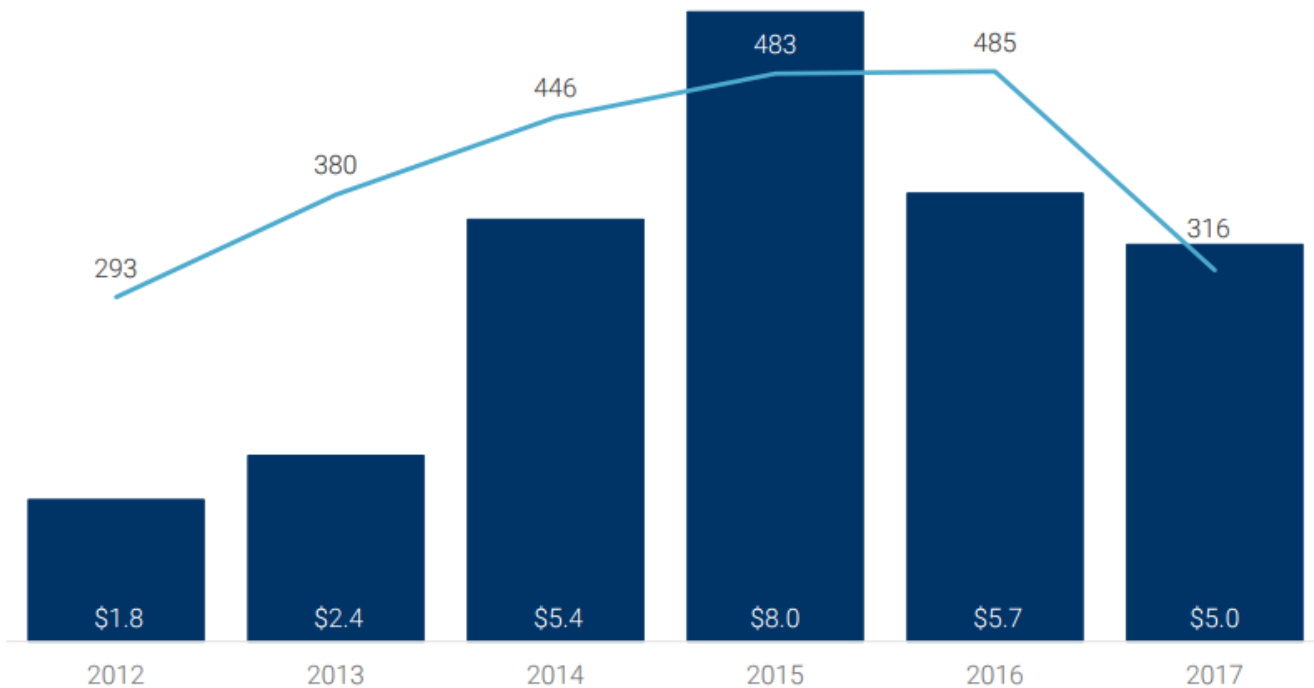
In Q3'17, deals to US VC-backed fintech companies rose 11%, recovering after 2 consecutive quarterly dips.

Funding hit \$1.9B, driven by 10 \$50M+ financing rounds, including deals to small business lender Kabbage and newly-minted unicorn Coinbase.



## US annual global financing trend to VC-backed fintech companies (\$B)

2012 – 2017 YTD (Q3'17)



■ Amount (\$B) — Deals

### US fintech funding on pace to surpass 2016's total by year end

At the current run rate, deals to US VC-backed fintech companies are set to fall below 2014's total, but US fintech funding in 2017 could surpass 2016's year-end total of \$5.7B.



**“50% of banks...[will] give up their existence to a range of FinTech providers and tech companies.” –Brett King**



# Why Brett is wrong...

1. The “augmented” future of banking still requires device-independent value stores (bank accounts).
2. Banks will retain (even in Brett’s forecast) the biggest value stores (accounts).
3. Information about these value stores (balances, transactions, etc.) will be the differentiating context required for enriched real-time payments experiences.
4. Banks will leverage and monetize their valuable data with fintechs by turning APIs into products of their own.
5. Banks (and other financial institutions) will own faster and real-time payment rails in the U.S.

“**Brett King** once hoped his company, Moven, would become “the Facebook of banking.” Today, he **is selling his software to the banks he once scorned.**”

Nathaniel Popper, The New York Times, Feb 2017



# stripe

“We are explicitly **not a threat to the banks**...from our perspective the banks and card networks have built something pretty good and pretty hard to replicate.”

--Tim Drinan, Stripe



Fintechs are partnering with banks.



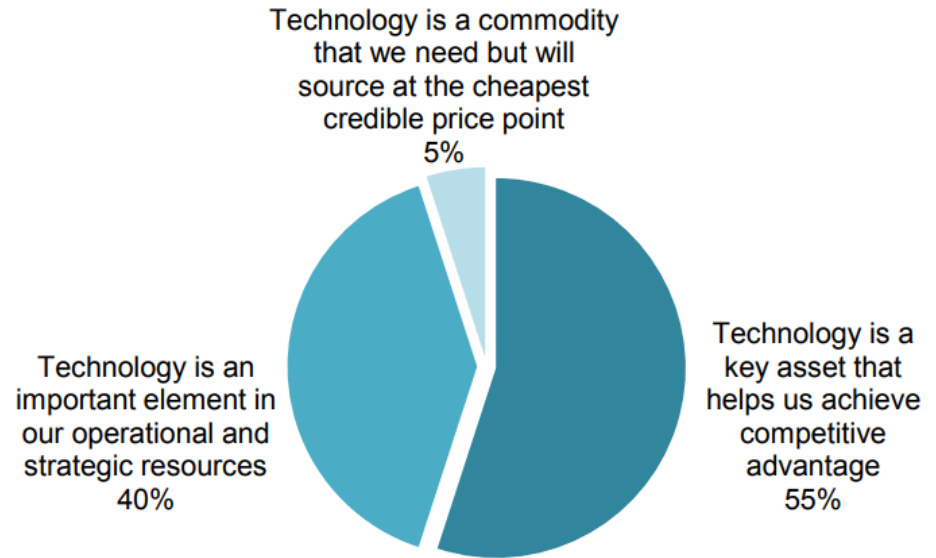


# Shifting Mindset

# Shifting Mindset: **View of Technology**

- Tech no longer viewed primarily as means of cost cutting and efficiency
- Now viewed as **strategic differentiator** and **enabler of better UX and speed to market** with new capabilities

**Q. Which of the following statements best represents your organization's overall approach to technology?**



# Shifting Mindset: **Partner/Disclose Fintech Partnerships**

- From build-your-own and keeping tech partners hidden to...
- ...**open, public alignment with fintechs** heralded with joint press releases
- And **increased bank investment in fintechs**



SECURITY & FRAUD

# Big Banks Join Forces To Vet FinTech Partners



By PYMNTS  

Posted on November 15, 2017

# INVESTMENT AND WEALTH MANAGEMENT TECH MARKET MAP

## ROBO-ADVISOR

<p><b>BUSINESS-TO-CONSUMER (B2C)</b></p>	<p><b>BOTH B2B &amp; B2C</b></p>	<p><b>BUSINESS-TO-BUSINESS (B2B)</b></p>
--	----------------------------------	--

## ROBO-RETIREMENT

<p><b>B2C</b></p>	<p><b>B2B</b>      <b>B2B &amp; B2C</b></p>
-------------------	---



## PORTFOLIO MANAGEMENT

<p><b>B2C</b></p>
<p><b>B2B</b></p>

## MICRO-INVESTING

<p><b>B2C</b></p>
-------------------

## FINANCIAL SERVICES SOFTWARE

<p><b>B2B</b></p>
-------------------

## INVESTING TOOLS

<p><b>B2C</b></p>	<p><b>B2B &amp; B2C</b></p>	<p><b>B2B</b></p>
-------------------	-----------------------------	-------------------

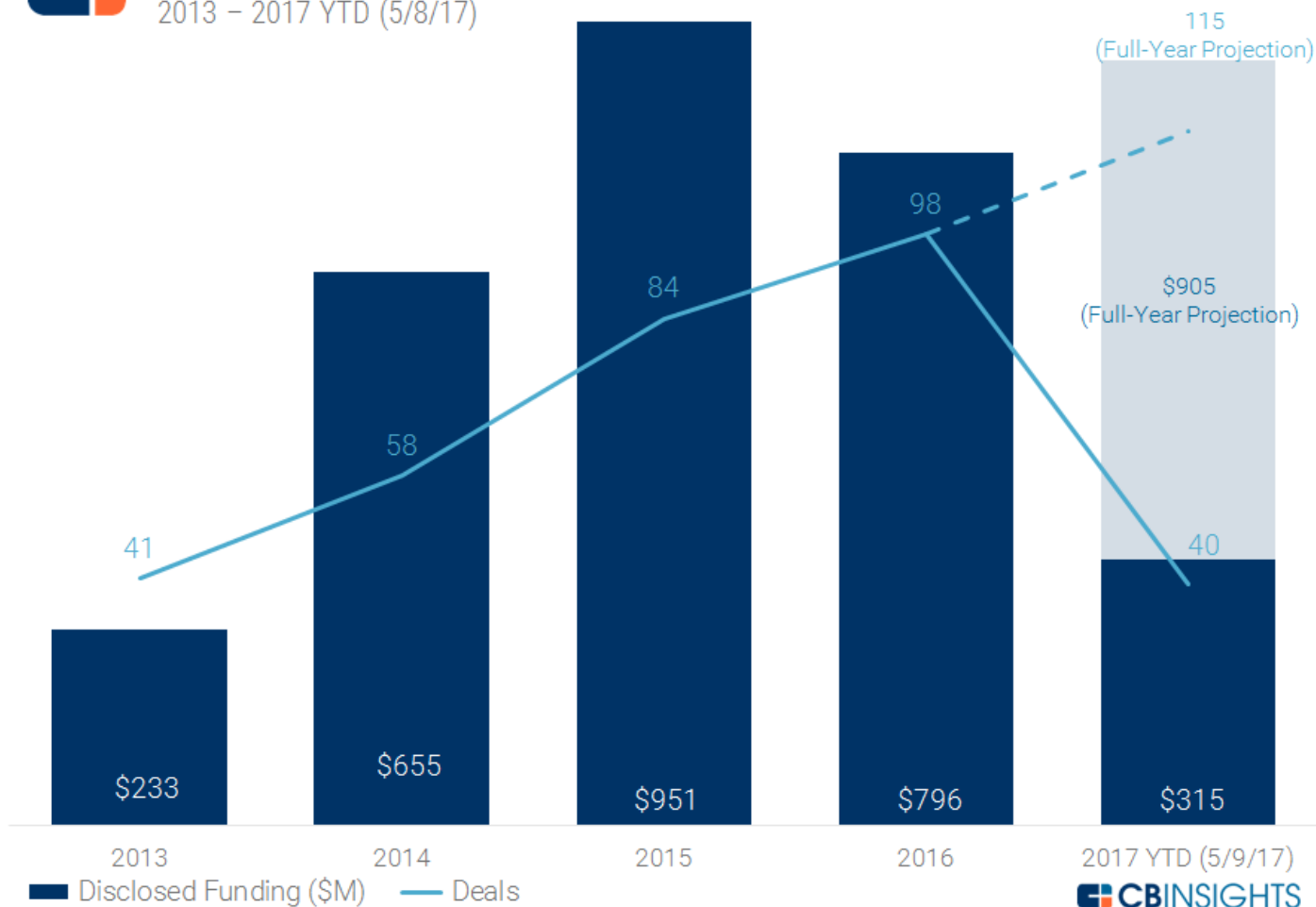
## DIGITAL BROKERAGE

<p><b>B2C</b></p>	<p><b>B2B</b></p>
-------------------	-------------------



# WEALTH TECH ANNUAL GLOBAL FINANCING HISTORY

2013 – 2017 YTD (5/8/17)



“Banks should fear fintechs.”



Banks should fear other banks  
that strategically leverage  
fintechs to differentiate.





Banks should fear Amazon.

We all should, really.





Scan an item.  
**It's in your cart.**

amazon dash  
WAND

NOW WITH ALEXA



Say it.  
Scan it.  
**Ask Alexa.**

# Amazon has a patent to keep you from comparison-shopping while you're in its stores

Brian Fung, The Washington Post Published 8:25 am, Friday, June 16, 2017

Business

## Amazon to buy Whole Foods Market in deal valued at \$13.7 billion



Amazon Go store leverages sensors, machine learning, and AI to allow customers to walk in and walk out without going through a checkout line.

amazon.com  
*Prime*

amazon cash



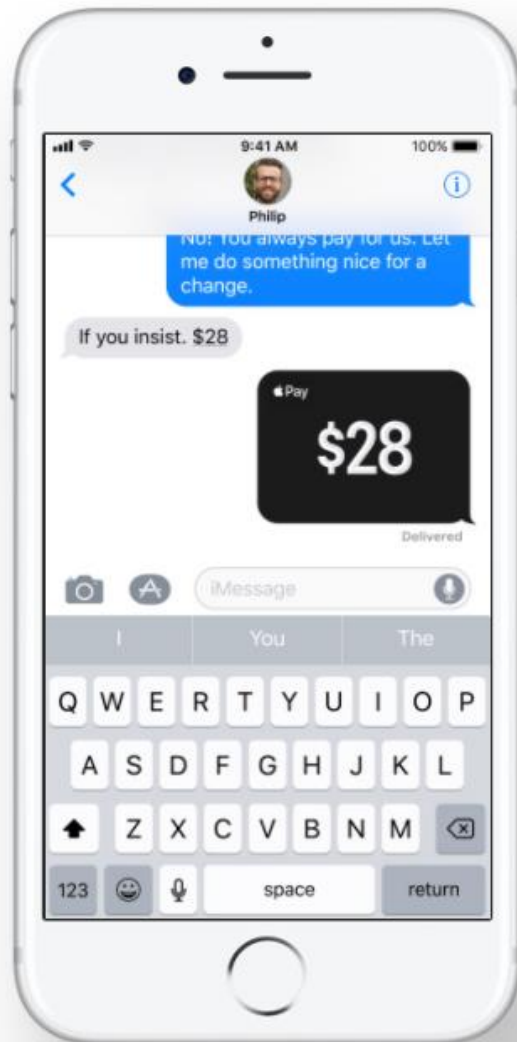
amazon allowance

# Apple Pay. Pay friends with a message.

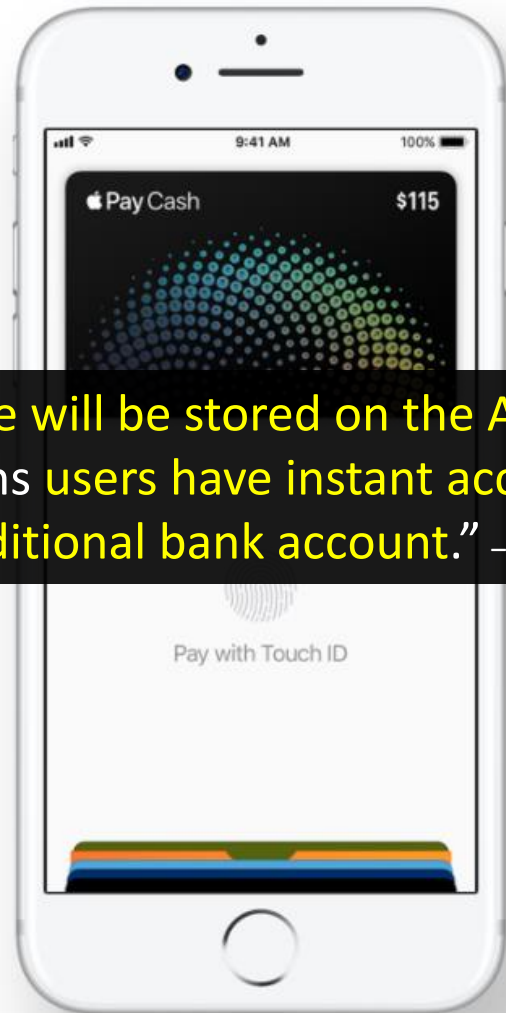
iOS 11 brings the convenience of Apple Pay to Messages. Now sending money to friends — and receiving it — is as simple as a conversation.

[Person to Person](#)   [Apple Pay Cash](#)

Use Apple Pay with your credit or debit card to send money instantly and securely, right in Messages. You can request and receive money just as easily.<sup>3</sup>



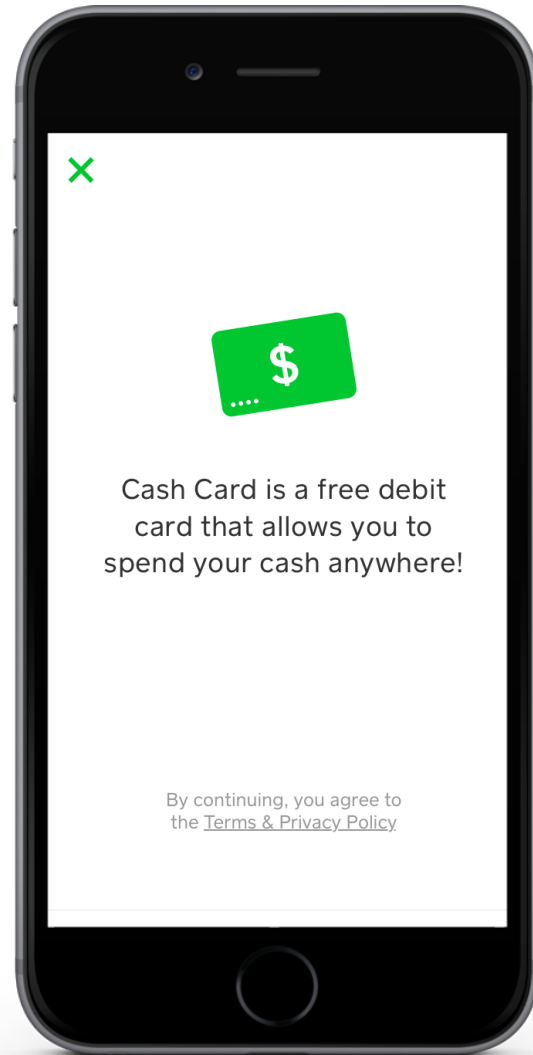
# Apple Pay. Pay friends with a message.



“Once a P2P payment is sent, the cash balance will be stored on the Apple Pay virtual card in the Wallet App. That means users have instant access to the cash instead of waiting for it to clear in a traditional bank account.” – [www.pymnts.com](http://www.pymnts.com)

Person to Person   Apple Pay Cash

When you get paid, your money is securely kept in Apple Pay Cash and instantly available for you to send to someone or spend with Apple Pay in stores, in apps, and on the web, or transfer to your bank account.<sup>3</sup>





Banks should leverage fintechs  
to fend off bigtechs.



“Payments are getting faster.”



Most popular mobile  
P2P provider today?

***venmo***

How fast is a Venmo  
P2P payment today?

# *venmo*

It's a total **crapshoot**.

**Transferring money** from your **Venmo** balance to your bank account usually takes 1–2 business days but it varies depending on your bank. Usually if you have a major bank, your **money** is **transferred** into your account the next day. However, some smaller banks may take longer and it may happen **faster** on others.

Payments are getting slower  
for the average cardholder.

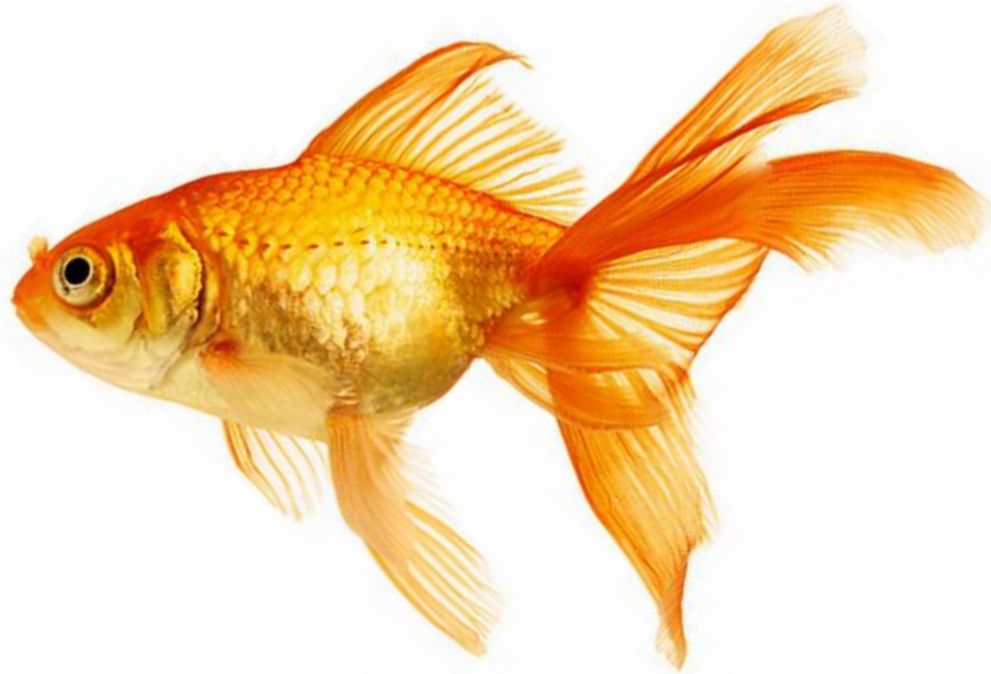


Average EMV dip-and-stay transaction takes **10 seconds**.





Average **human attention span** shortened  
from **12 seconds** in 2000 to **8 seconds** in 2015.



Average **goldfish attention span** averages **9 seconds**.

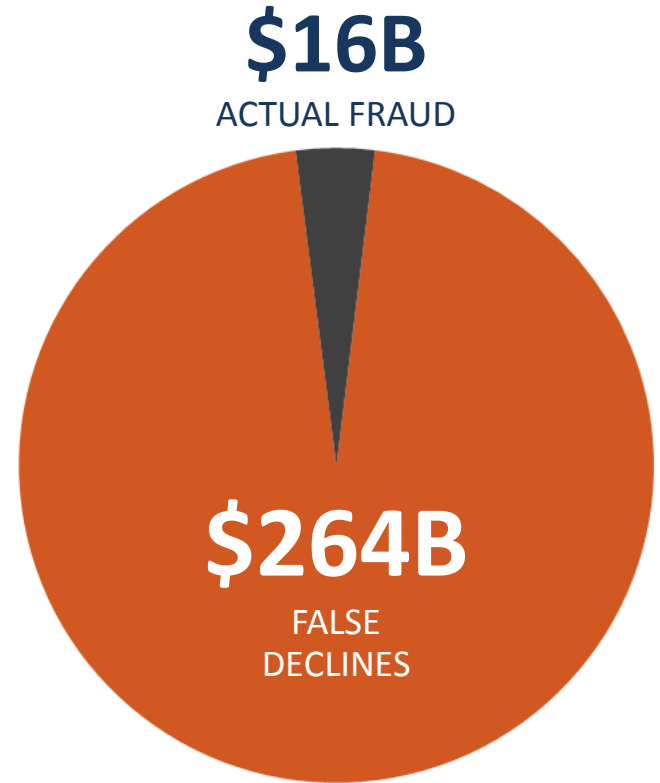
My Apple Pay experience at Whole Foods...  
with my community bank's debit card.



# False Declines > Actual Fraud

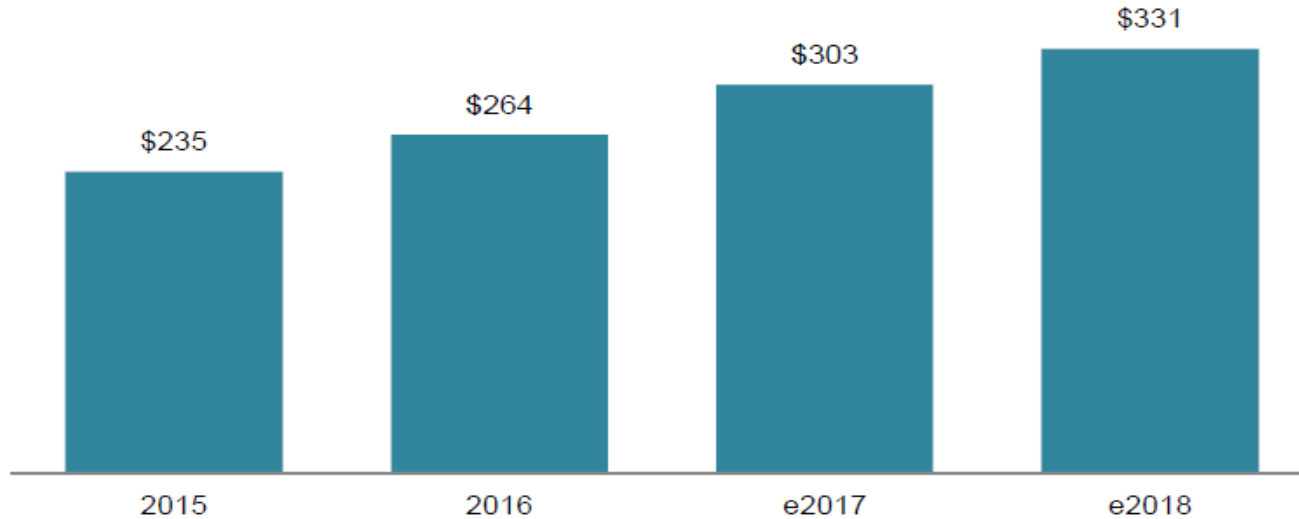
**U.S. issuers falsely declined \$264B  
in card transactions in 2016:  
16X actual fraud of \$16B**

Javelin Strategy & Research & Aite Group



# False Decline Impact in the U.S.

U.S. False Decline Impact 2015 to e2018 (In US\$ billions)



Source: Aite Group

Payments are disappearing.



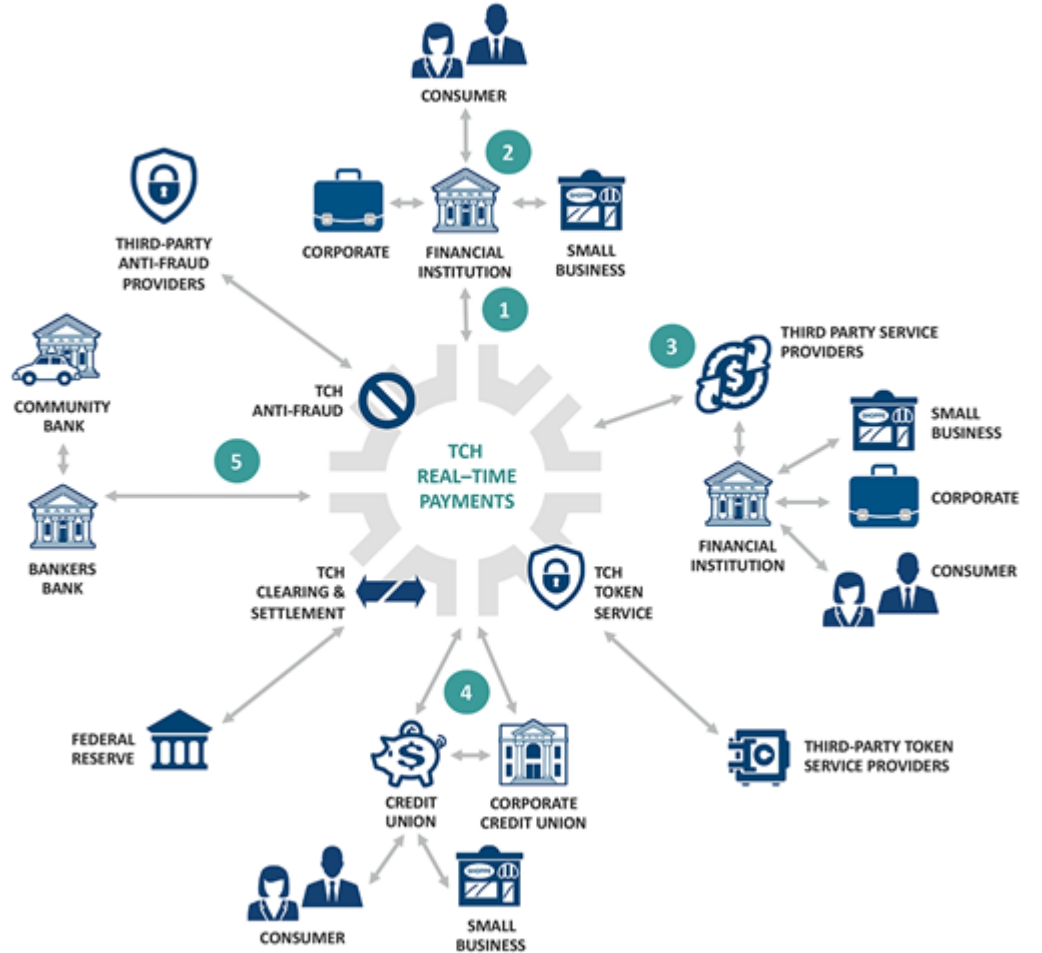
B.O.L.P.U.I.S.

M.O.A.P.

**zelle** <sup>SM</sup>

# RTP

 The Clearing House®  
Real-time Payments





“Faster payments are **only** about making payments faster.”



# Real-time Payments Mean Real-time Everything

- **Instant loans**
  - Real-time funding must be preceded by instant decisioning
- **Instant onboarding (account opening/funding)**
  - Real-time verification of account ownership via test credit/debit
- **Dynamic lending**
  - Persistent underwriting
- **Real-time fraud monitoring and control**
  - No time for manual review and handling
- **Real-time analytics**
  - Dynamic segmentation by behavior

Faster payments are about the reengineering of most bank products and services.



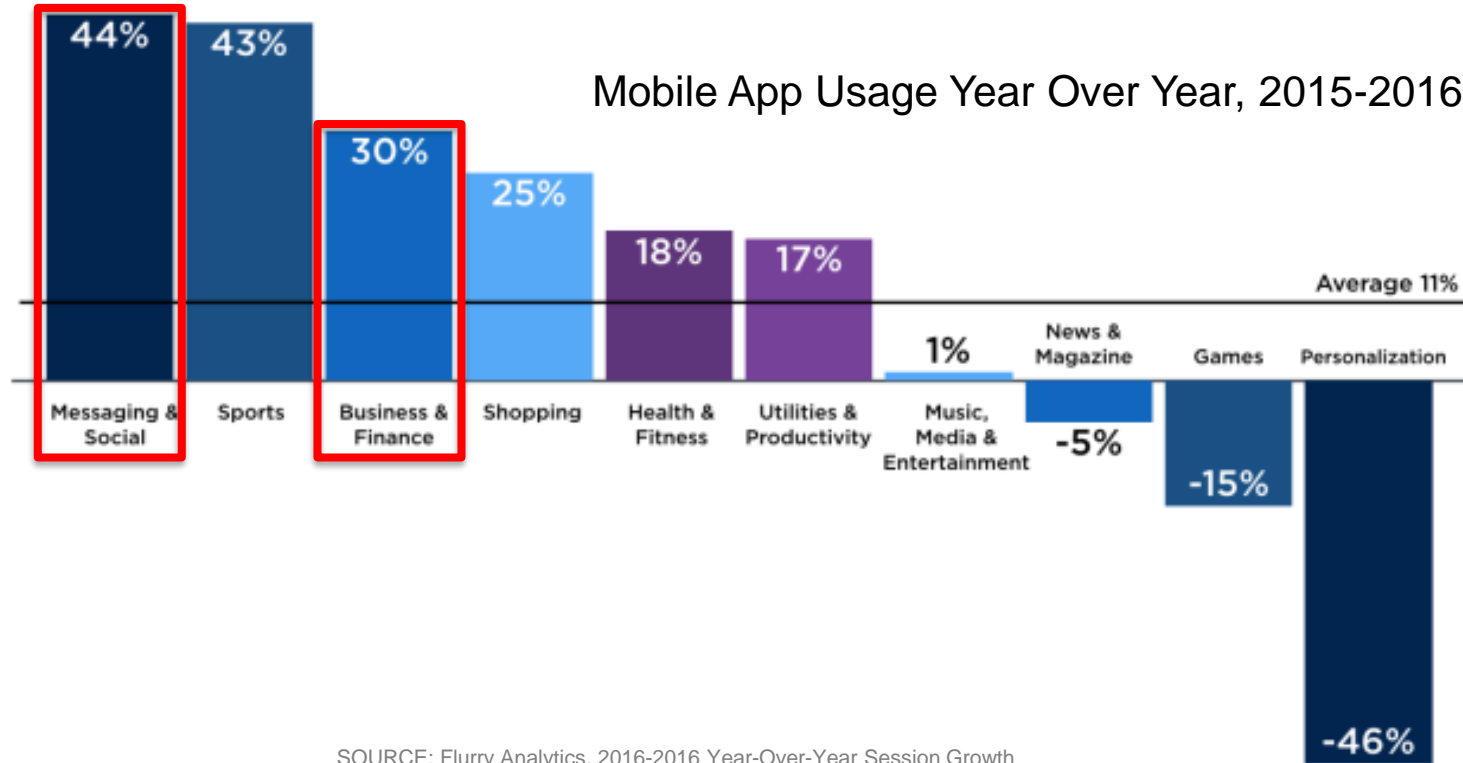


**“Alexa, ask my bank  
to pay my gas bill.”**

“Get a chatbot right now.”



# Messaging & Finance Apps Pave Way for Chatbots



SOURCE: Flurry Analytics, 2016-2016 Year-Over-Year Session Growth

Most chatbots not ready for prime time.



**RE-PRE-SEN-TA-TIVE!!!**





We are in the  
“Uncanny Valley”.



“Human replicas which appear almost, but not exactly, like real human beings elicit feelings of eeriness and revulsion (or uncanniness) among some observers (listeners).”

How **Alexa** sucks...



Alexa, I need hair gel.

I'll add it to your shopping list.

Alexa, I want hair gel now.

I'll add it to your shopping list.

Alexa, BUY HAIR GEL!!!

Ok. It should arrive tomorrow.

When chatbots work...

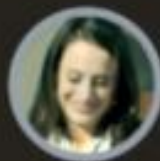
# Kasisto

KASISTO@



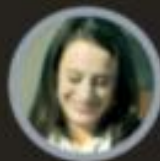


How much did I pay Jake Zamrak last month?

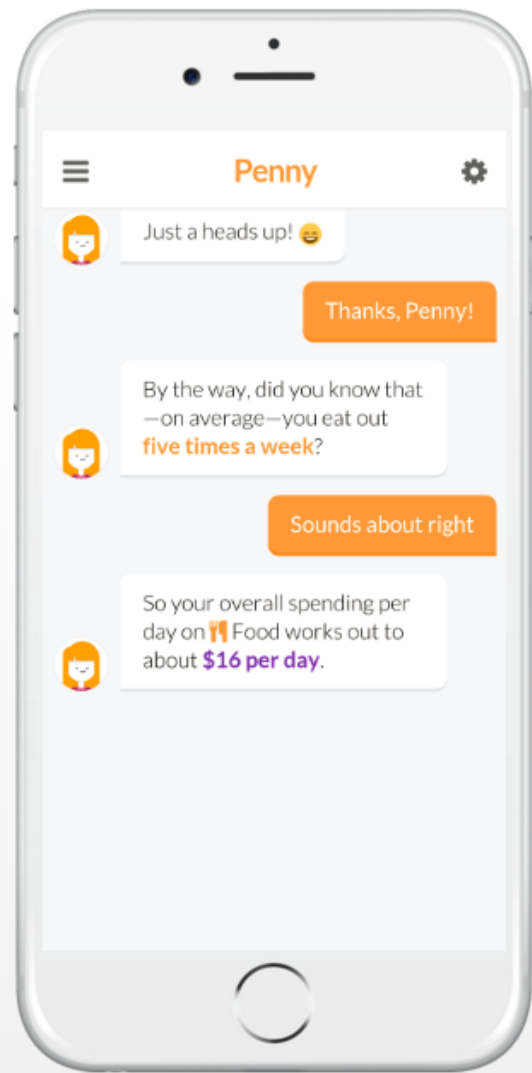


Nothing came up.

Please pay Jake Zamrak \$150 for guitar lesson

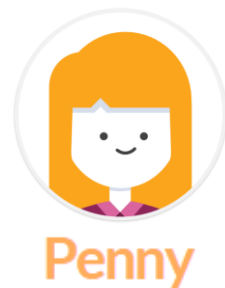


Let's confirm. You'd like to send Jake Zamrak \$150, right?



# Meet Penny, your personal finance coach.

Good things happen when you chat with Penny: spend smarter, save more, live happier.



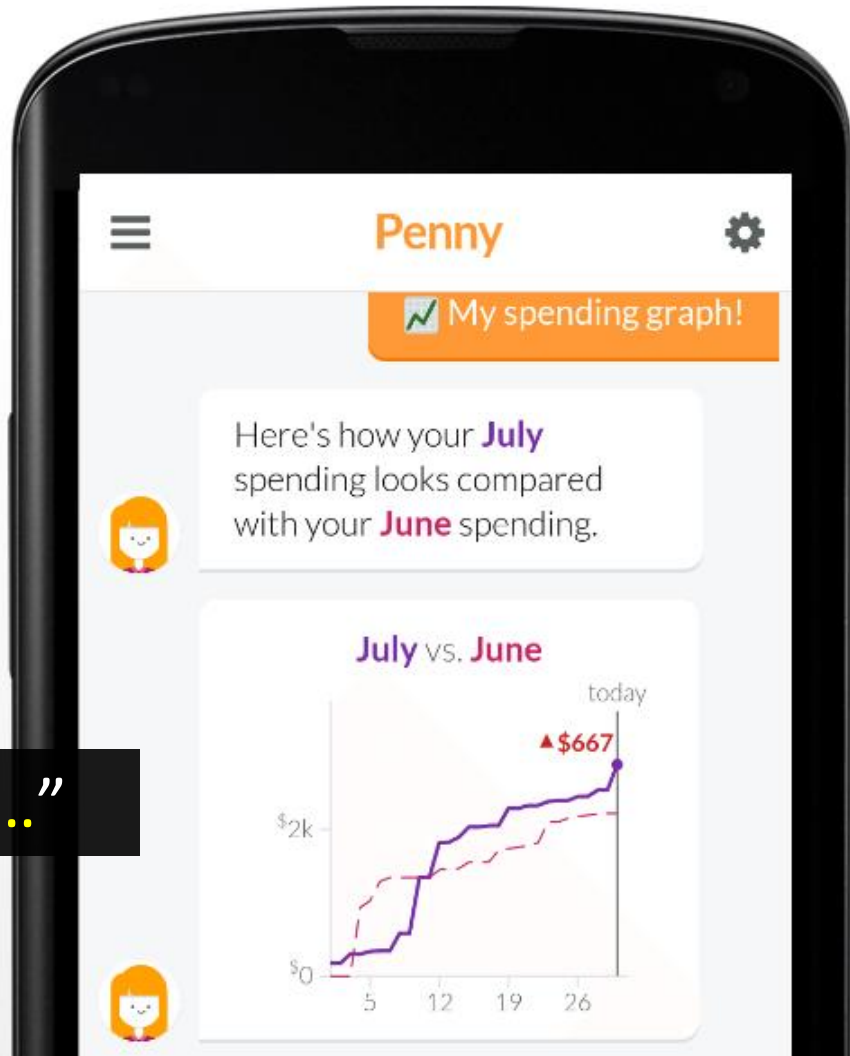
A **chat-based** personal finance coach.



# Know everything about your money with Penny.

Penny sends you beautiful tailored charts and insights to help you know how you're spending in real time. Avoid overdrafts and "where did my money go?" damage control.

“Here's how your July is looking...”



# Partnerships vs. Platforms

# Aggregation vs. APIs (Direct Data Feeds)

- **Password sharing** with aggregation **increases risks**.
  - SEE massive password breaches at LinkedIn and Yahoo
- **Aggregation's** reliance on online-banking-password sharing **deters mass adoption** and usage.
- **Screen scraping undermines fraud controls** and is easily disrupted (bad UX).
- **API direct data feeds** are **more secure and reliable**, but they require more investment and cooperation.
  - APIs are more difficult to achieve, and therefore **present a disproportionate challenge to smaller banks**.

# API Banking Models: Steps Toward Open Banking?

## Internal Bank Channel

- Use APIs internally as a channel for own bank products
- Faster development; better UX
- Many banks using this model as part of digital strategy

## App Market

- Expose bank services through open APIs to thirdparty developers
- **Bank charges for API calls or shares revenue if third party brings clients**
- Examples: **BBVA, Capital One**

## Distributor

- Integrate/bundle external financial services with own offerings
- Deliver best-in-class products with partners
- Revenue share from service providers and new customers
- Example: **N26**

## Aggregator

- Aggregate multiple APIs from financial service providers into a single API
- Multi-bank offering; standard solution for TPPs
- Examples: **Figo, nonbank PFMs (Yodlee, Strands, Treefin)**

## Banking-as-a-Platform

- Offer open banking platform including APIs to other FIs
- Accelerates digital strategy
- License maintenance fees, revenue share
- Example: **Fidor, CBW/Yantra, Open Banking Platform**

SOURCE: Aite Group's "The Programmable Bank: How Banks Can Deploy and Monetize Open APIs; by Ron van Wezel; November 2016

**jack henry**  
& ASSOCIATES INC.

# Internal Bank Channel

- Banking services are exposed through **private APIs** to customer-facing applications, such as mobile banking.
- Bank's services are made available through the API to the bank's own apps with a **single, integrated UX**



Bank APIs



- Bank-owned app
- Bank products only
- Single UX

SOURCE: Aite Group's "The Programmable Bank: How Banks Can Deploy and Monetize Open APIs; by Ron van Wezel; November 2016

**Jack Henry**  
& ASSOCIATES INC.

# Getting Paid: Monetizing APIs

Category	Revenue source
<b>Developer pays</b>	Direct, such as pay as you go (e.g., Amazon Web Services); tiered pricing; or per transaction (e.g., PayPal, Stripe)
<b>Developer gets paid</b>	Developer brings new business, or referral deals
<b>Indirect</b>	Content acquisition (e.g., Facebook, eBay, Twitter) or upsell to premium plan (e.g., Salesforce)

Source: John Musser (API Science), Aite Group

SOURCE: Aite Group's "The Programmable Bank: How Banks Can Deploy and Monetize Open APIs"; by Ron van Wezel; November 2016

**jack henry**  
& ASSOCIATES INC.

# The “**Platformification**” of Banking (Ron Shevlin)

SOURCE: <https://www.crnstone.com/gonzobanker/publications/the-platformification-of-banking/>

- **Platform**
  - “A **plug-and-play business model** that allows multiple participants (producers and consumers) to connect to it, interact with each other, and create and exchange value.”
- Successful platforms **attract** both producers and consumers, **match** producers with consumers, and **provide seamless integration** among participants.
- **Platform Service Providers (PSPs)**

## Platform Service Providers: **Lending**

Kabbage®



PLATFORM

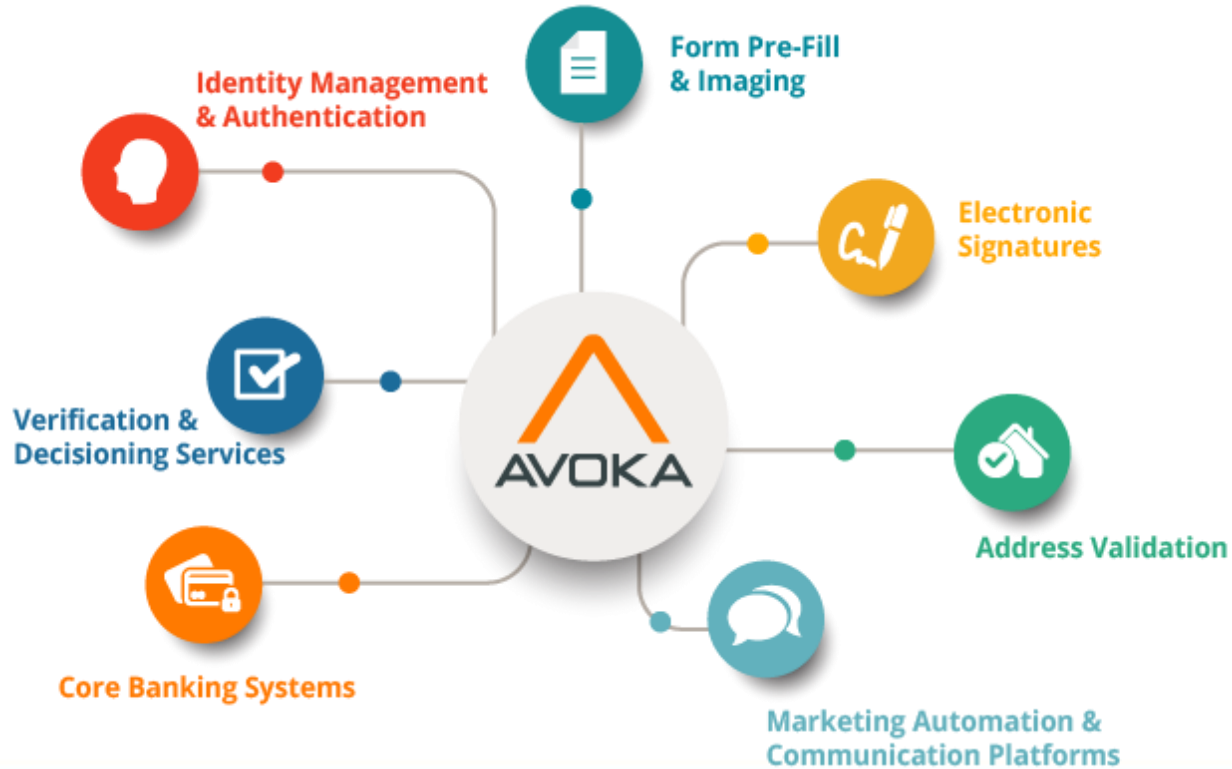
LendKey



AKOUBA



# Platforms: Onboarding & Account Opening



# API Hubs/Platforms



# How the Future Works

# The Future of Banking? More Complexity

## Scenario 1 The Better Bank



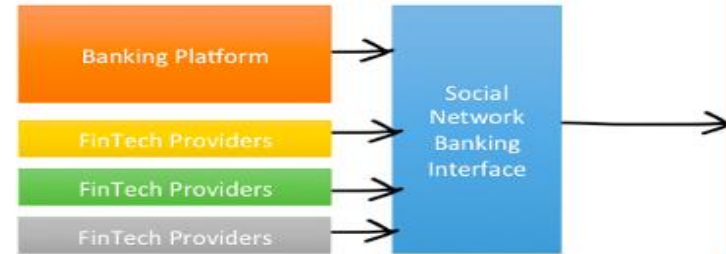
## Scenario 2 The New Bank



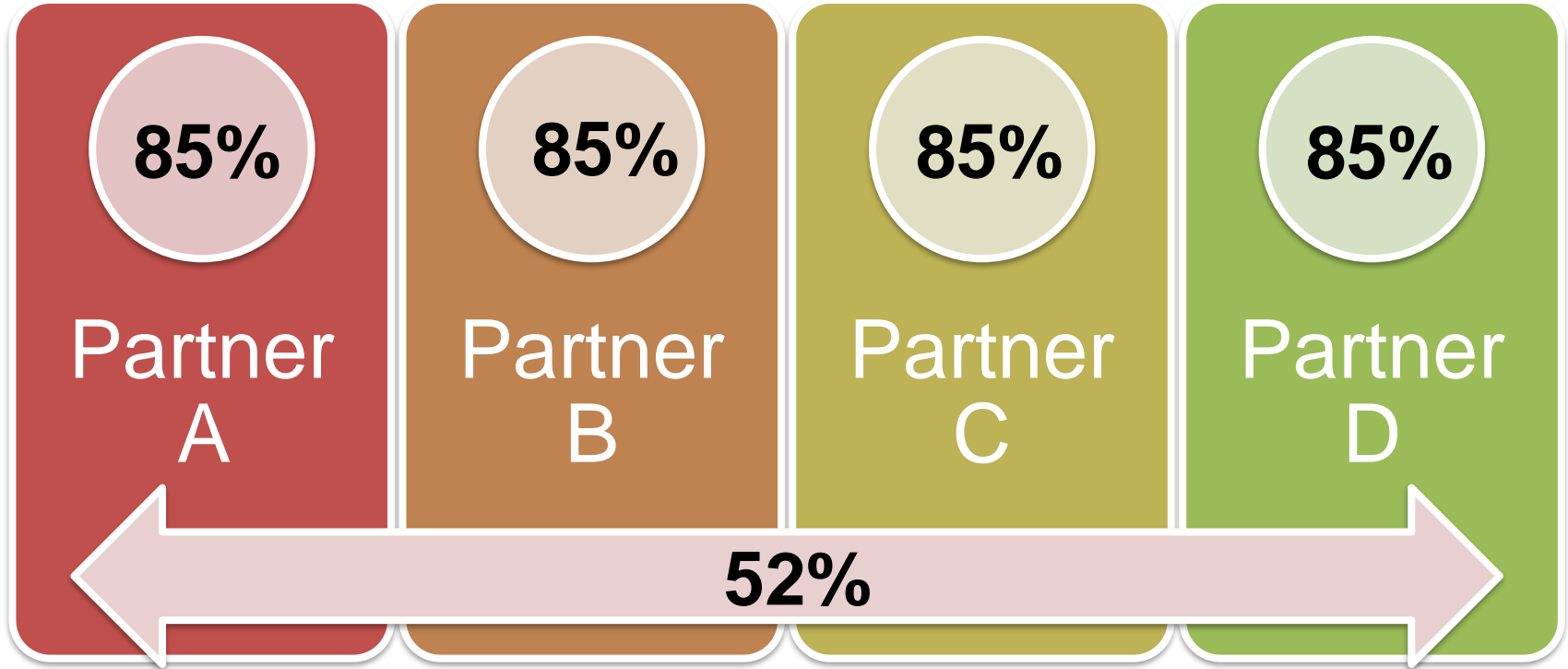
## Scenario 3 The Distributed Bank



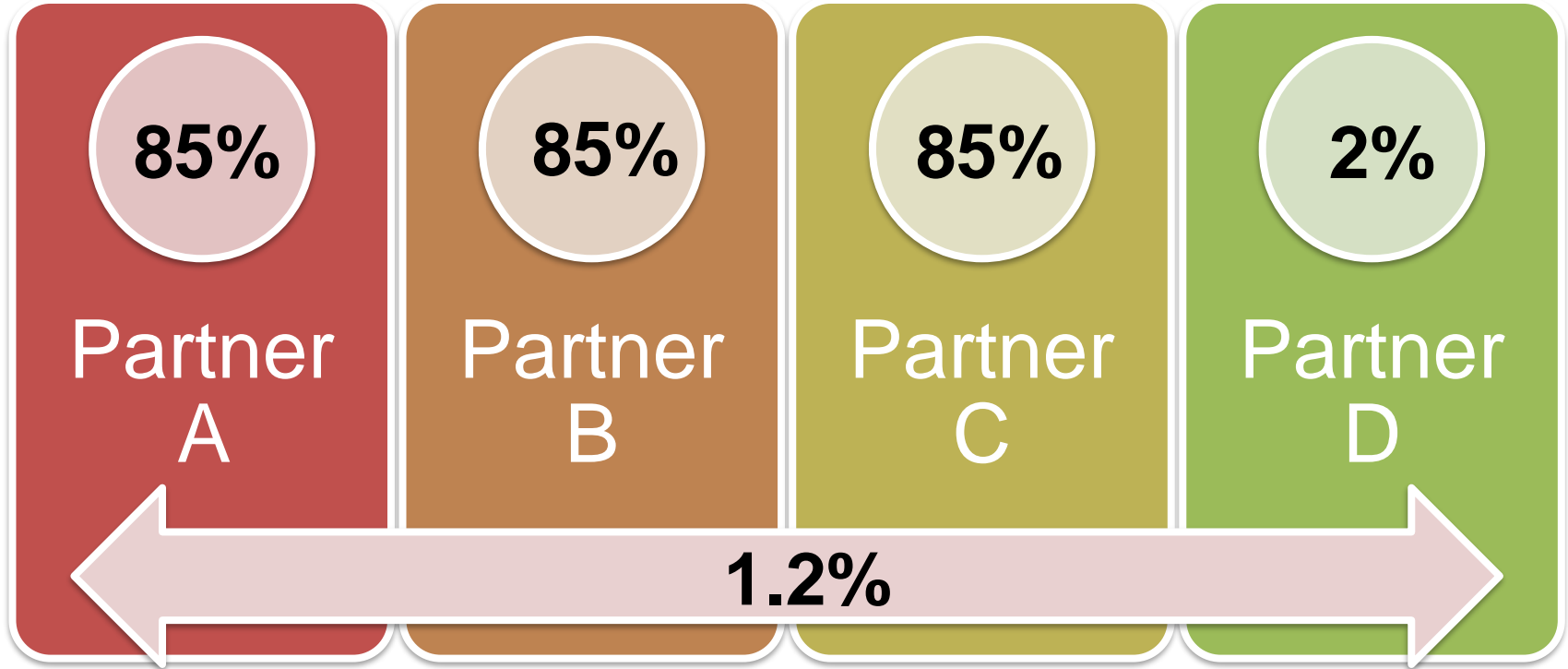
## Scenario 4 The Disintermediated Bank



# Co-Innovation & Probability of Success



# Co-Innovation & One Weak Link



# Fintegration Specialists



**BECOME LABS**



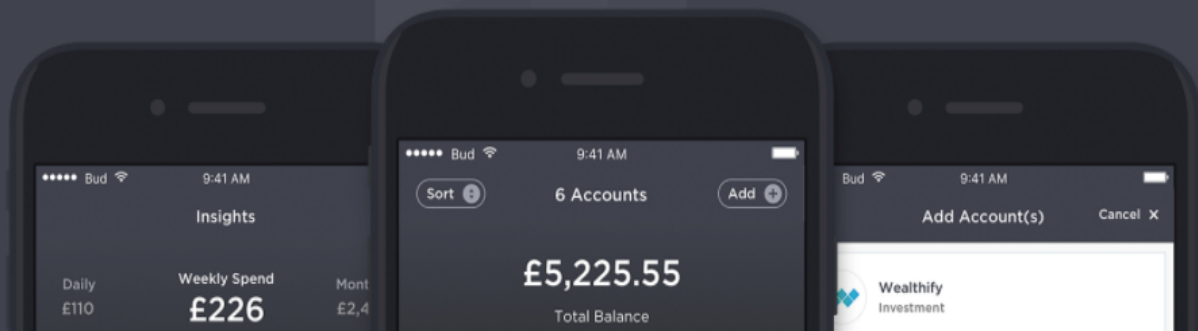
WE HELP FINANCIAL INSTITUTIONS CREATE  
VALUE IN THIS ERA OF DIGITAL DISRUPTION



# Plug and play financial services platform.

The banking experience of the future. Intelligent, automated and unique to every individual.

Join the beta



# The Future of Fintegration: Bottom Line

- **Fintech's greatest challenge** for banks is not disruption or disintermediation but **complexity of opportunity**.
- That complexity will be disproportionate for smaller banks, giving rise to a new class of **Platform Service Providers** that simplify, standardize, and secure, one-to-many API connections to fintechs of choice.
- Banks shouldn't fear fintechs. **Banks should fear other banks that leverage fintechs** to differentiate strategically.

# Lee Wetherington

**lwetherington@jackhenry.com**

**<http://discover.profitstars.com/leewetherington>**



@leewetherington



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

