

Video Transcript Jack Henry Lee Wetherington

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SPEAKERS

Lee Wetherington

L Lee Wetherington 00:14

Hello, we at Jack Henry just completed our 2023 strategic priorities benchmark study. And I'm happy to be here to share with you three big important findings that I think all credit unions will benefit from knowing.

L Lee Wetherington 00:30

The first is that we surveyed 118 CEOs of both credit unions and banks from all regions of the country and across a range of asset sizes. One of our topline findings was really interesting. Whereas banks as a group seemed singularly focused on and prioritized around deposits, deposit attrition, deposit acquisition for 2023 and 2024, their credit union CEO peers actually had a different top priority, and that top priority is data, leveraging data, and doing so in service of their No. 2 and 3 priorities, which was improving member user experience and improving member acquisition. And as a credit union, you probably already know and appreciate that all three of those things, leveraging data, improving member UX and improving member acquisition are all tied together. I found that really interesting. And I think that bodes well for credit unions, given the new post-ChatGPT world in which we find ourselves. Generative AI applications and financial services are making their way in and through our industry. And one of the first and most powerful use cases is how generative AI can help augment the people helping people mantra, approach, philosophy of credit unions and turbo charge that in a way, never before possible in the credit union space. This is a really good sign that credit union CEOs are prioritizing the right thing at the right time here in 2023, and 2024.

L Lee Wetherington 02:20

This brings us to one of the other findings that I wanted to share with you today. And that is that 90% of your peers, both credit unions and banks are planning to embed another fintech two or three into their respective digital experiences over the next two years. We asked a

follow-up question, which was what type of fintechs are you looking to embed into your digital experiences over the next two years? And the resounding top response was payments-related fintechs, which brings up some important context that I'd like to bring to bear for you.

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Lee Wetherington 02:59

2022, last year was a cascade of major inflection points for our industry. It began with inflation. And then of course, the Fed delayed response to inflation, which resulted in a series of very aggressive and very frequent rate hikes. That took us quickly from a zero rate, functionally speaking, free-money environment into a very high rate environment in a short period of time. That inflection point basically turned off the spigot of venture capital that was and is generally available to fintechs. So a lot of fintechs that had been growing for growth's sake, and just relying on that next round of funding raise to perpetuate or to survive through the next year suddenly found themselves in a bind, having to figure out sound business models with sound unit economics, to see them through this downturn in access to funding.

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Lee Wetherington 04:00

That does two things for credit unions. First, it gives you a lot more leverage over striking partnerships with fintechs of choice because they are, as a category, much more desperate, incented, to partner with you to embed into your digital context and to thereby improve services and or experiences for your members in 2023. But the second thing that that brings to bear for credit unions to consider this year, is that you must exercise much more due diligence in those decisions about which fintechs to partner with and or to embed, because you don't want to go to that length or to that hassle or through that work to get that done, only to have that fintech not be around in six months or 12 months or 18 months. So again, this means that you the credit union are much more in the driver's seat in striking fintech partnerships and embedding fintechs of choice into your digital experience. But you have to bring much more extreme and granular due diligence to that process of choosing who to partner with.

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Lee Wetherington 05:12

60% of the CEOs who responded to our benchmark study said they are specifically looking to embed payment fintechs this year and next year. This is also a challenge for a reason I want to bring to your attention. Forrester predicts that one out of every four payments fintechs are going to fail this year in 2023; they're either going to fail out right, they're going to consolidate, they're going to get acquired. This means again, that you've got to exercise a lot of due diligence, not just with fintech choices generally, but with payments and tech choices specifically for the following reason. The reason Forrester is so bearish on the future for payments fintechs this year is because these fintechs as a category have largely relied on very thin revenue-share arrangements with financial institutions that are providing them payments as a service. So you think about different affiliate card type programs where the fintech can offer a card a debit card to their particular customers on that they're serving with a financial institution standing behind them. These very thin payments-as-a-service revenue business arrangements got really dicey last year, when payment growth went from digit, that is digital payment growth went from 40% annualized growth, as we saw during the pandemic, to only 10% annualized growth last year by the end of 2022. This put pressure on those business

models. Now, they also have much more difficult difficulty finding the next fundraise for their particular fintechs. And this is behind that very bearish projection by Forrester. So I say this to say since most of your peers are looking to embed fintechs. And since most of those are looking to embed payment fintechs. Specifically, you've got to be very careful with who you choose to embed payments wise into your digital platforms this year and next year, make a good choice.

 Lee Wetherington 07:29

The topic of payments is also writ large in 2023 for the following reason. As I mentioned before, your bank CEO peers are fiercely singularly focused on deposit acquisition and deposit protection and being able to close deposit gaps specifically with younger segments Gen Y and Gen Z for sure. This year 2023 payment strategy is deposit strategy. And this is what I want to share with you: 60% of your peers, according to our study, are planning to be in the queue and signed up for receiving real-time, incoming FedNow payments when FedNow launches here in July of 2023. It's really important to understand what that means in terms of deposit strategy. Because what is an incoming payment? What's another name for an incoming payment? A deposit. So if you want access to every possible source of deposit, incoming deposits, to your credit union, you're going to want to make sure you're in the front of the line for at least being able to receive FedNow payments, even if you want to put off the processes necessary to originate or send the FedNow payments later on.

 Lee Wetherington 08:55

So these big three things that highlighted from our strategic priorities benchmark study this year are three things I wanted to share with you. And again, what are they? Really focusing on your data and AI as a leveler as a way to personalize and not only personalize, but increase the quality and the velocity of personal service you can render digitally to members in their respective moments of need. That's a big one. No. 2, what are you doing with embedded fintech strategy? And are you going to exercise the additional due diligence that the macro environment requires this year and next and No. 3, this year and next payment strategy is deposit strategy. Remember, incoming real-time payments are incoming real-time deposits. And you don't want to cut yourself out of that source of incoming deposits that can bolster your deposit position and your liquidity as a credit union this year and next.

 Lee Wetherington 10:02

Thanks so much for joining me. We'll see you next time.