



# THE STATE OF PAYMENTS

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MAY 2018





Welcome.



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RICK FIORITO  
CHIEF REVENUE OFFICER  
TRANSACTIS



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TOM FRALE  
CEO & CHAIRMAN  
TRANSACTION  
DIRECTORY CONSULTING  
SERVICES





# Agenda

- ABOUT THE 2017 FINANCIAL INSTITUTIONS SURVEY
- FINTECH DISRUPTION & EFFECTS ON FIS
- INVESTMENT STRATEGIES
- INNOVATION & FASTER PAYMENTS
- RECOMMENDATIONS & TAKEAWAYS

# About our 2017 Financial Institutions Survey

With the advent of faster payments and the ability to offer same day ACH debits and credits starting September 15th, Transaction Directory Consulting Services conducted a nationwide survey to determine the knowledge, readiness and strategic thoughts of the financial institution marketplace. In this survey, we asked participants to share insights into where they saw challenges and opportunities for their financial institutions moving forward.

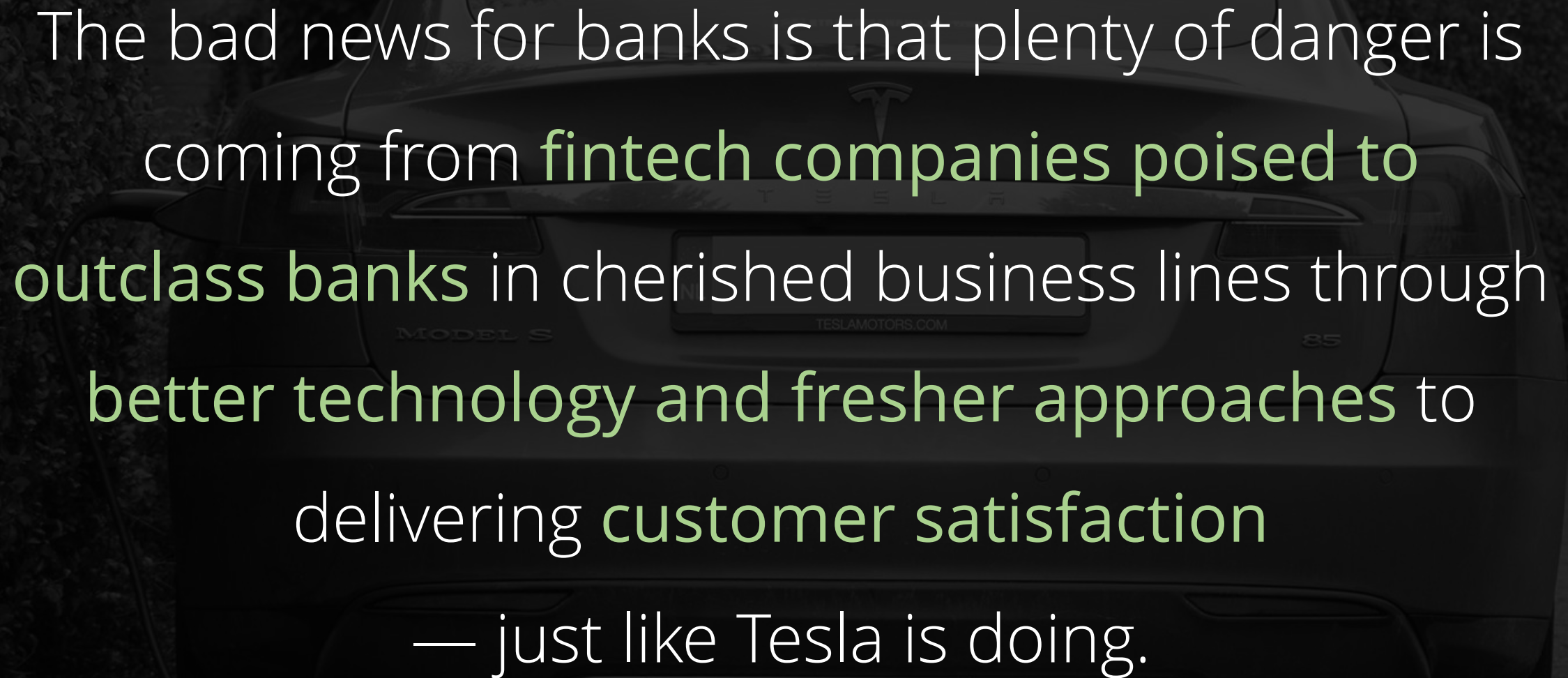
- **Current Sample Size: 60+ Financial Institutions**
- **Bank and Credit Unions of All Sizes**
- **Participant Job Titles**
  - **CEOs**
  - **Presidents**
  - **Operations**
  - **Treasury Management**
- **Geographic location: Nationwide**





FINTECH DISRUPTION



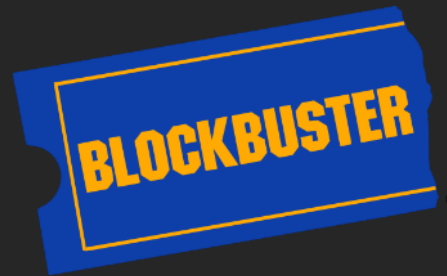
The background of the image is a dark, high-contrast photograph of the rear of a Tesla Model S. The car is centered, and a charging cable is plugged into the rear left side. The text is overlaid on the car's rear panel. The text is in a white, sans-serif font, with key phrases highlighted in a light green color. The text reads: "The bad news for banks is that plenty of danger is coming from fintech companies poised to outclass banks in cherished business lines through better technology and fresher approaches to delivering customer satisfaction — just like Tesla is doing." The highlighted phrases are "fintech companies poised to", "outclass banks", "better technology and fresher approaches", and "customer satisfaction".

The bad news for banks is that plenty of danger is coming from **fintech companies poised to outclass banks** in cherished business lines through **better technology and fresher approaches** to delivering **customer satisfaction** — just like Tesla is doing.

MAKING  
TOUGH  
CHOICES

**NETFLIX**

**\$112B**



**\$0B**

TOP 20  
GLOBAL  
BANKS BY  
MARKET CAP

Rank	Bank	Country	Market Cap
1	JP Morgan Chase	US	\$389B
2	Industrial & Commercial Bank of China (ICBC)	China	\$374B
3	Bank of America	US	\$319B
4	Wells Fargo	US	\$281B
5	China Construction Bank	China	\$249B
6	Agricultural Bank of China	China	\$209B
7	HSBC Holdings	UK	\$206B
8	Citigroup Inc	US	\$197B
9	Bank of China	China	\$188B
10	China Merchants Bank	China	\$120B
11	Royal Bank of Canada	Canada	\$115B
12	Banco Santander	Spain	\$111B
13	Commonwealth Bank of Australia	Australia	\$105B
14	Toronto-Dominion Bank	Canada	\$104B
15	Sberbank of Russia	Russia	\$102B
16	BNP Paribas	France	\$98B
17	Morgan Stanley	US	\$96B
18	Goldman Sachs Group	US	\$94B
19	Mitsubishi UFJ Financial Group (MUFG)	Japan	\$91B
20	US Bancorp	US	\$89B

NETFLIX





# FINTECH IS DISRUPTING BANKING

Fintech is threatening 1.7M bank jobs

Fintech could take between 10% and 40% of bank revenue by 2025

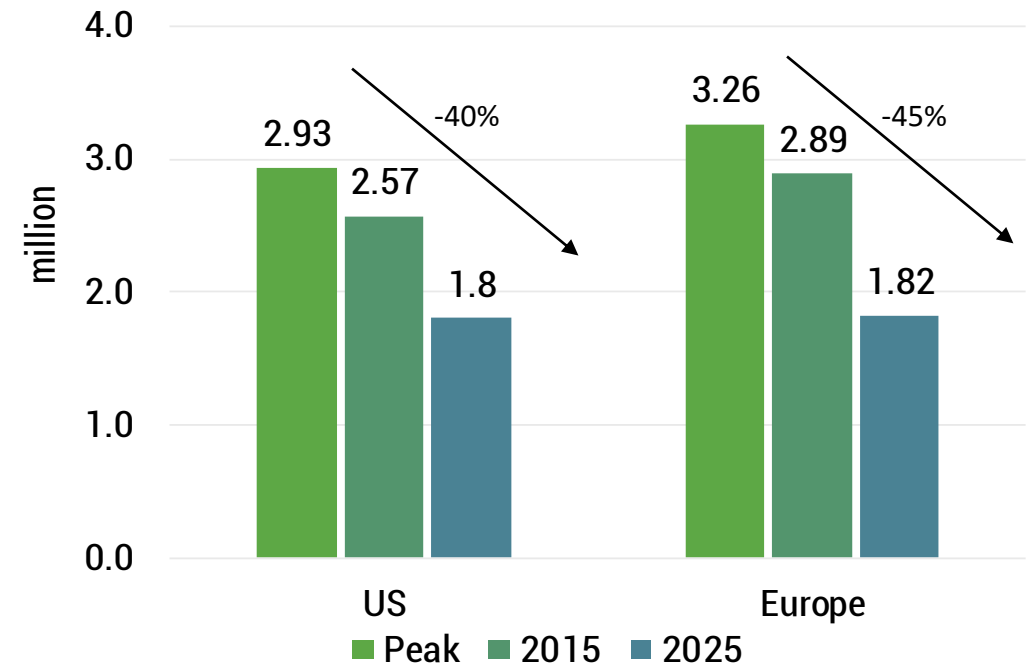
Successful disruptors need superior ability in:

TECHNOLOGY

RISK MANAGEMENT

CUSTOMER FOCUS

At the Tipping Point of Full-time Employee Reduction



40% of banking employees could lose jobs to new technologies

# GEN Y & Z: CHANGING FINANCIAL SERVICES

**33%**

believe they won't need a bank in 5 years

**70%**

believe that in 5 years the way we pay for things will be completely different

**73%**

would be more excited about a new offering in financial services from Google, Amazon, Apple, PayPal or Square than from their nationwide bank

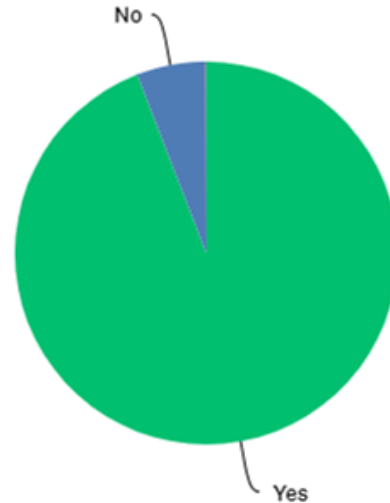
**71%** would rather go to the dentist than listen to what banks are saying



# Millennial Social Survey

Do you agree with the following statement?

***Millennials are driving the trend toward mission-led brands and socially responsible investing. Yet, four out of their 10 least loved brands are financial institutions.***



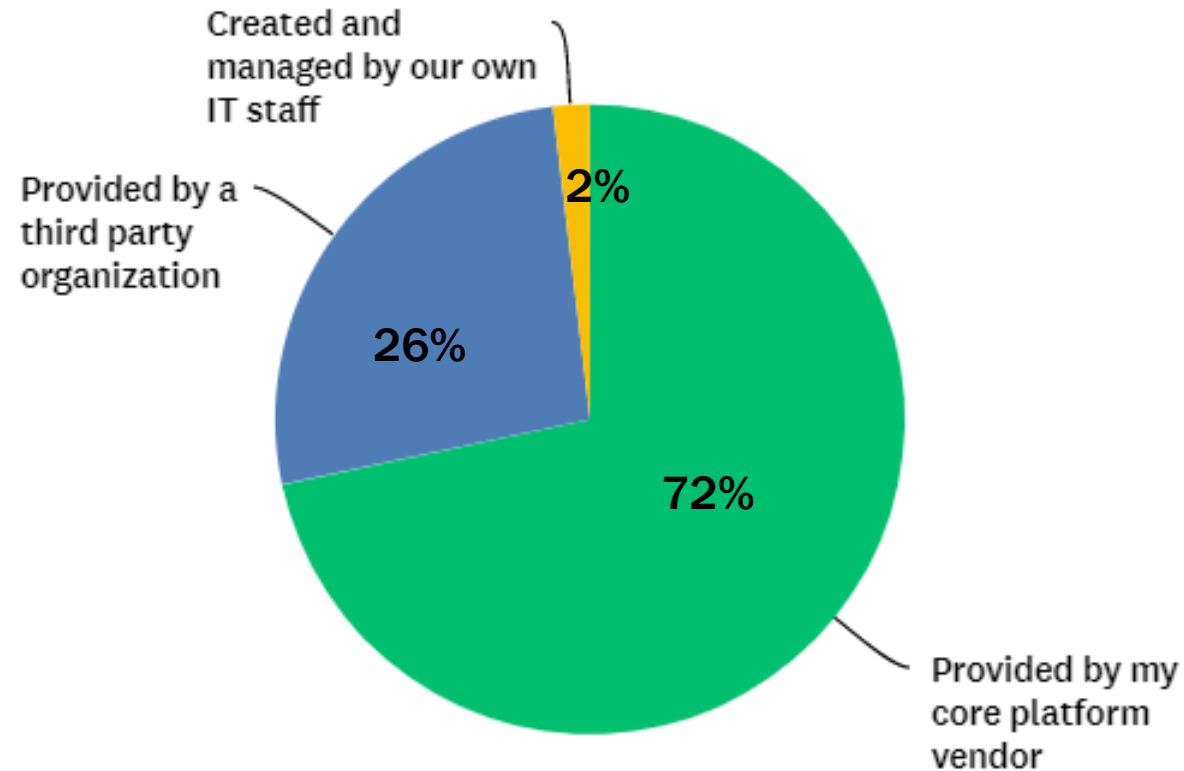
ANSWER CHOICES	RESPONSES
Yes	94.12% 16
No	5.88% 1



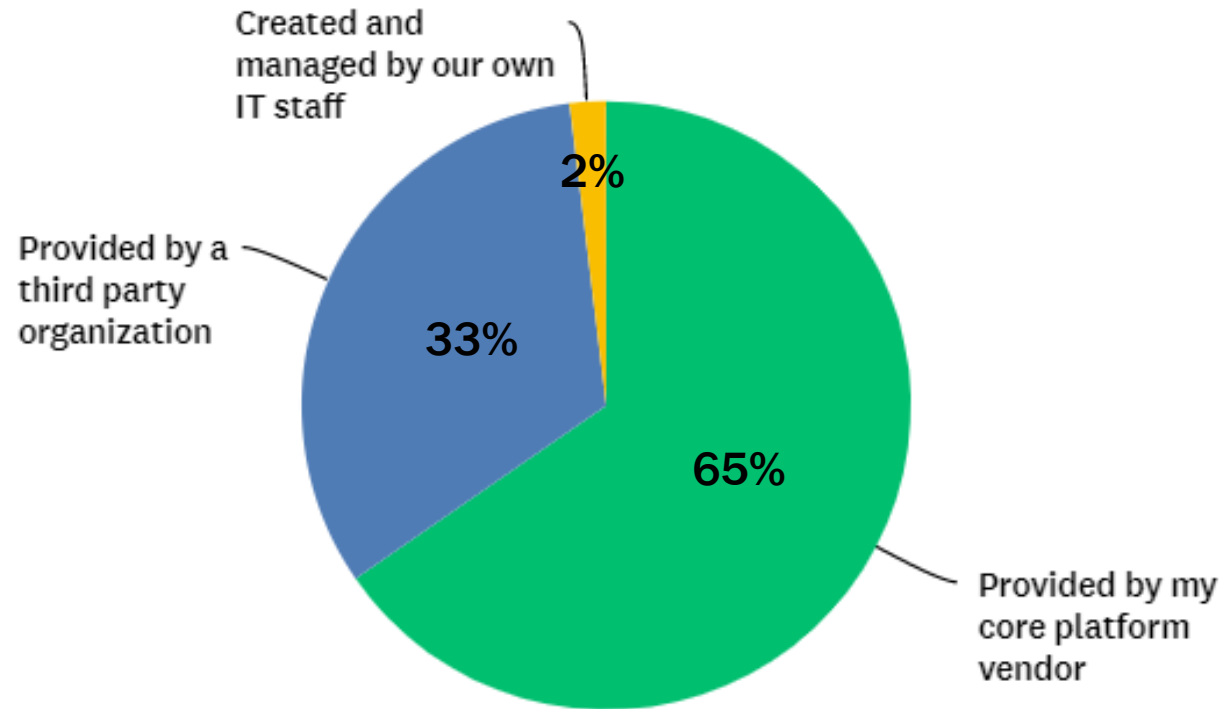
# **How Are Faster Payments Currently Being Delivered by Financial Institutions?**



# Survey: My Financial Institution's Online Banking Product is:



# Survey: My Financial Institution's Mobile Banking Product is:



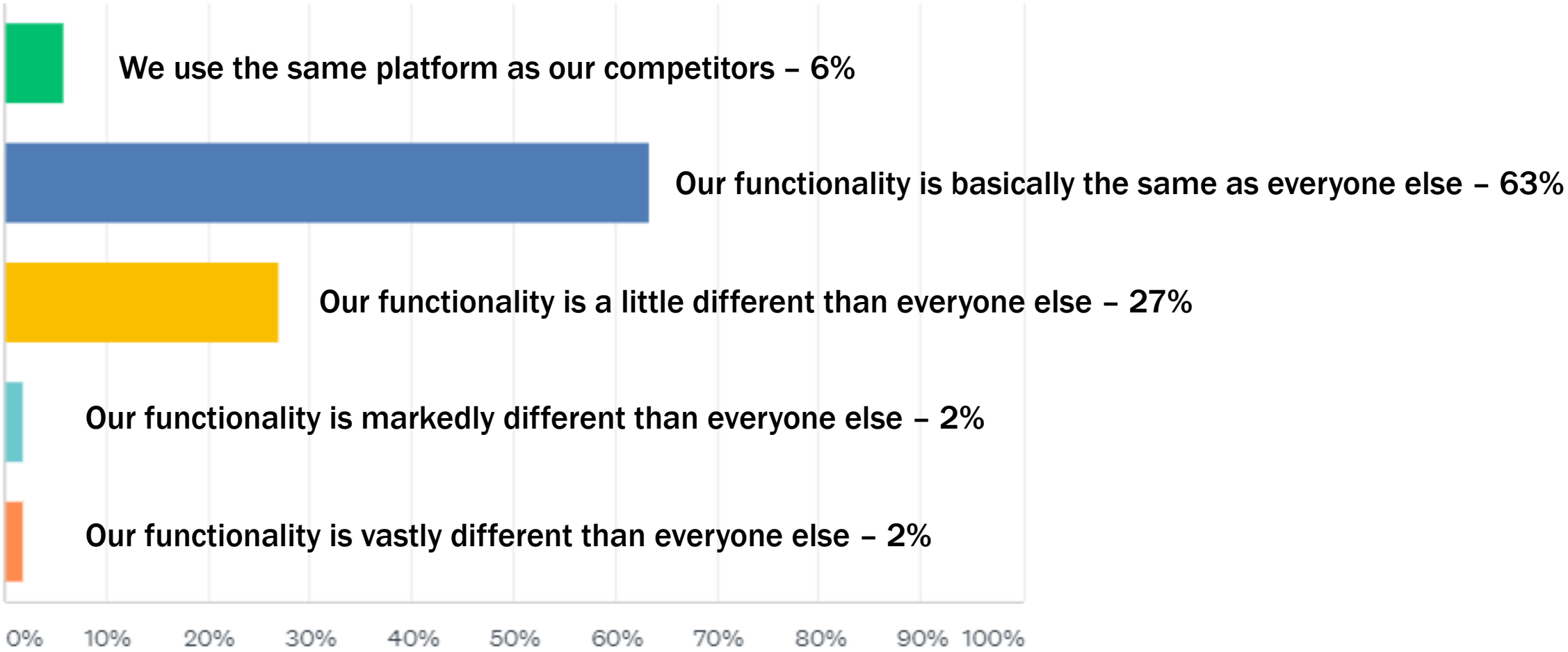


# Comparison to 2016 Survey

A comparison against results from the 2016 payments survey yielded the following insights:

- We saw a slight increase in the number of third party organizations outside of core providers for online and mobile banking solutions
  - The increase was between five and ten percent in both areas
  - Fintech providers are consistently trying to provide products and services that decouple the digital experience from the core
  - New entrants to the space over just the last twelve months

# Survey: How Differentiated Would you Say Your Online and Mobile Banking Interfaces are Versus Those of Your Competition?



# Common Platform Challenges

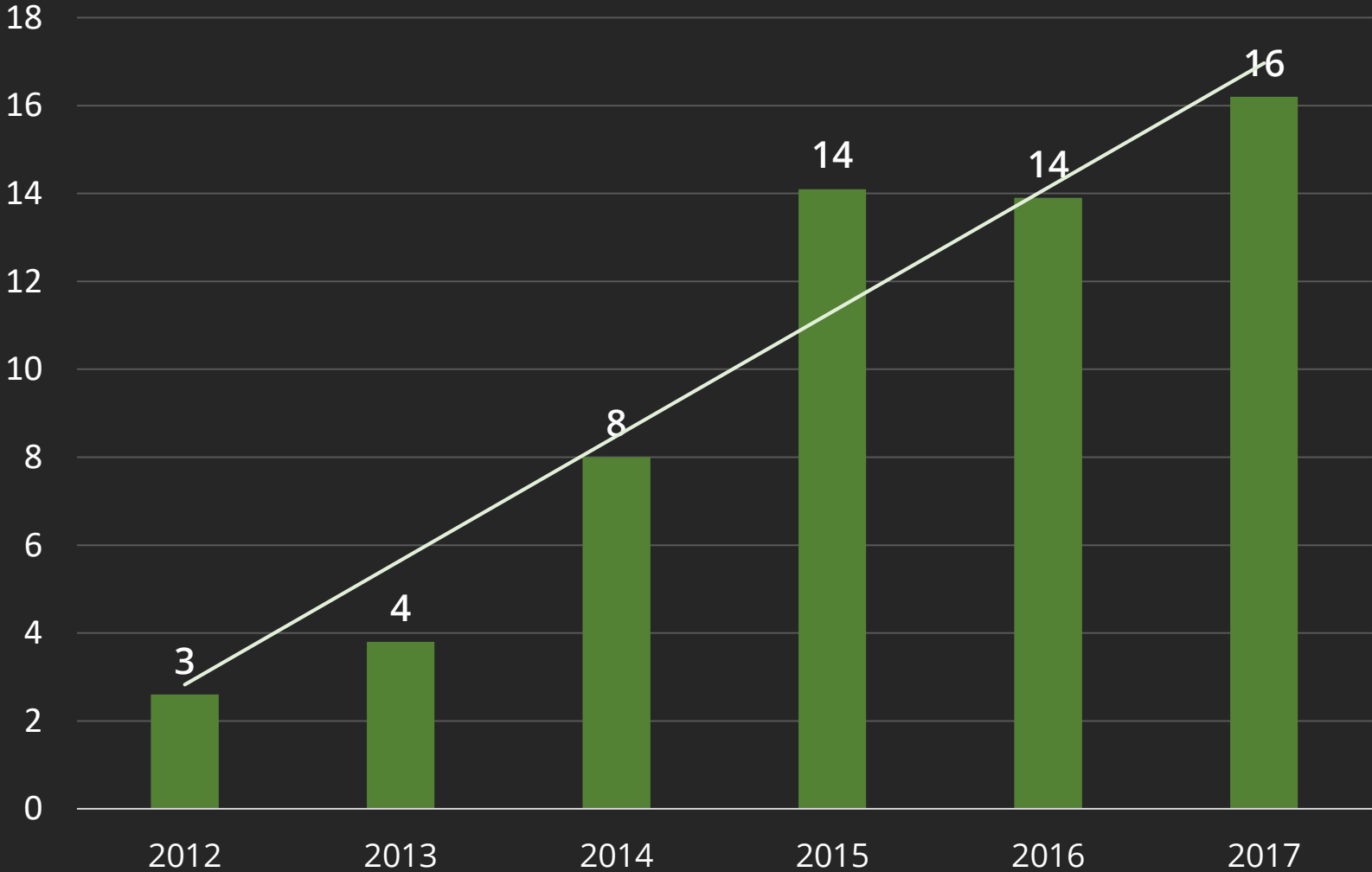
- Financial institutions are finding it difficult to differentiate themselves from a service perspective as they move towards a more outsourced and ASP service environment for their core services.
- Transaction per item fees make up an increasing percentage of core providers monthly revenue.
  - Transaction activity can make up as much as 50% of the invoice from core providers
- Financial institutions can be dissuaded from unique solutions by high interface fees or potential degradation of service.





FINTECH INVESTMENT

# Annual Global Financing to VC-Backed Fintech Companies (\$B)

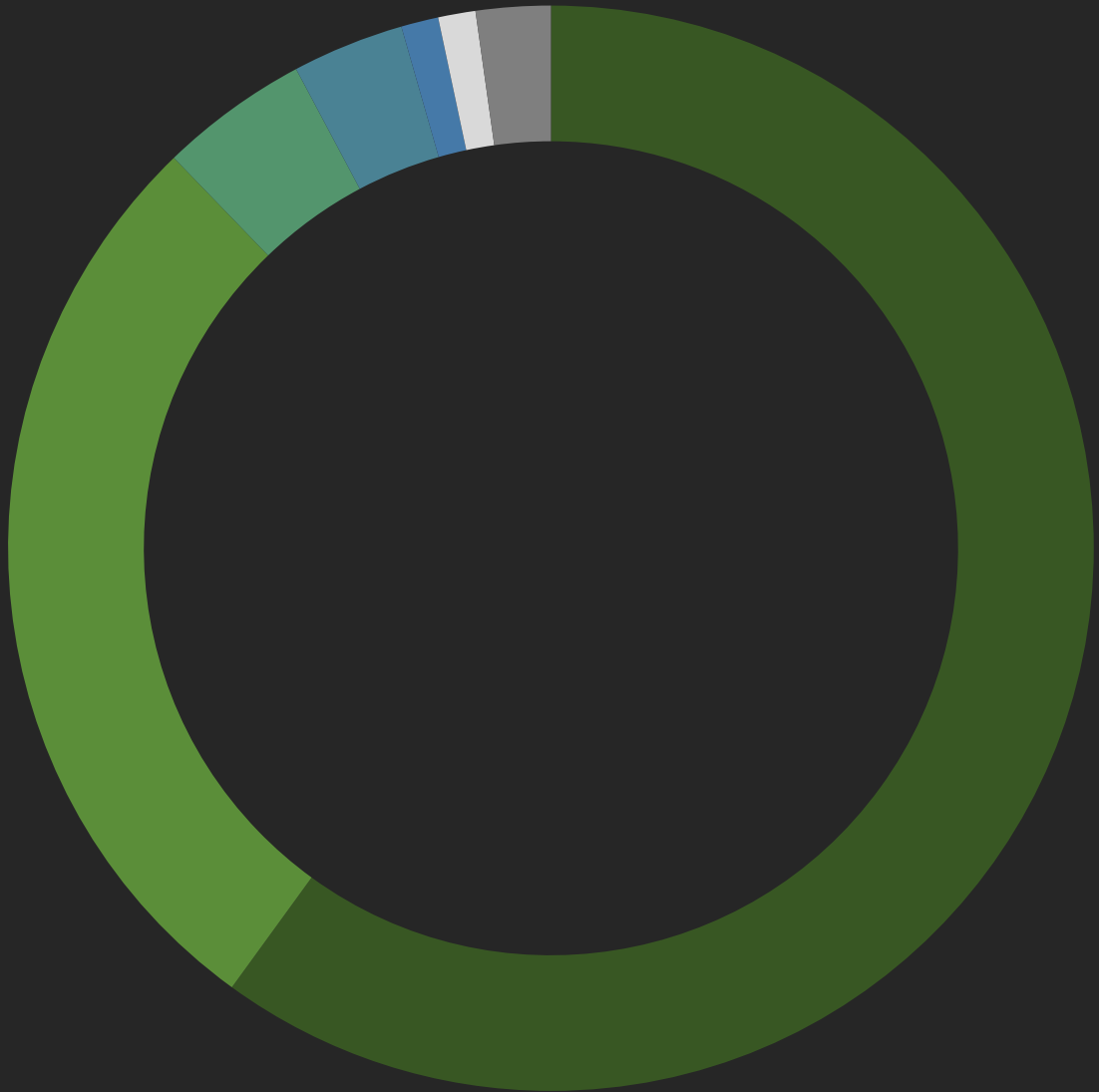


As the Fintech market matures, investments are shifting from startup “disruptors” to “collaboration” with the financial services industry.

Source: CB Insights | \*2017 Data are forecasts

# U.S Fintech Investments by Subsector

PAYMENTS  
LEAD  
FINTECH  
INVESTMENTS



- Payments
- Lending
- Wealth Management
- Markets
- Risk & Security
- Insurance
- Other

Source: CB Insights, Accenture, MarketResearch, BI Intelligence



SIX OF THE  
TOP TEN ARE  
TECH  
COMPANIES

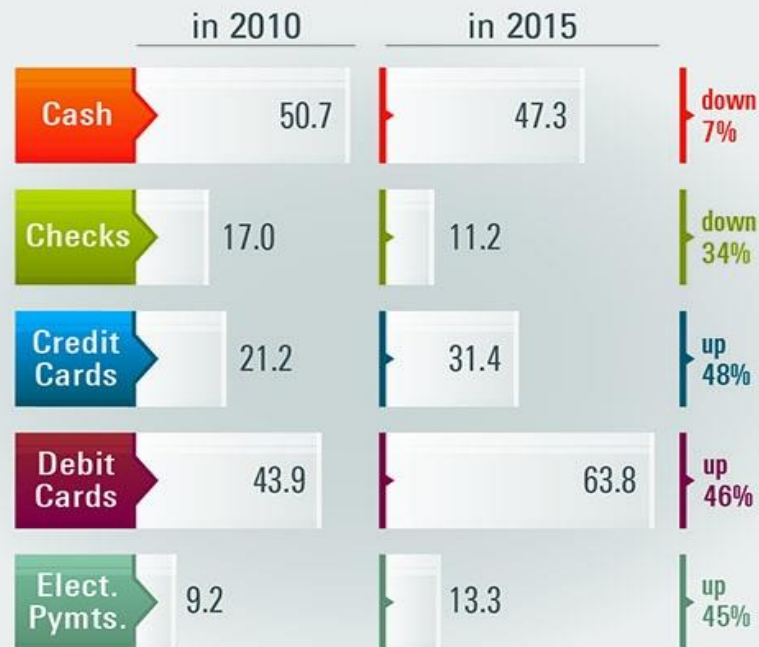
TOP 20  
GLOBAL  
PUBLIC  
COMPANIES  
BY MARKET  
CAP

Rank	Company	Country	Market Cap
1	Apple	U.S.	\$826B
2	Alphabet	U.S.	\$733B
3	Microsoft	U.S.	\$686B
4	Amazon	U.S.	\$683B
5	Tencent Holdings	China	\$514B
6	Facebook	U.S.	\$508B
7	Berkshire Hathaway	U.S.	\$488B
8	Alibaba	China	\$462B
9	JPMorgan Chase	U.S.	\$389B
10	ICBC	China	\$374B
11	Johnson & Johnson	U.S.	\$347B
12	ExxonMobil	U.S.	\$324B
13	Bank of America	U.S.	\$319B
14	Wal Mart	U.S.	\$296B
15	Samsung Electronics	South Korea	\$282B
16	Wells Fargo	U.S.	\$281B
17	Royal Dutch Shell	Netherlands	\$268B
18	VISA	U.S.	\$267B
19	Nestle	Switzerland	\$254B
20	China Construction Bank	China	\$249B



# The Digital Experience Continues to Increase in Importance

## Purchase Transactions on U.S. Consumer Payment Systems (Bil.)



© 2016 The Nilson Report

Traditional old school payment methods show decline over the last five years

Use of card payment types, both debit and credit, continue to increase dramatically

Electronic payments are still a minority but show nearly 50% growth over the period

New technology payment capabilities continue to enter the marketplace and compete for share

# Survey: Does your Financial Institution Have a Specific Strategy Related to Online Commerce and Shopping via the Internet?



**YES - 23%**  
**NO - 77%**



# Why an Online Commerce and Shopping Transaction Strategy is Important

**Bricks to Clicks shift in consumer (and commercial) behavior:**

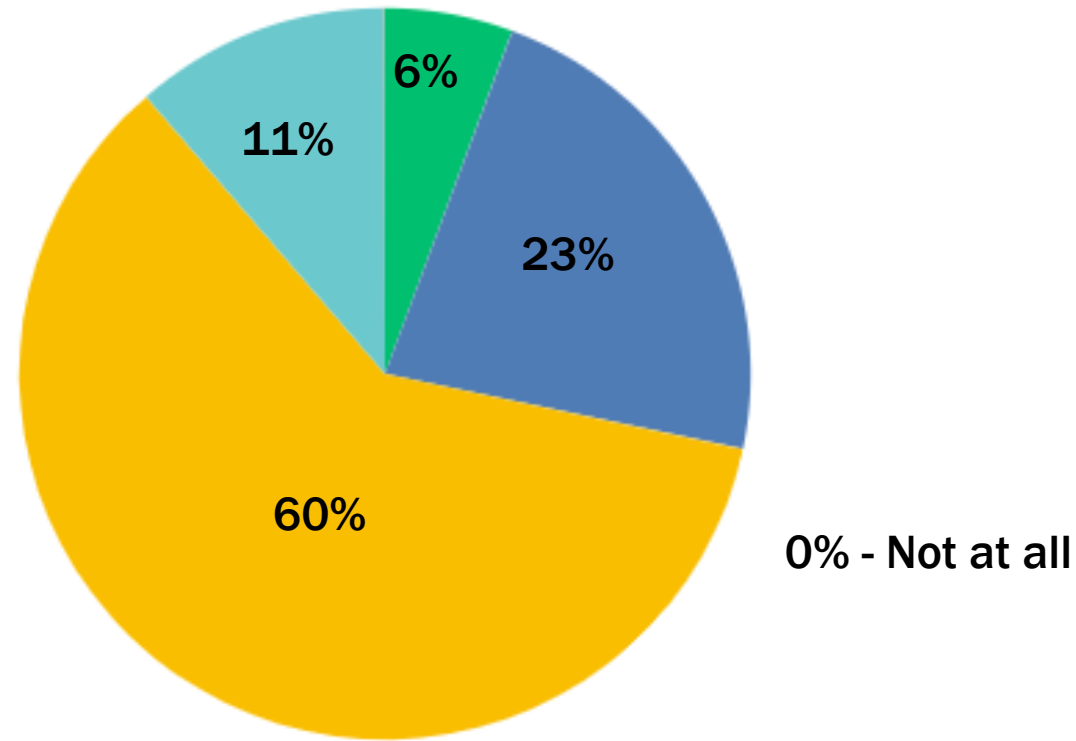
- **75% of retail growth has been online since 2000**
- **8 % of total retail sales**

**Consumers (especially millennials) will trade off location tracking for a 20% coupon at their favorite restaurant during happy hour**

**Offer a convenient one-stop-shopping experience that responds to the shoppers' path to purchase**

**Blend the offering between commercial and retail clients**

# Survey: How Concerned are You Regarding Emerging Third Party and Alternative Transaction Providers?



Extremely Very Somewhat Not Too Much Not At All

# Third Party and Alternative Transactions Provider Update

While some fin tech and alternative transaction providers are increasingly looking to partner, others are trying to displace financial institutions in the marketplace

Square Financial Services is in the process of trying to become a bank

- They have filed an application to become a Utah based bank
- Square is trying to leverage their small business merchant presence to offer loan services to these clients

SoFi is was in the process of taking out a bank charter application

Disruptors are trying to build a case for the 'Open Bank Movement'

- They are trying to push the 'archaic financial institution framework' by encouraging the adoption of more digital technologies
- The Open Bank Project is an open source API and App store for banks that empowers financial institutions to securely and rapidly enhance their digital offerings using an ecosystem of 3rd party applications and services



FINTECH INNOVATION



## THE FUTURE OF BILL PAY

Over the next 10 years we will see a number of very significant disruptions in financial services... Uber moments

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ANTONY JENKINS

FORMER CEO BARCLAYS



Consumers' billing and payment behavior is linked to three factors:

**Speed:** sync with busy lives, real-time and emergency payment options

**Security:** all about trusting that payments are secure

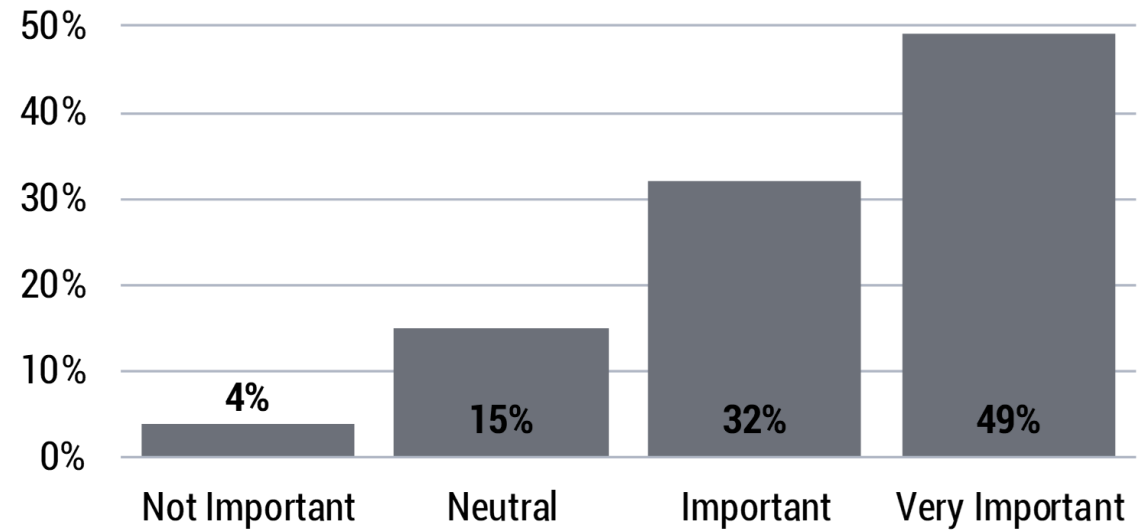
**Satisfaction:** customers want things on their terms and a variety of ways to receive and pay bills

## THE "S" FACTORS OF BILLING & PAYMENTS

# EXPECTATION OF FASTER PAYMENTS

When Credit for Bill Payment Is Expected	Today	Change From 2014
Instantly	27%	59%
Same Day	43%	54%
Next Day	20%	-31%
2-3 Days	9%	-64%

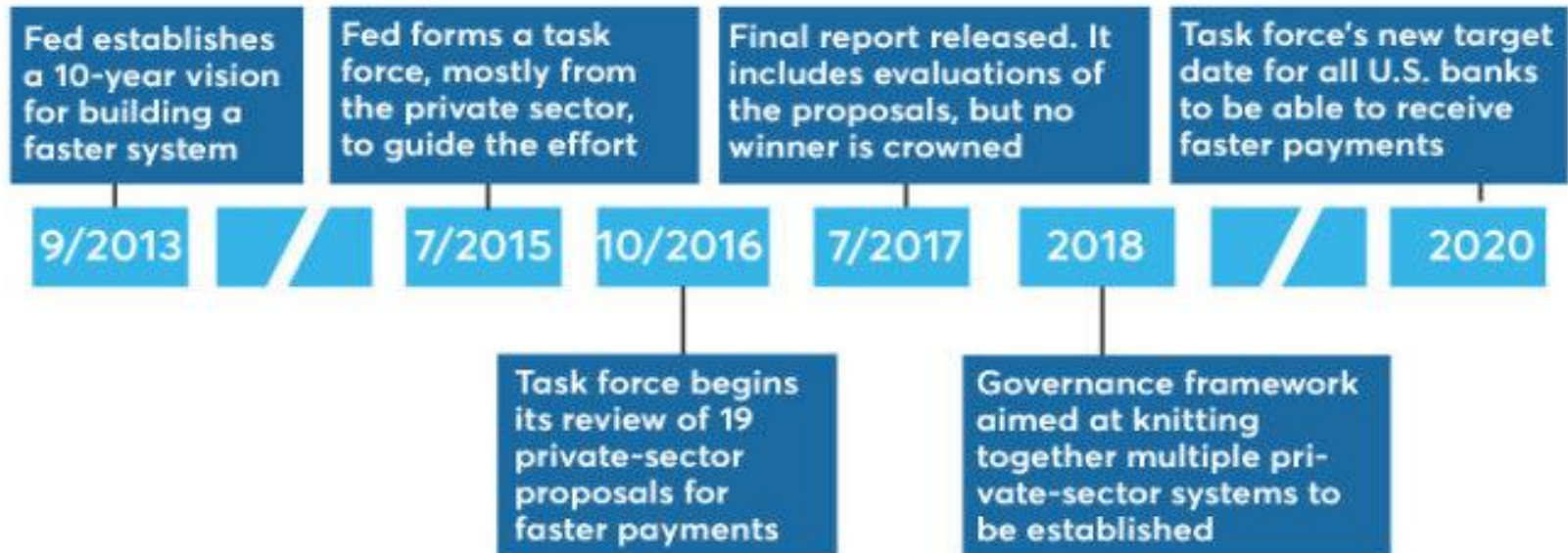
## Importance of Real-Time and Same Day Payment Processing



# Why are Faster Payments Important?

## Milestones in Fed's modernization push

The Federal Reserve has been collaborating with a diverse set of stakeholders to foster the development of a real-time payment system. Here is a look at some of the key events and goals





# Industry Quotes

“In the U.S where it is much more an elective, it will take longer. It may take some years before it becomes mainstream and disruptive, I do think that the interesting challenge right now, whether for fintech, providers or merchants, is the extent to which you are able to innovate and grab more than your share of the land in the early cycles.”

**Craig Saks, Chief Operating Officer at ACI Worldwide**

“The customer experience you’re trying to create with your brand has everything to do with choices around payments, how to think about digitizing the customer experience and what role do payments play. Payment professionals are not used to balancing user experience, cost and security, yet the answer could hold the future of the company in the balance.”

**Michael Roberts, Chief Digital Officer at Bank of America**

“With collaboration, inclusiveness and transparency as guiding principles, the Fed will continue to advance improvements through leadership and action. Our work with stakeholders over the past two years, including engagement with 500 task force members, has demonstrated that together we can help address industry challenges and seize opportunities.”

**Jerome H. Powell, Federal Reserve Board Governor**

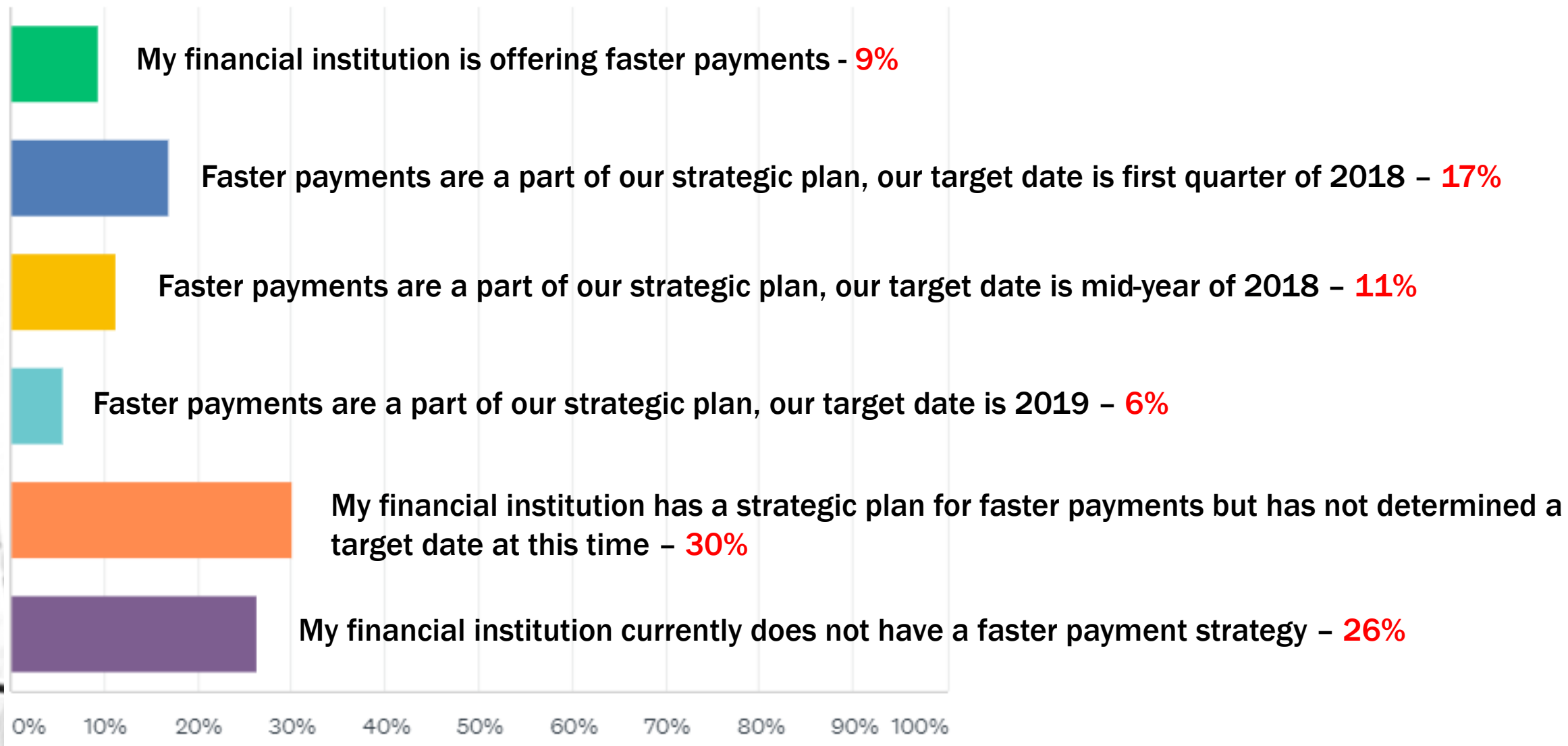


# **Faster Payments Strategies**

# Comparing payment platforms' ... not simple!

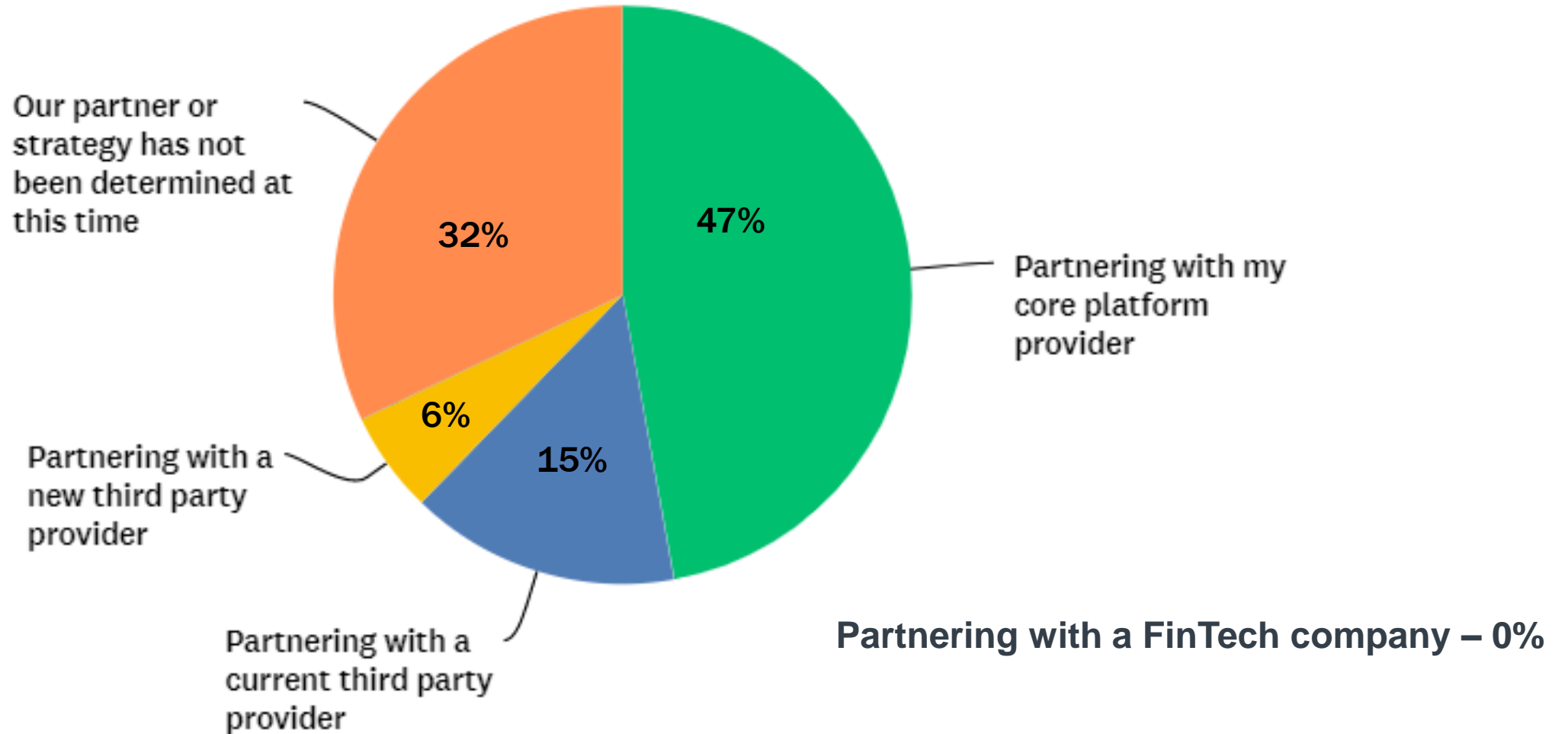
Payment Type	Messaging/ Posting	Funds Settlement	Refutability	Relative Transaction Cost	Credits   Debits
ACH	Batch processing	Next day funding	Yes. Returns available.	Cheapest	Yes   Yes
Same Day ACH	< 24 hours	< 24 hours, during business hours	Yes. Returns available.	Premium service	Yes   Yes
Credit card	"Within minutes"	Generally next day	Yes. Chargebacks available.	Premium with interchange	No   Yes
Zelle	"Within minutes"	End of Day or Next Day, based on ACH schedule	No	Consumer=\$0 Business=Medium to high	Yes   No
The Clearing House RTP	"Within seconds"	Real-time. 24X7X365.	No	Unknown. Too new.	Yes   No

# Survey: With Respect to Faster Payments...

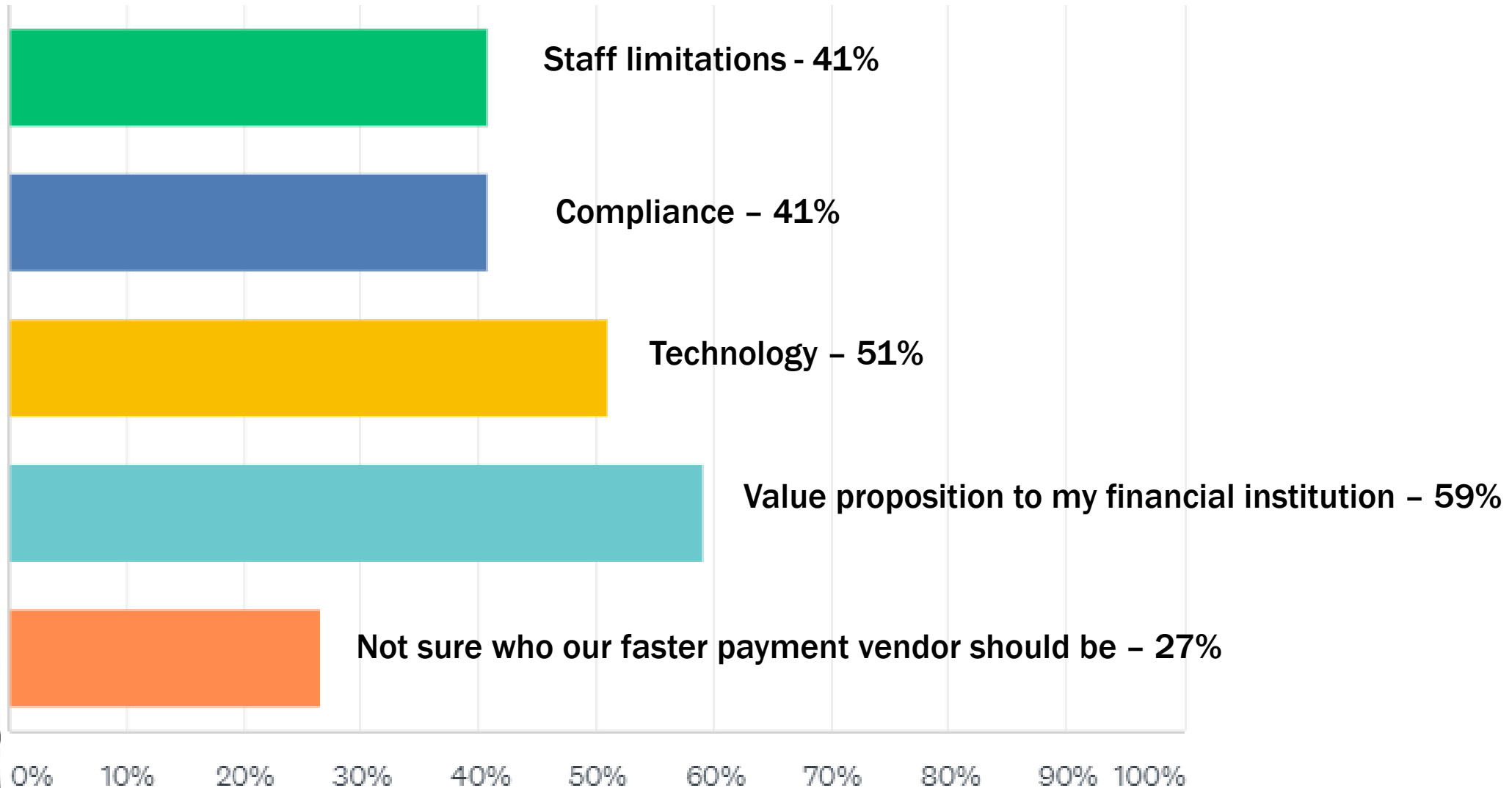




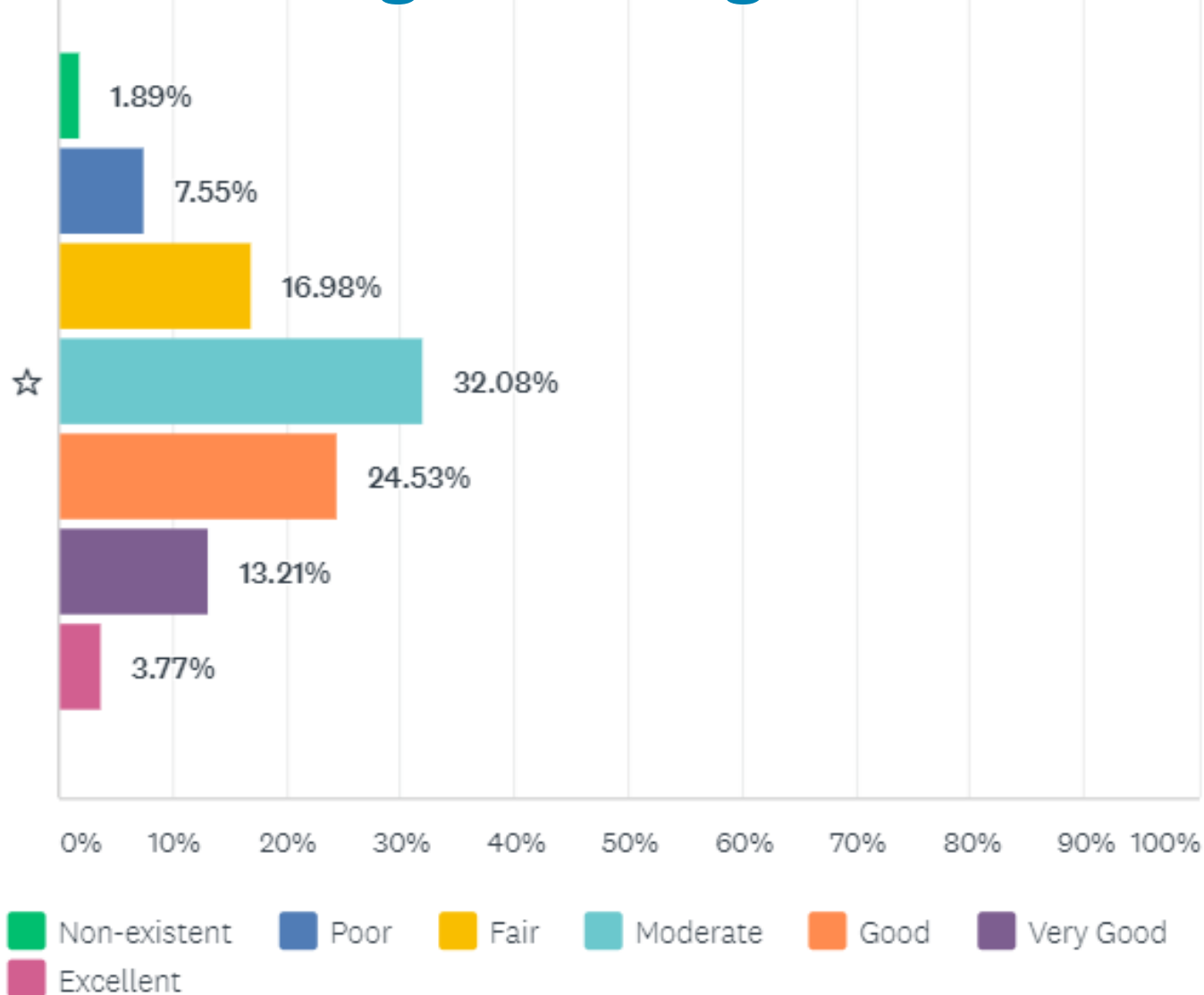
# Survey: My Financial Institution's Faster Payment Strategy Includes...



# Survey: Identify the Challenges for Your Financial Institution in Implementing Faster Payments. (Check all that apply)

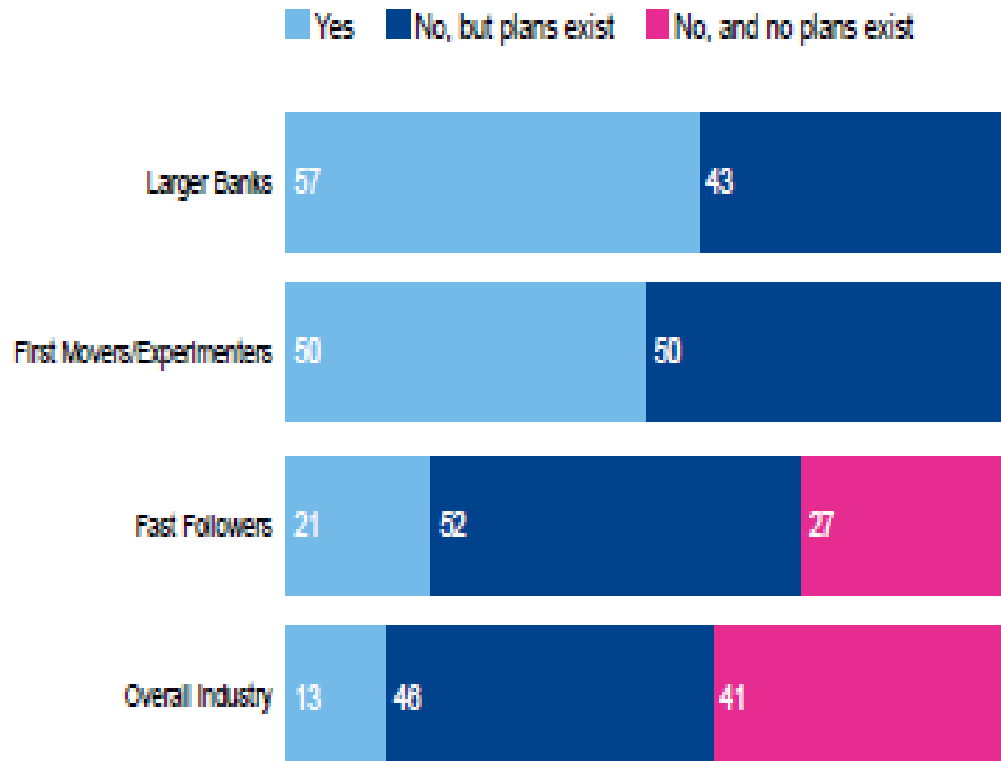


# Survey: How Would you Rate your Financial Institution's Strategy for Increasing use of Digital Transactions?



# Formalize a Transaction Strategy

Does Your Bank Have a Formalized Payments Strategy? (in percentages, by bank size or approach)



- Larger financial institutions are recognizing the importance of a transaction/payment strategy
- Outside of that group, most others do not have nor are they executing on a transaction strategy
- Over 85% of the financial institutions are still in the formative stage



# Frenemies: Fintech and Financial Institutions

## Messages for Banks

Window of opportunity is open—for now

- 1 Invest in protection capabilities—for the bank and customers
- 2 Define and own your innovation strategy and roadmap
- 3 Innovate internally and through FinTech partnerships
- 4 Maximize POCs/pilots while minimizing customer risk

Make customer access/trust a foundation of innovation and partnership strategy

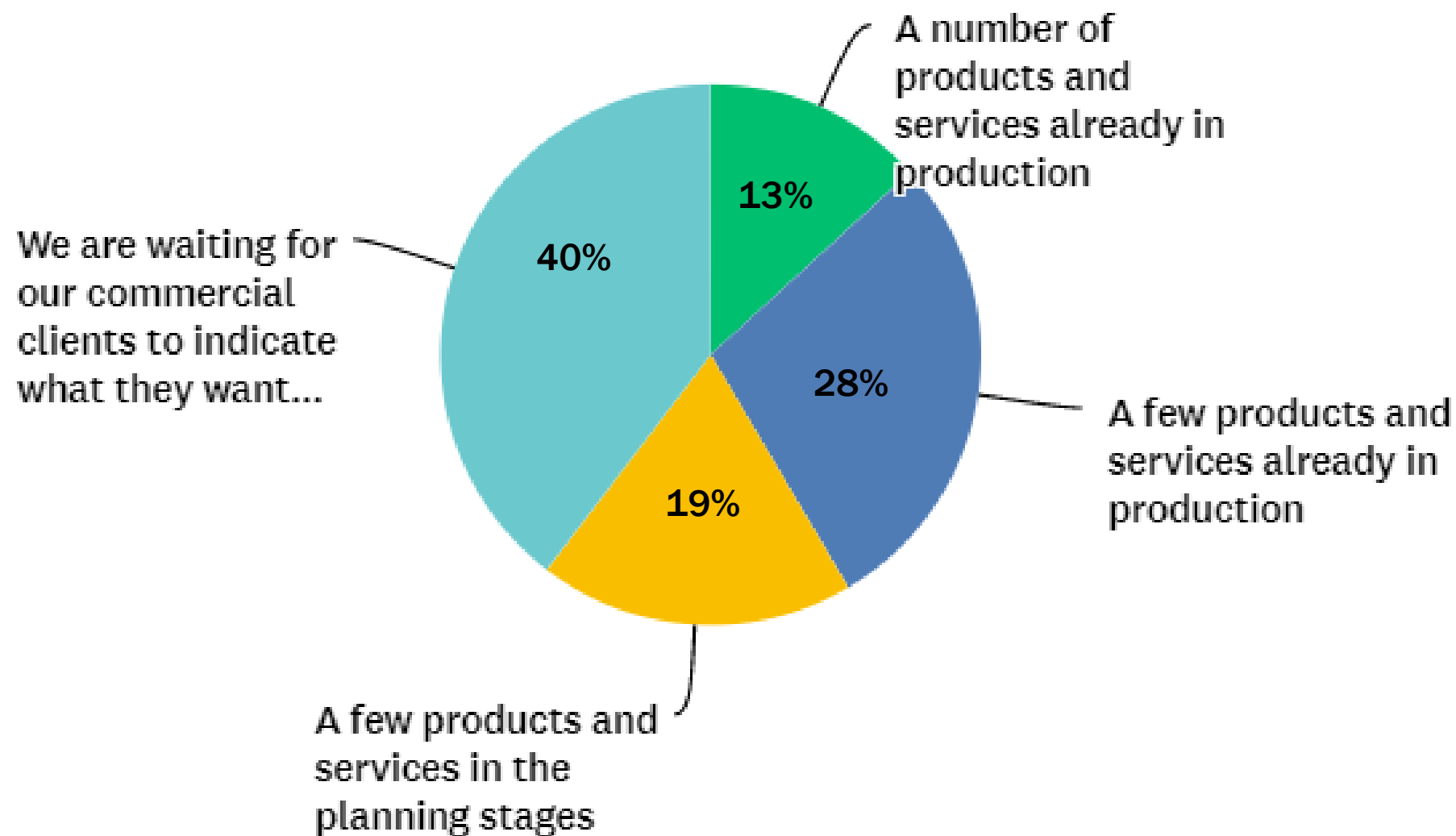
## Messages for FinTechs

Partner, partner, partner

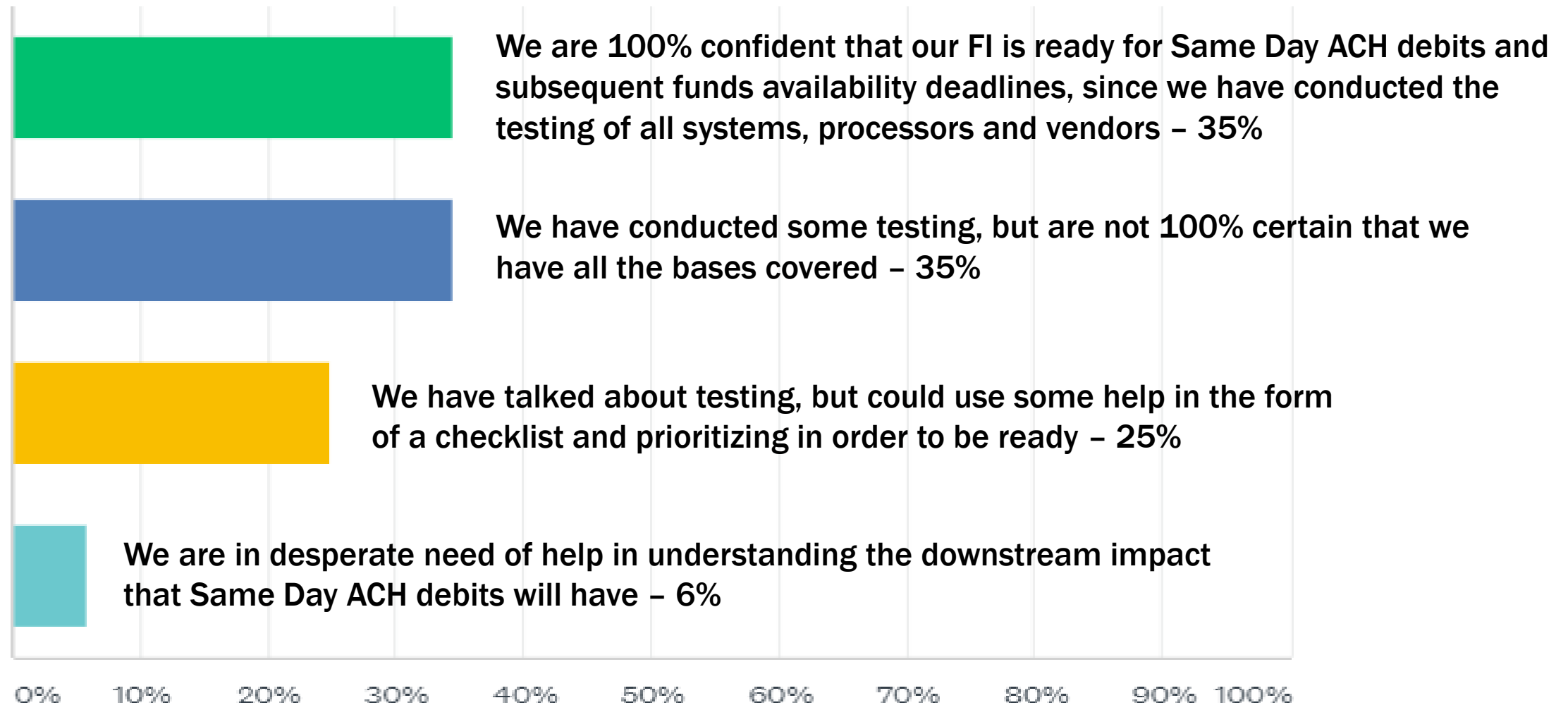
- 1 Rethink your exit strategy
- 2 Partner to gain access to customers
- 3 Get deep consumer input early and often
- 4 Educate consumers to increase awareness and trust

Focus significant energy on partnerships; a necessity for broad customer access

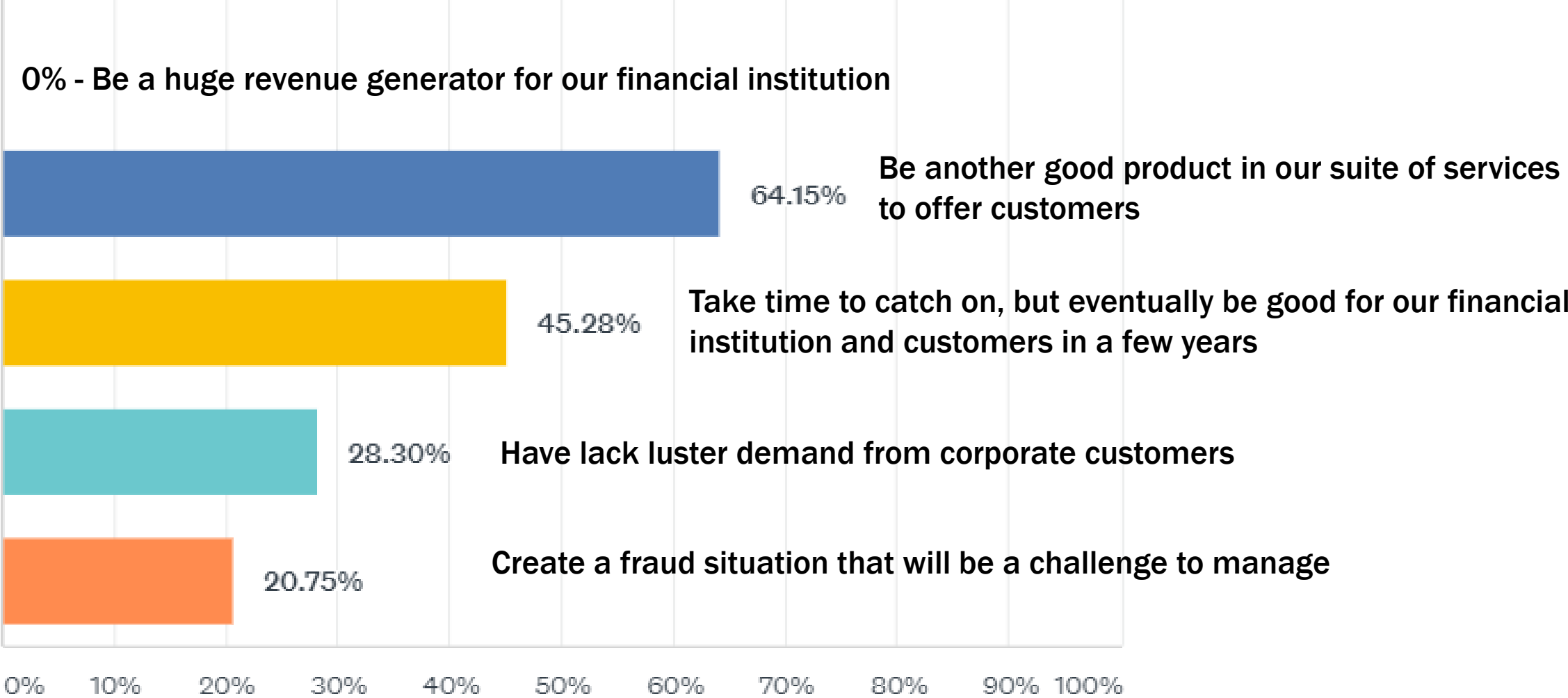
## Survey: For Commercial Clients, My Financial Institution has:



# Survey: Which of the Following Statements Most Closely Matches your Own?



# Overall, I think Same Day ACH will...







FINTECH OPPORTUNITY





MARK CUBAN  
ENTREPRENEUR

The future will be a world where the mind becomes more important, as technical skills gradually get picked up by automation and computers.

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We are going through the process where software will automate software, automation will automate automation.

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I would not want to be a CPA right now. I would not want to be an accountant right now. I would rather be a philosophy major.

# Fintech and Financial Services are competing less and coming together

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More than 80% believe  
business is at risk

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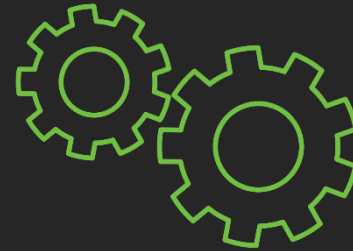
88% of incumbents are  
increasingly concerned  
they are losing revenue  
to innovators



Financial Institutions are  
embracing the disruptive  
nature of Fintech

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77% of Financial  
Institutions will increase  
internal efforts to  
innovate



Financial Institutions are  
learning to partner and  
integrate

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82% expect to increase  
Fintech partnerships in  
the next three to five  
years

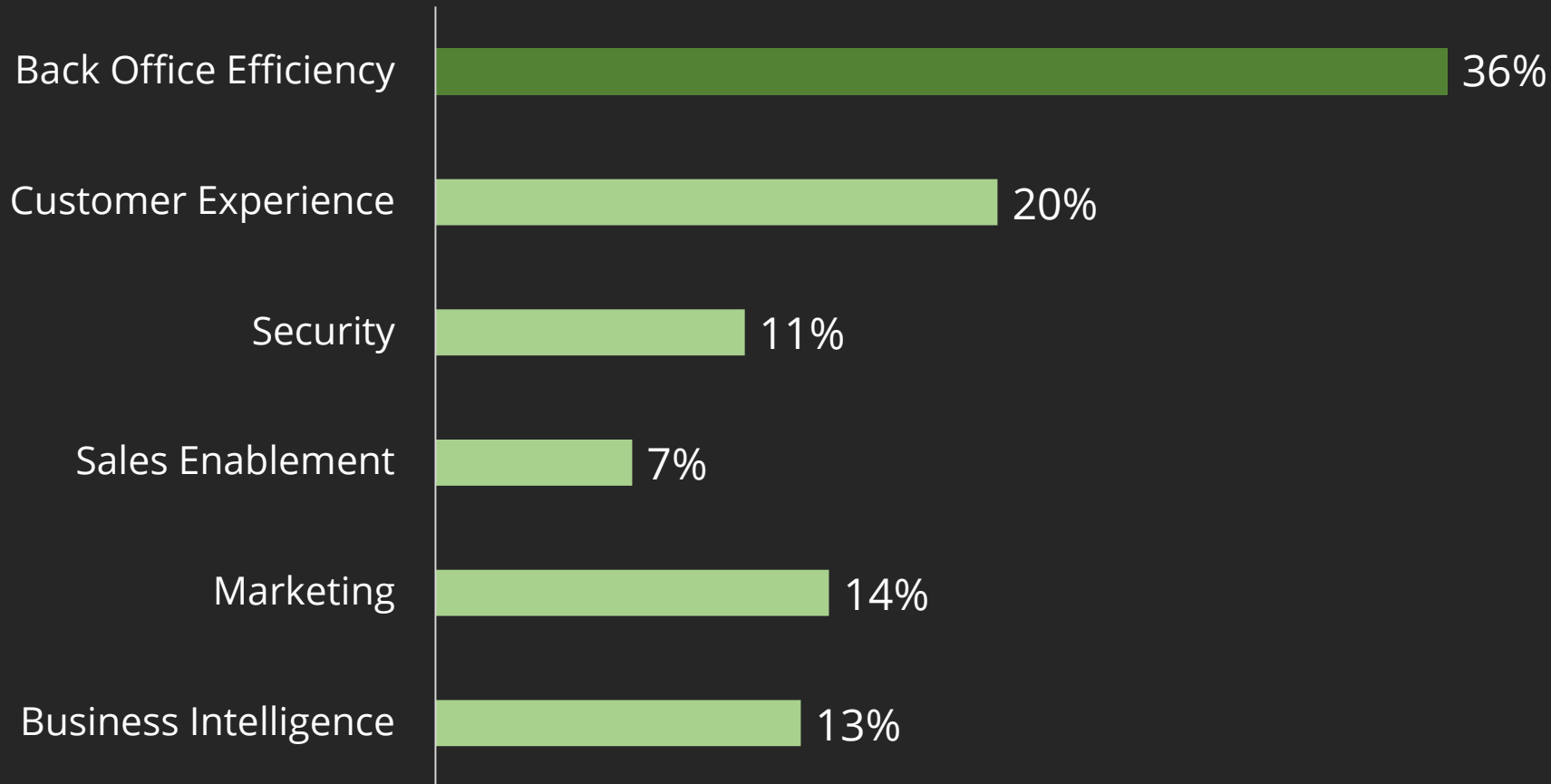


Regulations trigger  
disruption and  
innovation

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54% see data storage,  
privacy, and protection  
as the main regulatory  
barrier to innovation

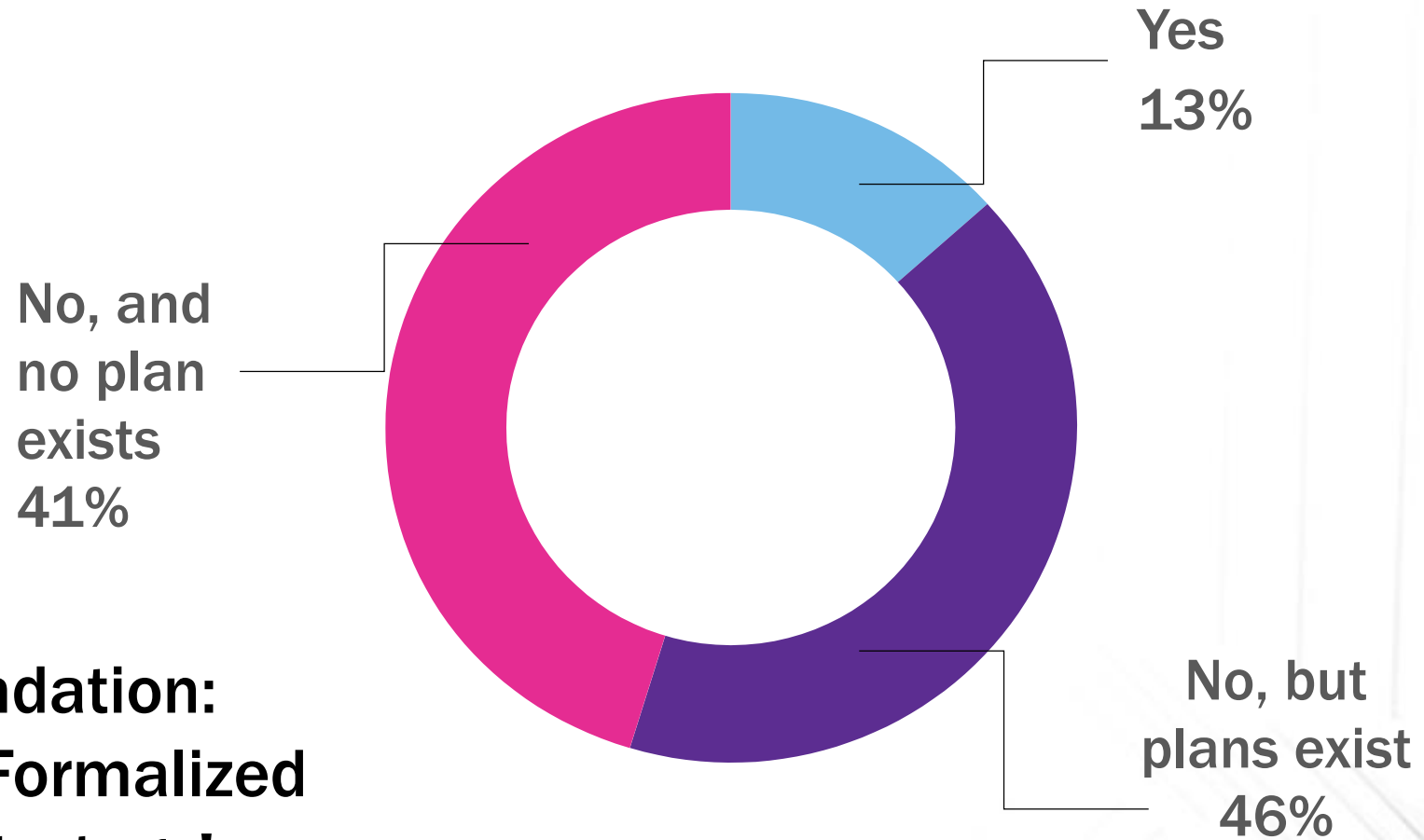
# Where do you see the greatest opportunity for digital transformation at your organization?



36%

See back office efficiency as one of the biggest opportunities

# Does Your Bank Have a Formalized Payments Strategy?



**Recommendation:  
Develop a Formalized  
Payment Strategy!**

# Additional Recommendations and Suggestions

1. Real time payments are making their way into the market and financial institutions need to develop strategies around various market segments

Retail customer use cases (same day ACH and P2P)

Commercial clients use cases exist, develop a strategy

2. You have choices in who you partner with, do your research
3. Review internal processes to help prevent fraud
4. Make an effort to keep yourself informed of what is going on in the fintech space:

The pace of payment innovation is fast

Opportunities exist to partner with providers, offer new services or supplement existing services

5. If you need strategy or operations help, get it!



“There are hundreds of startups with a lot of brains and money working on various alternatives to traditional banking...

We are going to work hard to make our services as seamless and competitive as theirs.

And we also are completely comfortable with partnering where it makes sense.”

“Silicon Valley Is Coming”

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JAMIE DIMON  
CHAIRMAN & CEO  
JP MORGAN



QUESTION & ANSWER

Rick Fiorito

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