DIGITAL BANKING REPORT

# Getting ahead of the digital banking curve.

A special report from **LendIt** and **Amount** on the risks and opportunities of embracing a digital strategy – and what leading financial institutions must do next.

AMOUNT LendIt Fintech

Late last year, LendIt and Amount collaborated on a global financial institutions market survey. Our goal was to expose the struggles that limit FIs' ability to compete with neobank challengers. We also wanted to surface digital offering trends and execution insights.

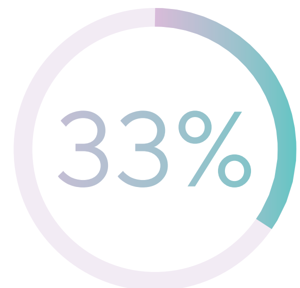
Nearly 200 enterprises contributed to our survey. Respondents represent a cross-section of the financial industry – including C-suite, product, and risk-management leaders from banks ranging from under $50 billion AUM to over $300 billion AUM.

A mix of banking and payments executives provided both feedback and recommendations for FIs navigating digital banking, which we've showcased throughout our report.

Among the survey highlights:

- The majority of FIs partner with fintechs; although many organizations still resist or see partnership as an all-or-nothing engagement – often to their detriment.
- One-third of respondents ranked *Fraud Prevention* as their top digital product concern. Over 50% ranked it in the top two, although experts warned FIs about excessive hesitation.
- For enterprises with over $50 billion AUM, 47% revealed plans to launch BNPL within 18 months, reinforcing findings on rapid FI shifts into this space.

Read on as we share our observations on *FI and fintech partnership sentiment, misdirected risk concerns, and consumer credit product activity*. Within each discussion, we reveal paths for outperformance – from outlining keys to a successful partnership to exploring ways to lean on existing capabilities to launch digital products.

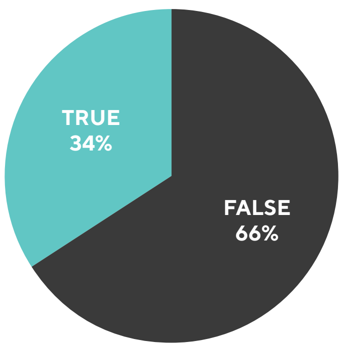



of respondents ranked Fraud Prevention as their top digital product concern.

SURVEY INSIGHT

# Fintech partnerships remain vital – but some banks and FIs still resist.

For new digital products, we prefer to build in-house versus using a fintech partner.




According to financial institutions surveyed, 67% prefer fintech partnerships versus building new digital products internally. Although leaders overwhelmingly favored this approach, a meaningful amount (33%) favor in-house development.

Over 13% of respondents also describe Working with Vendors as a top risk surrounding digital products. Chris Dervan, SVP Consumer Lending Products at Fifth Third Bank, cautions against this mindset: “Play to your strengths,” he notes. “Banks have great balance sheets and customer relationships. Allow partners to help you deliver great digital experiences[1].”

**Most partnership concerns are unfounded – and readily navigable.**

Interestingly, multiple respondents who prefer in-house development actually cited “IT capacity” and “IT development bandwidth” as prohibitive to product launch.

Another oft-cited partnership concern is wasted investment in previous process and infrastructure. However, fintech product market advances mean that enterprise-ready solutions that integrate into a bank’s existing infrastructure exist. For example, banks may have a preferred decision engine or risk model that they want to build around, not scrap. Fintech partners can fill these gaps, without requiring wholesale overhaul. Of course, this assumes these preferred internal functions generate value above-and-beyond partnership investment.

Engaging partners activates new products and services faster – an important differentiator given fluctuating consumer brand preferences. To stay relevant, banks must prioritize finding technology that improves flexibility, agility and speed to market[2]. Further, most banks allocate technology spend toward keep-the-lights-on initiatives – rarely do they have the bandwidth or capability to build and launch new digital products.

In some cases, banks and FIs should recalibrate their view of partnership as an all-or-nothing proposition. “The path forward is

[1]LendIt & Dervan - Interview, January 2022
[2]https://www.accenture.com/us-en/insights/banking/consumer-study-making-digital-banking-more-human

“

Play to your strengths. Banks have great balance sheets and customer relationships. Allow partners to help you deliver great digital experiences.

”

– **CHRIS DERVAN**

SVP Consumer Lending Products, Fifth Third Bank

not binary; owning everything internally or having a fintech replace your enterprise,” reminds Dervan. He suggests banks wade into partnership for functions stuck in a previous era: “Traditional fraud-fighting tools like identity verification, transaction monitoring and outlier detection are often blunt instruments – fintech partner expertise improves these.”

**Expertise by association.**

Multiple respondents who are not launching digital installment credit products blamed a need for “*more due diligence*”, “*lack of expertise*”, and want for “*more cautious planning*.” Although preparation is prudent, industry experts noted how the right fintech partner likely solves pressing issues.

“A great partner helps you vet and challenge ideas. They readily tell you about mistakes they’ve made, what they’ve learned from regulators or credit bureaus, and what is commercially essential for deployment,” guides Dervan.

That said, not every partner is similarly beneficial.

Kapil Mokhat, Managing Director at WestCap, advises banks to first assess their internal strengths and weaknesses and then map gaps against partner capabilities. “Take an honest assessment of what you can solve and where you need help. Then find partners who best serve where you’re weak[3].”

No interviewee mentioned a magic formula for finding the right partner. However, Mokhat summarized expert sentiment: “Make sure partner leadership shares the same customer obsession, knows your industry, and builds products that can grow with you.”

“The worst thing is deploying a beautiful, expensive solution that doesn’t work for where your customers want to go next.”

**Where in-house development and ownership (might) make sense.**

Christopher Smalley, Managing Director, Head of Digital Banking at Customers Bank, urges banks and FIs to first explore partnerships, however, he notes examples where in-house efforts may be worthwhile.

“In rare instances, you may have the internal horsepower and uniquely skilled staff – especially for specialty back-end products or services.” According to Smalley, one overlooked benefit of building in-house efforts is the opportunity to “commercialize something best-in-class later on.” He concedes that working in-house often requires more stakeholder buy-in and leads to “long product ramp times[4].”

[3]LendIt & Mokhat - Interview, January 2022
[4]LendIt & Smalley - Interview, January 2022

SURVEY INSIGHT

# Fraud and regulation trouble banks – but should they?

We posed the question in Figure 1. to hundreds of banks, fintechs, and financial institutions. Responses suggest that *Fraud Prevention*, *Regulatory*, and *Identity Verification* concerns overwhelmingly impact digital product launch or expansion.

Over 32% of leaders ranked *Fraud Prevention* as their number one concern – and over 50% ranked it in the top two. Further, more than 60% of respondents ranked *Regulatory* in their top three – with 23% ranking it number one. Nearly 56% of institutions ranked *Identity Verification* (including KYC or KYB) in their top three.

Fewer than expected ranked *Market Maturity* near the top, suggesting that banks now view digital product expansion as essential – but harbor concern.

For some, risk-management worries waylay digital financial product launches. Given recent platform solutions advancement, however, partnerships may actually *enhance* compliance capabilities.

For banks with retail and commercial product ambitions, banking-as-a-service providers offer complete compliance and identity management solutions that both satisfy KYC/AML regulations and automate identity and risk decisioning via API connection. Interviewees reminded us that these can deploy in a matter of weeks, versus months or years for legacy tools in the past.

## Top 3 Concerns

- Fraud Prevention
- Regulatory
- Identity Verification

**Perspectives on digital product go-to-market worries.**

We relayed respondent concerns to industry experts and asked for perspectives on how to respond and/or navigate each. Here are a few important takeaways:

### Reduce fraud risks by focusing on who you're building for.

One investor and digital payments expert suggested "hyper-selection" – or segmenting user populations to initially avoid prospects you perceive as riskiest. "Start with the top 1% of your customer base to extend a new product to. Apply learnings, then expand to the next 5%," he shares. Address remaining risks (e.g. - multiple technology integrations and onboarding issues) with the many robust KYC or identity verification solutions available.

### Apply what you do know.

An executive from one national bank encouraged legacy banks and FIs to apply existing institutional knowledge and lean on internal resources – but not to expect to figure it all out before executing.

"We have an activity alert team, a fraud team, and credit risk teams. Although they use legacy tools, they had an idea of what to look out for with BNPL – including how to evaluate fintech platform tools and apply some fraud monitoring guidelines."

### Make learning low-stakes.

One bank executive who launched BNPL referenced a plan "to do a million dollars, then turn it off." He notes how total fraud risk was in the "low five-figures" and the low-stakes environment let the team learn and re-deploy to a wider customer base.

> "We'd never learn if we didn't launch."
>
> – **MARC BUTTERFIELD**
>
> SVP of Innovation & Disruption, First National Bank of Omaha

### Stay in your lane (e.g. – pursue partnership).

Often, attempts to over-architect fraud reduction creates poor user experiences and adds reputational risk. According to one banking leader, this is particularly common with "internal solution builds." Focus on what you're good at and find a like-minded partner who specializes in customer-facing experiences with legacy FIs, the leader suggests.

### Prioritize "battle-tested".

Given the outsized role new product introduction plays in determining whether partnership makes sense, partners must prove their story of accelerating digital transformation. Look for brands with a track record of success: Everyone talks about secure, seamless, or agile, but can they point to examples in the market.

### Manage your messaging.

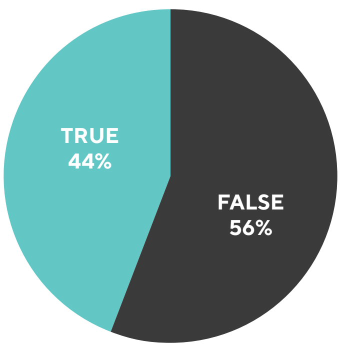
FIs must prioritize open dialogue with regulators. According to one product lead, "If you can prove repeatable processes for identifying and solving concerns, regulators appreciate that." The key, according to another digital banking head, is "showing regulators that you just don't see a big pot of gold and are chasing it with blinders on." Banks often have strong track records of compliance performance, and processes for steps like affordability checks. They should not reinvent these, nor ignore them – but apply what they know alongside partners to satisfy concerns from entities like the Consumer Financial Protection Bureau.

Importantly, while risk management concerns were pronounced among surveyed banks and FIs, they aren't deal-breakers. According to interviewees, enterprise bank-grade infrastructure, and compliance, data privacy, and verification orchestration are now table stakes for top solution providers.

Further, many partner platforms were purpose-built for financial digital channel use. So although regulation may soon alter BNPL and other digital product landscapes, worry-free compliance and consumer-first experiences remain in reach.

SURVEY INSIGHT

# Misguided assumptions taint digital product development or expansion. Don't let them.




Our survey surfaced surprising digital product hesitancy among some banks. The worry may be misguided, however, and delay revenue opportunities.

In response to concern about waiting until a digital product makes sense across an entire customer base, Marc Butterfield, SVP of Innovation & Disruption at First National Bank of Omaha, notes: "An experimental digital product or service is OK. Don't worry about scale across every customer or getting the experience to work seamlessly right away."

He concludes: "If you just talk about whether it might work, you'll never know[5]."

Research on profitable digital banking strategies supports this. According to Oracle, banks must respond to shifting customer appetites with speed to new markets and by incorporating new products and processes rapidly onto banking platforms. Banks must also "leverage data insights" ongoing to iteratively improve[6].

Waiting until legacy systems can support a launch, regulations are crystal-clear, or every customer wants a product invites underperformance. Feeling "fully ready", may also mean "too late."

Consider BNPL, for example.

Research shows that *more than half of all consumers* are interested in using BNPL this year. Importantly, interest is growing across a range of consumer income levels, credit scores, and borrower risk profiles.

Despite this, nearly 45% of surveyed financial services providers agreed with the statement: *Typical BNPL/installment credit customers are outside of my target customer base from a credit risk standpoint*.

[5]LendIt & Butterfield - Interview, January 2022
[6]https://www.oracle.com/a/ocom/docs/dc/oracle-pwc-data-driven-digital-bank.pdf

47%

of consumers earning over $100,000 express interest in using bank-backed BNPL plans.

When prompted for additional concern insights, respondents raised “credit concern”, “customer value”, and “risk appetite” issues. According to Amount and PYMNTS research, nearly one quarter of BNPL users report $100,000+ in annual income. As well, *47% of consumers earning over $100,000 express interest in using bank-backed BNPL plans*[7].

Adoption across higher-credit customers is growing as the credit mix is influenced by more premium merchants starting to offer financing at checkout, suggests McKinsey[8]. Today, 65% of total receivables originated by point-of-sale lenders are with consumers having credit scores higher than 700[9].

For FNBO’s Butterfield, testing customer profiles to assess fit is less important than servicing growing merchant network interest.

“This is a defensive strategy for us. Our card partners asked for the capability and we knew someone would provide it if we didn’t. Find a partner to support rapid launch, be deliberate on what you want to learn the first year, then try it and see if it makes sense.”

[7]https://www.pymnts.com/study/consumer-credit-report-banks-buy-now-pay-later-payments
[8]https://www.mckinsey.com/industries/financial-services/our-insights/buy-now-pay-later-five-business-models-to-compete
[9]Ibid

SURVEY INSIGHT

# Banks and FIs are increasingly joining the BNPL race.

The pandemic era injected new urgency into digital banking shifts. For installment style credit products in particular, physical constraints and financial insecurities fast-tracked both consumer interest and available offerings.

The rise of BNPL is widely reported, although discussions profile a few early fintech providers. Based on survey responses, we now expect a wave of banks and FI participants.

Across the digital banking, fintech, and FI landscape, *14% of providers surveyed already offer a BNPL product. Of those that do not currently have one, 25% expect to launch one in the next 12 to 18 months.*

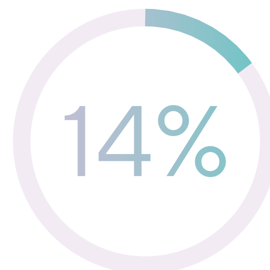
Notably, the largest institutions display the most go-to-market zeal.

For enterprises with over $50 billion assets under management (AUM), *47% revealed plans to launch BNPL within 18 months.*

With respect to BNPL, banks stand to lose up to $10 billion in annual revenues to the ever-expanding roster of merchant-centric fintechs[10]. McKinsey suggests that inadequate response to consumer and merchant demands for flexible, point-of-sales payment options simply gives market share away to more agile enterprises[11].

According to Fifth Third's Dervan, customer-centered banks "have an obligation to build compelling experiences and meet customers in the channel of their choice."

For many banks, he reminds, this means "figuring out ways to operate internally in product territories that aren't as well-traveled."

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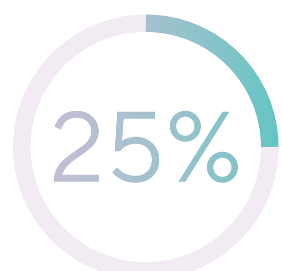


expect to launch one in the next 12 to 18 months.

[10]https://www.mckinsey.com/industries/financial-services/our-insights/buy-now-pay-later-five-business-models-to-compete
[11]https://www.pymnts.com/buy-now-pay-later/2021/transforming-banks-into-bnpl-pacesetters

**Despite new market participants, worries and inflexibility sideline some.**

Despite the uptake to date, BNPL still concerns some banks and FIs. In response to the question *“What internal constraint or conflict is prohibiting you from launching a BNPL or installment-credit product?”* responses included:

- “Market maturity, collection infrastructure, and regulations”
- “The right technology and/or partner”
- “Finding the right user experience”
- “Resources and technology”
- “IT bandwidth”

Certainly, BNPL may not fit the risk criteria or customer profile of every bank and financial institution. *However, industry interviewees challenged cautious enterprises to reframe the opportunity of BNPL and emerging digital products.*

“Don’t wait until the majority of your customer base wants a product before launching,” guides WestCap’s Mokhat. “Those that want it, will find it, and they’ll find it with someone else. This is a Trojan Horse moment – the competitor that just gave your customer a great BNPL experience will then offer them a deposit account, a loan, and a credit card.”

According to Mokhat, meeting customers’ evolving needs is what really matters. Think about lifetime value differently, or you’ll wake up one day and your customers will be gone.

Kapil Mokhat, Managing Director, WestCap

Practically, this requires recognizing the shortcomings of inefficient, inflexible legacy infrastructure and reconsidering traditional product launch pathways – especially those that drain internal resources[12].

> Meeting customers’ evolving needs is what really matters. Think about lifetime value differently, or you’ll wake up one day and your customers will be gone.

– **KAPIL MOKHAT**
Managing Director, WestCap

[12]https://www.pymnts.com/opinion/2022/amount-2021-was-the-year-of-relevance/

# Responding to change, readying for success.

Forward-thinking FIs must inspect dimensions of their business, assessing internal capabilities and targeting pockets of needed digital maturity. This must include evaluating transformation potential in strategy, customer focus, culture, processes, and technology. Financial product innovations guided by advantageous partnership must be part of this.

Legacy FI strategies can not revert to what once worked. The fixed mindset may keep leadership from acknowledging (and adapting to) what modern customers want and need. Companies that shed a reactive stance and carry out digital transformations will dominate the post-pandemic world, suggests BNY Mellon[13].

LendIt Fintech and Amount are eager to shape the future of finance. We look forward to learning, growing, and building with you. For more, please visit us at www.LendIt.com and www.Amount.com.

[13]https://www.bnymellon.com/us/en/insights/all-insights/digital-transformation-only-as-powerful-as-its-ecosystem.html

# Methodology

LendIt and Amount collaborated on a survey sent to 1,000+ LendIt subscribers, including domestic and international banks, fintechs, and financial services providers. The number of respondents was n = 169. Participants were asked to complete 13 questions on topics of risk management processes, technology, performance, and data collection.

# About LendIt

LendIt Fintech is the world's largest Fintech media company. Every day we celebrate, educate, and connect the people who power the Fintech industry. Our products include large scale industry events, executive roundtables, daily news emails, podcasts, whitepapers, and webinars. Like much of the economy today, financial services are experiencing a rapid upheaval. We are seeing a multi-decade transformation where fintech will take center stage as everything becomes digital. LendIt Fintech is there for you, reporting the news on a daily basis, enabling real time discussion and insights with LendIt Fintech Digital and empowering our community with connections and in-depth learning at our physical events.

# About Amount

Amount helps financial institutions make banking simpler, safer and more convenient with a full suite of end-to-end omnichannel consumer, small business and BNPL solutions. Developed by lending industry experts, Amount's fully integrated and flexible platform is underpinned by enterprise bank-grade infrastructure and compliance, enabling banks to securely power new and differentiated offerings within months — not years. With Amount, banks can optimize performance across product categories while tapping into various service offerings including customer acquisition, funnel and performance assessments, and risk analytics. Amount clients include financial institutions collectively managing just over $3.1T in US assets and servicing more than 50 million U.S. customers.

AMOUNT

# Appendix

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| Accenture | https://www.accenture.com/us-en/insights/banking/consumer-study-making-digital-banking-more-human |
| BNY Mellon | https://www.bnymellon.com/us/en/insights/all-insights/digital-transformation-only-as-powerful-as-its-ecosystem.html |
| McKinsey & Co. | https://www.mckinsey.com/industries/financial-services/our-insights/buy-now-pay-later-five-business-models-to-compete |
| Oracle | https://www.oracle.com/a/ocom/docs/dc/oracle-pwc-data-driven-digital-bank.pdf |
| PYMNTS | https://www.pymnts.com/buy-now-pay-later/2021/transforming-banks-into-bnpl-pacesetters |
| | https://www.pymnts.com/opinion/2022/amount-2021-was-the-year-of-relevance/ |
| | https://www.pymnts.com/study/consumer-credit-report-banks-buy-now-pay-later-payments |