Digital Transformation Simplified

Taking it One Byte at a Time

Ray Chandonnet, Chief Revenue Officer
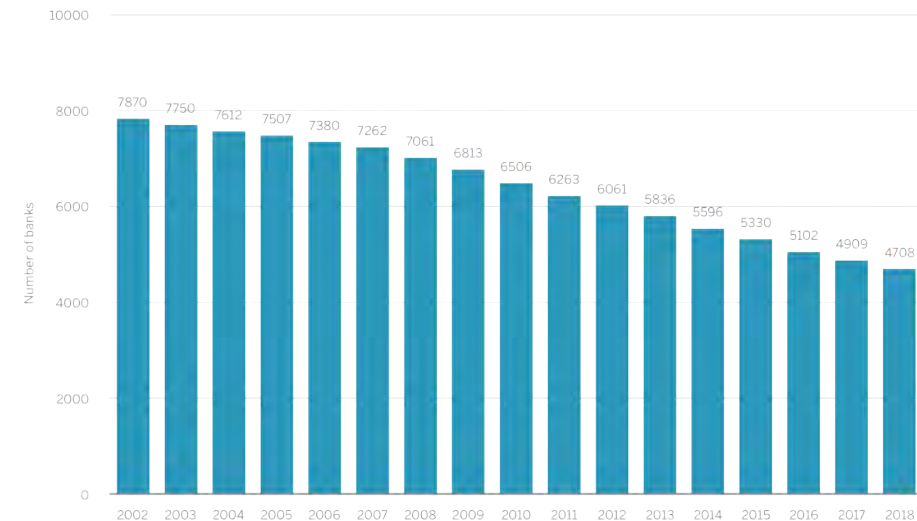
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State of the Industry/ Technology Landscape

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New Challenges and Old Problems

- Crisis Response: Community financial institutions are acting as the backbone of the economic recover, having served 57.5 percent of all PPP recipients and 48.1 percent of all U.S. small businesses with 2.8 million loans.

- Continued Consolidation: Unfortunately, they are still under enormous competitive pressures and facing massive consolidation

- Even the smaller credit union space has seen consolidation, both between credit unions and with credit unions acquiring small banks to grow scale

Number of FDIC-insured commercial banks in the United States from 2002 to 2018

Year	Number of banks
2002	7870
2003	7750
2004	7612
2005	7507
2006	7380
2007	7262
2008	7061
2009	6813
2010	6506
2011	6263
2012	6061
2013	5836
2014	5596
2015	5330
2016	5102
2017	4909
2018	4708

Source
FDIC
© Statista 2019

Additional Information:
United States; FDIC; 2002 to 2018

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New Challenges and Old Problems
(continued)

- Technology's role: 2019 Acquire or Be Acquired survey of 600+ senior bank executives and directors: More than 60% of them cited "Inability to keep up with technology" as biggest threat to their independence.

- Ever-increasing Importance of Technology: 97% of senior bank executives and directors say their bank has seen increased adoption and use of digital channels due to Covid-19.*

Anecdotally, we see the same issues and trends in the credit union space as well…

- The "core" of the problem: Only 21% of senior bank executives and directors are completely satisfied with core provider and 60% report their core provider is slow to implement innovative solutions.**

- And yet: Only 4% of financial institutions with expiring core vendor contracts switch providers each year.

*Bank Director's 2020 Technology Survey
*Bank Director's 2019 Technology Survey

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The Benefits of Modern Technology Are Real

Legacy Banking Technology

- Dated Technology
- Lengthy Contracts
- Massive Early Termination Penalties
- Exclusivity Clauses
- Closed Architecture
- Captive Data
- Inability to Integrate with 3rd Parties
- Security Concerns
- Everything must be customized
- Expensive

New Wave of Technology Providers

- Modern Technology
- Competitive SaaS Contracts
- Modular
- Flexible, Open Architecture
- Cloud-based
- AI-enabled
- Highly Secure
- Everything can be configured
- Much more cost-effective

So why isn't anything changing?

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What are financial institutions REALLY saying?

What they say:

- "We need a better [fill in the blank digital tool*]....."

- "We need to replace our core"

What they mean:

- We need to deliver a better, more personalized customer experience

  81% say improved customer experience drives their tech strategy.*

- We need technology that increases our efficiency and cuts costs.

  79% are seeking increased efficiencies through technology.

*Bank Director's 2020 Technology Survey

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Take A Lesson from the Big Banks

- Big banks did not start with a core replacement; In fact, many looked to alternative providers for their needs.

- They engaged in a transformation journey that focused on data, automation and increasingly, AI.

Which three technologies do you believe are the most important for your institution today?

Bank Asset Size	>$10B	$1B - $10B	$500M - $1B	<$500M	Total
Process automation	33%	38%	47%	42%	42%
Data analytics	42%	51%	40%	23%	39%
Security structure	33%	38%	42%	32%	37%
Automation	58%	32%	24%	42%	35%
APIs	42%	30%	42%	26%	34%
End-to-end digital account opening	8%	41%	26%	36%	31%
Credit underwriting automation	8%	24%	24%	32%	25%
Cloud	25%	22%	13%	23%	20%
AI/machine learning	25%	5%	18%	7%	12%
P2P payments		8%	13%	13%	10%
Personal financial management/ budgeting tools	-	-	3%	10%	3%
Biometrics	-	3%	3%	-	2%
Other	8%	3%		-	

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Diversifying away from legacy core provider has been key

- Larger FI's by and large do not rely on their core provider to provide data analytics or other state of the art tools (e.g. digital account opening)

- While smaller FI's may not have internal development capabilities, many external options are quite viable

Data aggregation

Bank Asset Size	>$10B	$1B - $10B	$500M - $1B	<$500M	Total
Core provider	8%	36%	46%	57%	42%
Alternate provider	42%	25%	35%	7%	25%
Developed in-house	42%	8%	5%	13%	12%
We don't use this technology	-	14%	11%	20%	13%
Unsure	8%	17%	3%	3%	8%

Digital account opening

Bank Asset Size	>$10B	$1B - $10B	$500M - $1B	<$500M	Total
Core provider	18%	28%	55%	40%	39%
Alternate provider	73%	53%	26%	23%	38%
Developed in-house	-	3%	-	3%	2%
We don't use this technology	-	11%	16%	33%	17%
Unsure	9%	6%	3%	-	4%

*Bank Director's 2020 Technology Survey
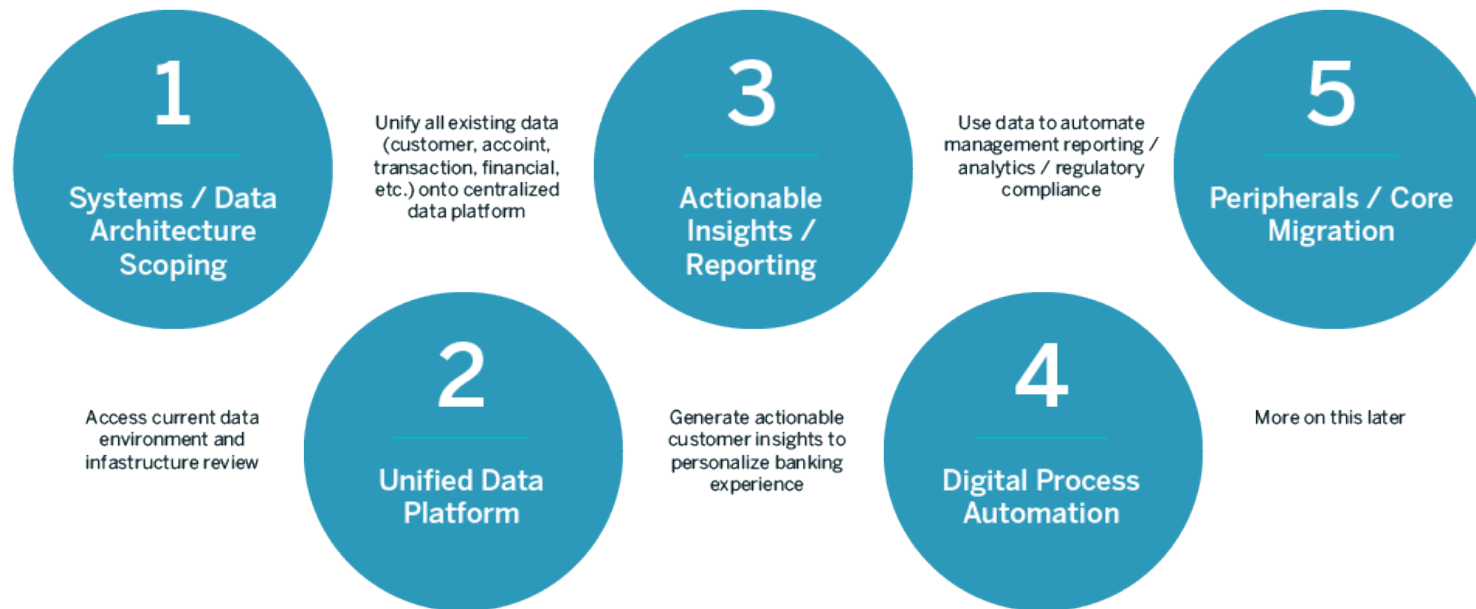
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The Alternative To 'Rip and Replace':

A Digital Transformation Journey focused on Customer Experience and Automation

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Modernizing Your Technology
Migrate in a safe and Smart Way

1   End, rather than start, with focusing on the core

2   De-risk The Process

3   Add Value at Each Step of the Process

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Digital Transformation is a multi-step process that ends rather than starts with the core

1 Systems / Data Architecture Scoping

Unify all existing data (customer, account, transaction, financial, etc.) onto centralized data platform

3 Actionable Insights / Reporting

Use data to automate management reporting / analytics / regulatory compliance

5 Peripherals / Core Migration

Access current data environment and infastructure review

2 Unified Data Platform

Generate actionable customer insights to personalize banking experience

4 Digital Process Automation

More on this later

*This approach can take between 18-36 months.
*Value is created each step of the way.

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Q | What can you do with customer data once it's unified?

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A │ Both of the things you really want

Personalized Banking – Improved customer experience

- "Next best product: recommendations based on your customers' individual behavior

- Customer attrition analysis to identify customers with a higher likelihood of leaving the bank

- Outlier analysis to identify changing customer situations (financial strength / weakness, life stage change)

Process Improvement

- Push-button management and board reporting / analytics (no more downloads into Excel spreadsheets)

- Automate BSA/AML/Fraud monitoring / reporting processes

- These benefits can be achieved in advance of tackling core modernization

- There are cost-effective Artificial Intelligence tools available to optimize this

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Personalized Banking
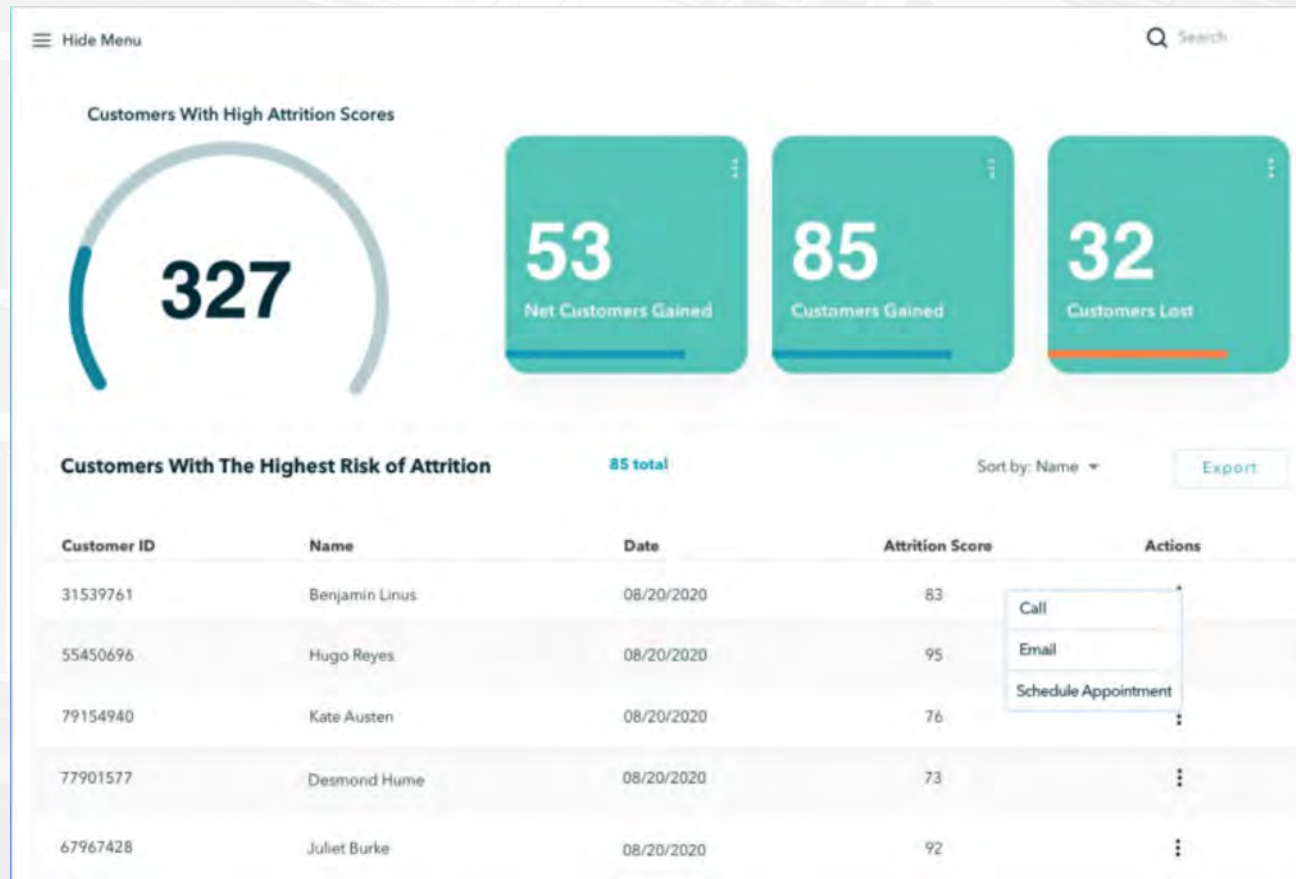## Ex. Next Best Product Recommendations

Personalized Banking
Unusual Behavior Monitoring
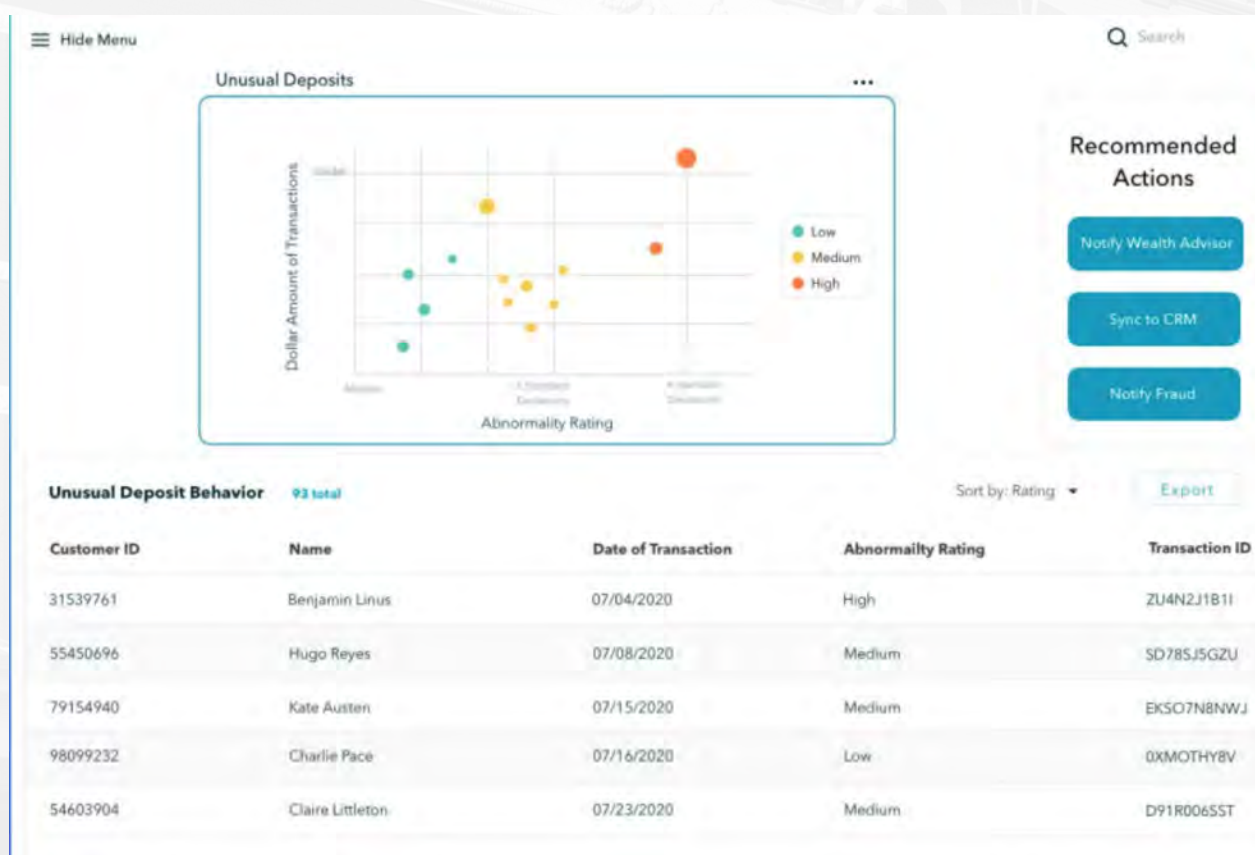
Personalized Banking
Attrition and Retention Analysis

Personalized Banking
360-degree customer view with suggested actions

Process Improvement
Automated, real-time BSA/AML/Fraud Monitoring / Detection / Reporting

Once transaction data from multiple sources (teller, Debit Card, ACH, Wire, etc) is unified, the following can be achieved:

- Rules-based monitoring to identify transactions worth examining

- Artificial-intelligence to BOTH *identify outlier* transactions *eliminate false flags*

- Automated CTR and SARs filing

- Automated case management

- "Firewalling" to reduce fraud risk in Real-Time Payments

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The Last Step:
A De-Risked Core Migration

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The Current Situation For Most Banks

- Same vendor used for virtually all banking technology

- "Core" system is actually multiple separate components

- Core processor "owns" your customer data and it lives in silos that are not unified

- Consistently very late to market with innovations introduced by larger banks and Fintechs

- Legacy core doesn't integrate well with better 3rd party options

There is a way to migrate from this model.

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Put In an Integration Layer
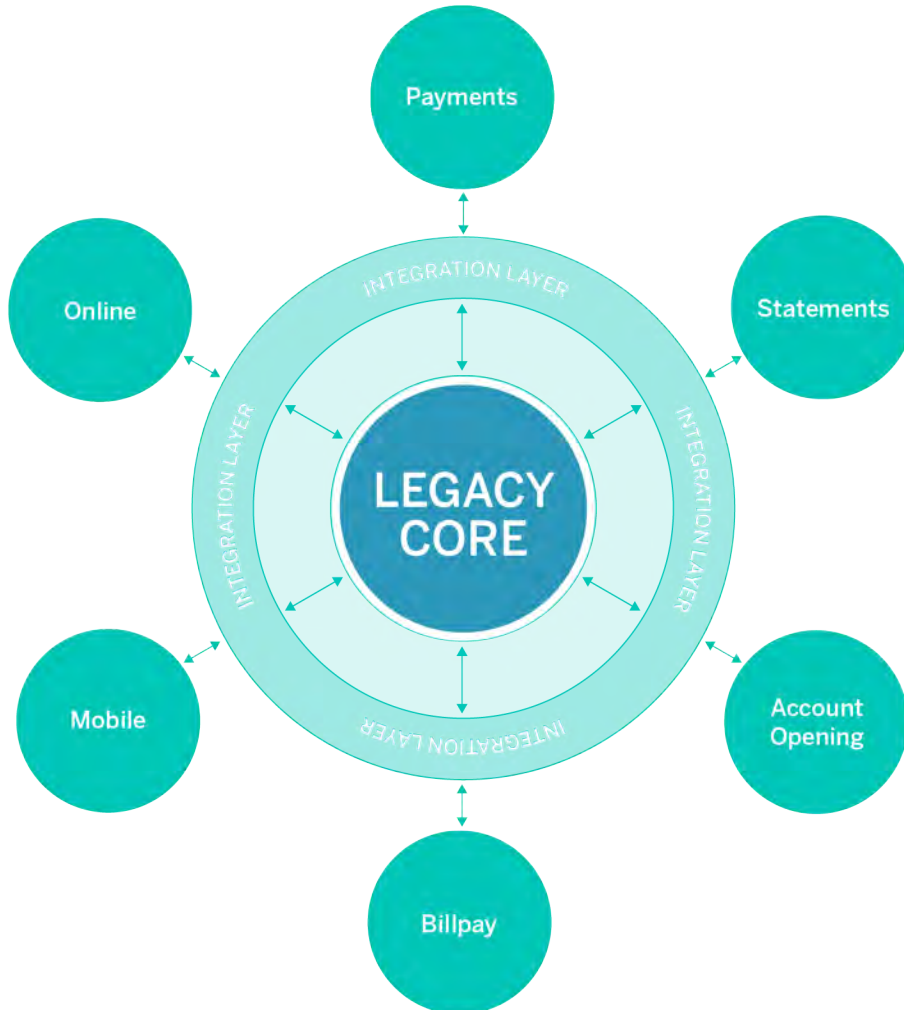
Integration Layer key to migrating technology

- Integration layer (i.e. "middleware") allows third party applications to communicate bidirectionally with youyr core bank account / transaction / CRM

- Larger FI's have built their own; Smaller FI's have a number of 3rd party options

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Begin Migrating Peripheral Technology Functions to Better, Cheaper Alternatives
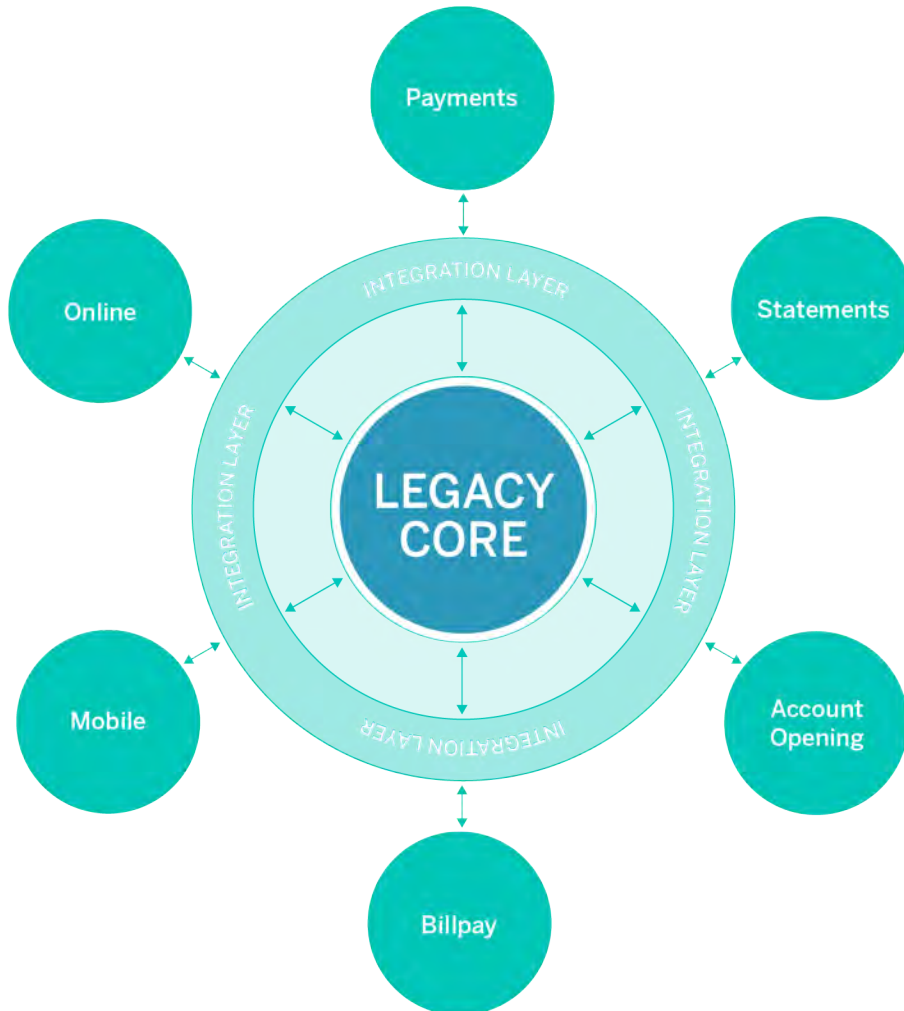
The "Federated" Model

- Methodically identify, "sandbox" (test) and deploy better 3rd party party technologies

- You now have a basic, stripped down core at the center that serves as account ledger

- This approach will cost more $$ initially – hence the importance of getting ROI from data / automation efforts

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Migrate From Expensive, Old Core to Inexpensive, Modern Flexible Core

- Eliminate "integration layer" and migrate from the old legacy core to a much cheaper, new cloud-based core

- Provides seamless integration into all apps via API

- Can reduces core costs by as much as 60%

- Far less risky than a traditional "rip/replace" conversion because:

  - Customer facing "peripherals" have already been tested / deployed

  - Data mapping was done way back in the data platform stage

  - New core runs in parallel and tested before switch

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Thank You!

For more information, please visit Neocova.com, or contact us at contact@neocova.com

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