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TOP TEN TRENDS

IMPACTING BANK TECHNOLOGY FOR 2019

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Somewhere slightly before or after the close of our second decade, we reach a momentous milestone – childhood's end. We have left a safe place and can't go home again. We have moved into a world where life isn't fair, where life is rarely what it should be.

- Judith Viorst

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In their book, "The End-Of-Decade Effect," Hal Hershfield and Adam Alter noted that when people face the end of a personal decade, "they feel older, search for more meaning, and act out in productive or counter-productive ways." As we reach the close of our second decade of this century, many technologies and tech companies, regardless of age, face the same milestone we do as 19-year olds…they are maturing to the point where they must stand on their own as self-funding and independent entities, high performers in a meritocracy where there is true demand for their products and services, and success is earned and not given.

We often forget that innovation and consumer adoption of new technology can take time. Rare is the overnight success. Even rarer is the technology that lives more than one decade.

Businesses must have staying power…more eternal flame than Roman candle. Reflecting on the past two decades and looking ahead to 2019, I offer the following predictions for bankers looking to blaze new trails:

PREDICTION #1

Apple Begins a Slow Decline as Their Decade of Dominance Ends

Apple has lost its mojo, plain and simple. Any company that depends largely on the sales of one device (i.e., iPhone) leads a fragile existence. Apple's amazing run is over. Wipe up the coffee you just spit across the room upon reading this prediction and consider the following indicators.

Long touted as a secure platform, Apple began 2019 with an ad on the Las Vegas strip that boasted, "what happens on your iPhone stays on your iPhone." Two weeks later, an Arizona 14-year old discovered the FaceTime bug that allowed people to eavesdrop via the video chatting software, sending Apple security teams scrambling to disable Group FaceTime and begin working on a fix.

Who talks on a smartphone? Certainly not your kids. The iPhone has also lost its luster as a vanity play. There are a number of smartphones that match or surpass its design. Personally, I'm opting for the Google Pixel 3 after over 10 years as a loyal iPhone user.

Apple stock closed October 3, 2018 at $232.07 and began a year-end plunge to close at $142.19 on January 3, 2019, an over 38% decline.

Apple Pay didn't catch on as well as many of us thought it would. According to pymnts.com, since October 2015, the percentage of smartphone users who have Apple Pay only used it between 1.8% to 3.0% of the time when making a purchase in a store that accepted Apple Pay. Such weak usage does not bode well for Apple. Conversely, the Starbuck's app feature, Mobile Order and Pay, accounted for 12% of Starbuck's transactions. Starbucks touts that mobile payments now account for 30% of its transactions and continues to increase each quarter (Source: GeekWire). Starbucks continues to outpace Apple Pay in number of U.S. in-store mobile payment users.

You really should stop torturing your branch personnel to open new accounts using an iPad. Give them a Microsoft Surface Pro so they can do real work and be truly productive. iPads are excellent for watching Netflix; not so great for banking. In late 2018, Apple announced that it will no longer provide unit-sales data for its iPhone, iPad, and Mac segments, a development that has spooked some investors and could foreshadow declining sales. Since peaking in 1Q14, iPad sales have been on a steady decline for years with the occasional holiday bump.

Many, including me, have found the Apple Watch a heavy, hot, value-lacking, battery-draining hunk of wristwear we can do without. Apple Watch sales remain a mystery as, you guessed it, Apple does not provide unit sales numbers.

Apple iTunes, or as I referred to this app for many years as a father of three music-loving children…going bankrupt 99 cents at a time…has been disrupted by many new players, including Spotify and Amazon Prime Music in the Sawyers' household.

As Steve Jobs once said, "Well, Apple invented the PC as we know it, and then it invented the graphical user interface as we know it eight years later (with the introduction of the Mac). But then, the company had a decade in which it took a nap." With Jobs' maniacal genius gone, expect Apple to nap once again.

If you think the demise of Apple is far-fetched, consider that RIM BlackBerry was number one on Fortune's 2009 list of fast-growing companies.

CHALLENGE QUESTION

Does your bank have any tech providers that are on the decline?

PREDICTION #2

The Disruptors Get Disrupted as Fintechs Learn the Art of the Pivot

Ten years ago my Flip Camcorder was awesome but was disrupted almost overnight by improved video recording functions on smartphones. Pure Digital Technologies, one of the fastest growing companies in Silicon Valley from 2004-2009, was gone in an instant. We will see the same for many fintechs that have now had four or five years to prove their worth.

Fintechs that have failed to create a market for their applications and have been unsuccessfully wooing large banks will turn to their second choice of a date to the prom…community banks. Smart bankers will put fintechs through the wringer of due diligence and will not sign on as second-fiddle in this fintech band without some reasonable assurance that the relationship is mutually beneficial. Parasitic fintechs will be exposed and sent packing. These companies must still have a market for their applications and the leadership to succeed in a crowded market of fintechs and a shrinking market of banks.

The golden fintechs are the ones that make the least noise and might be harder for bankers to locate without a guide. These startups have solid business plans, innovative solutions, and fertile markets. Expect savvy bankers to strike out and "mine" for these fintechs who offer true value and friendly, collaborative disruption.

> **CHALLENGE QUESTION**
>
> ***Has your bank been contacted by former fintech flops who are now dusting off their pitch and courting community bankers?***

PREDICTION #3

The Outsourced/In-House Hybrid Takes Hold

The myth that banks must be 100% outsourced or 100% in-house will be debunked in 2019. As some banks have now had a few years (plus invoices and performance) to measure the benefits of outsourcing arrangements, some are learning that outsourcing is not, and should not be, an all-or-none proposition.

Almost every community bank has been outsourced in terms of core banking system programming for decades. A Fiserv Premier bank outsourced its programming to Lincoln, Nebraska. A Jack Henry Silverlake bank outsourced its programming to Monett, Missouri, and so on. That is true outsourcing, transferring the expense of highly paid, bank-employed programmers to a central provider with specialized skill sets.

What most refer to as "outsourcing" today is simply moving the core hardware platform to a different physical space at the data center of the core provider. The core banking system outsourcing trend will reverse as bankers realize that the core hardware platform is just another server. Where it is physically located does not significantly change the labor requirements of running the software applications or mitigate the risk of a disaster taking down the system. If the power is off and/or the bank's network is down, the core is down also, regardless of an in-house or outsourced environment. Nightly updates are quick events thanks to the processing power of today's systems.

Still, intelligent bankers understand that some applications are better distributed via the cloud (e.g., mobile banking and email) while others are better housed locally where network performance, employee productivity, and faster customer service are required.

Bankers will reinvest record earnings into their banks' infrastructures as new operations centers are built to provide jobs and opportunities to the people of the communities these banks serve.

Expect bankers to step back and review each component of their tech environments to determine which is best managed in-house. Outsourcing is not always a competitive advantage. Homogenization of services is not a differentiator. Homogenization is good for milk. Banks? Not so much.

> **CHALLENGE QUESTION**
>
> ***Has your bank done its due diligence, application by application, and business function by business function, to determine the best environment for each?***

PREDICTION #4

Network Infrastructures Get Re-Designed for 2020

Many banks have networks designed in the 1990s that are not taking advantage of recent developments in technology. Advances in network administration tools, lower cost computers, cheaper bandwidth, and inexpensive disk space have awakened bankers to the fact that an outsourced network is not necessarily a higher-performing or less costly network.

The lie of the thin-client environment benefits disguised as the promise of better security and less administration will be exposed. Frustrated bank employees, especially power users, will demand full PCs and the local processing power they bring. Many bankers, sold on outsourcing the bank's network to a Managed Services Provider (MSP), have now learned that this model is typically better for the MSP than the bank. Employee productivity, customer service responsiveness, and network performance have suffered at banks that were sold on ceding their most valuable computing tools to the mother ship of an outside organization that is often working with more non-banks than banks.

Facing Windows 7 End-of-Life, demands from mobile users, and the quest for self-sufficiency in disaster recovery, bankers will call for a fresh look at aging network infrastructures and will require more hustle from their IT staff.

The productivity of the bank's entire workforce and the customer experience will trump a few less steps by the bank's network administrator.

> CHALLENGE QUESTION
>
> ***Is your network performing at optimal levels or does it need a serious overhaul and re-design?***

PREDICTION #5

The Open Banking Invasion is Repelled in the U.S.

Open banking is a solution without a market need. Consumers are not demanding open banking nor is this a concept that will improve bank profitability or the customer experience, in my opinion. Open banking is wanted by those who don't have consumer relationships and don't want to work for them as the bankers who have them did.

Banking relationships are based on trust. In an era of data breaches and consumer laws regarding privacy, open banking seems to fly in the face of what is wanted and required. The authorized major credit bureaus have a hard-enough time securing customers' sensitive information (see Equifax breach). Be aware of initiatives like PSD2 (Payment Services Directive) being pushed by the European Union.

Further, I have always contended that the average consumer is not that concerned with tracking his or her spending down to the penny. Name a successful PFM other than Mint. If you are reading this, you…like me…probably have the most anal-retentive friends when it comes to personal finance…the bankers, accountants, and technologists of the world. Ask them if they use PFMs. I predict you will get answers about Excel spreadsheets, brokerage firm reports, or, "I work at the bank. I see my spending on my computer screen." If one does use a PFM, it's most likely Quicken or Mint, both Intuit products. PFMs are the Teavanas of the tech world. Starbucks closed all 379 of its Teavana stores in 2018.

Which is better for the consumer? Competition or monopolistic consolidation? "The United Bank of Intuit" or "First National Bank of Amazon" might not be the best thing for consumer choice or healthy competition. The potential for a "Peoples Bank of Alibaba (China)" should make American bankers tread cautiously.

The term "socially inclusive banking" smacks of socialism and borders on communism. The United States of America is not Europe. Bankers, the trusted stewards of their customers' data, would be well served to remember that when approached by the open banking crowd wanting free access to hard-earned customer relationships and confidential information. Is Zelle the camel's nose under the tent and open banking in disguise, allowing a large bank consortium to mine customer transaction data? Time will tell.

CHALLENGE QUESTION

Does your bank view the concept of open banking as an opportunity or threat?

PREDICTION #6

Cybersecurity Preparedness Gets Re-Booted as Lessons are Learned and Window Dressing Falls

In the past decade, cybersecurity threats have come on fast, leaving bankers scrambling to shore up their defenses and mitigate the risk of a cybersecurity incident. In their haste, many bankers have created large but flimsy barricades that give the appearance of fortifications but are not effective when tested.

Further fueling the façade, executive management often deputizes IT staff to become overnight cybersecurity experts, an unrealistic expectation resulting in bank IT employees re-directed from helping employees and customers, and instead being paid to stare at screens with little education or experience on how to assimilate the flood of data and turn it into actionable, useful information to mitigate cybersecurity risk and to identify incidents-in-progress. This illusion of security comes crashing down when a sophisticated hack at 3:00 a.m. goes undetected and intruders remain on the network for months gathering intelligence that results in a major financial loss to the bank.

Smart bankers will remove this impossible task from their people and engage cybersecurity experts to assess their current state of cybersecurity preparedness and re-model the defenses to provide true security on a 24/7 basis, not just window dressing.

CHALLENGE QUESTION

Is your bank's cybersecurity preparedness an illusion of voluminous policies, excessive phishing testing, and flashy screens, or a reality that is tested frequently by independent experts?

PREDICTION #7

Bankers Serve Up All-One-Can-Eat Digital Services Buffets

Because of the evolution of digital services and the archaic pricing structures by many providers, some bankers ration digital services and spoon out the applications on an a' la carte basis to customers. It's time for an all-one-can-eat digital buffet. Bankers should push for one price for all services (e.g., mobile banking, P2P, PC banking, telephone banking, mobile deposit, bill pay) and finally let customers have a truly digital experience on the channel of their choice, anytime.

Digital marketing ramps up as bankers tell their stories and establish their brand, positioning the bank in the mind of the consumer using a multi-channel approach while realizing the new channels do not necessarily supplant, but instead complement, existing channels.

CHALLENGE QUESTION

What is your digital services strategy and is it realistic given your technology, people, and processes?

PREDICTION #8

Payments Industry Consolidation Shakes Up Traditional Approaches and Conventional Wisdom

In a shrinking market of banks, technology services providers realize that growth opportunities exist in markets that are consumer-driven, not bank-driven, hence the recent acquisitions (see Fiserv's acquisitions of U.S. Bank's Elan debit card processing division and First Data). By riding the wave of increasing digital payments, these providers can continue their growth. Core providers will flex their considerable muscle in terms of capital and continue to acquire payments providers and those who are improving the customer experience in payments, making 2019 a watershed year in terms of payments innovations.

Expect Zelle to fail to gain critical mass, especially with community banks. The large majority of the so-called "participating banks" and "partners" noted on the Zelle website will continue to sit on the sidelines and will remain as "coming soon" just as they are now when one clicks the bank name. Feel free to check me on this. Currently, of the 182 "partner" banks listed on the Zelle site, 115 are not truly offering the service and are "coming soon." In my opinion, it's a misleading practice to list these banks when 63% do not yet offer the service. My bank has been "coming soon" for over two years.

Fraud concerns and customer service woes will further hamstring Zelle adoption. Regardless of the promotional hype from core providers and the mainstream banking media, one must listen to the reviews of the consumer as noted by the current 2.9 Zelle app rating on Google Play. An app rating below 4.0 is troublesome. An app rating below 3.0 is the walking dead. Bankers who do true due diligence will decide to push their core and debit card processors to offer an alternative P2P payment solution that can travel the ACH (fast and free) or the debit card (faster with a fee) rails.

As predicted last year (Cryptocurrency Mania Gives Way to Sobering Reality), Bitcoin plummeted from $19,870.62 in December 2017 to $3,169.53 one year later. In 2019, some cryptocurrency exchanges will be exposed as high-tech Ponzi schemes, further deteriorating what little trust is left in this volatile asset class which is not a currency in my book. When Amazon accepts Bitcoin, I might change my mind.

CHALLENGE QUESTION

What payment solutions will your bank implement in 2019 and has the proper, documented due diligence been performed on the providers?

PREDICTION #9

Consumers Push Back on Data Sharing

Still stinging from the Facebook-Cambridge Analytica data scandal that harvested personal data without consent, in 2019 consumers will fight back on data-sharing ventures, no matter how they are packaged and promoted. People now better understand the nuances of personal data protection and realize the most popular social media platforms exist primarily to make people click on ads, not just to showcase one's cat videos.

Unfortunately, the average person is not necessarily a rational consumer. Some still give up confidential and personal information willingly on social media in manipulative tests or contests (e.g., the 10-year aging challenge which might be gathering data to train facial recognition algorithms), yet worry about a bank account number in an email. Newsflash! That account number is on the checks some of you still write and hand over to the cashier at the Piggly Wiggly.

These breaches of trust will harden a more skeptical public and make them more unwilling to trust data aggregators, including bankers' efforts to sell account aggregation applications. Account aggregation died in the early part of this century, was resurrected, and will surely die again in 2019.

CHALLENGE QUESTION

Is account aggregation part of your bank's tech strategy?

PREDICTION #10

Bankers Require Proof of Provider Performance

Bankers, inundated with marketing pitches from struggling providers trying to survive in a shrinking market, will require proof that the sales pitch lines up with provider performance.

Dubious consulting services concepts such as "Virtual ISOs" and "Virtual CIOs" are outed as the artificial sweeteners of the tech world, more marketing than substance and inferior to the real thing. Intelligent bankers will "coach up" their employees to handle these important roles.

Vendor management systems that require constant feeding but provide little value will be scrapped for more sophisticated and intelligent approaches. The average community bank has an easily manageable number of critical vendors. Any bank risk-rating every vendor in its accounts payable system (including banking schools, state associations, and charitable organizations) should stop this time-wasting practice and revisit its vendor management program to bring some sanity to this inefficient process. True vendor management will be recognized as more than dumping scanned contracts into a glorified tickler system. To properly assess and manage vendor risk, new models will emerge that offer practical and affordable approaches.

Cyber preparedness is not excessive phishing testing which has become a productivity killer in banks and an annoyance that should be applied judiciously and for the purpose of educating employees, not naming and shaming them.

Smart bankers require their IT people and consultants to show documentation of due diligence, not just talk or empty rhetoric. Banks' boards of directors will get more involved in such decisions as the strategic importance of such decisions is now realized. In a recent case, a misguided CEO, hired to help a troubled bank, inexplicably signed a 10-year contract with the bank's core processor, effectively creating a poison pill in the form of contractual liquidated damages for this bank that was hoping to get in shape to sell.

CHALLENGE QUESTION

Is your vendor management program a waste of time or an important monitor of the bank's critical technology services provider relationships?

SUMMARY

An old Chinese proverb by Guan Zhong advises, "The best investment for one year is to grow grains; the best investment for ten years is to grow trees; the best investment for a lifetime is to educate people. What you gain from one year's growth will be grains; what you gain from ten years' growth will be trees; what you gain from a hundred years' growth will be people." For your bank to succeed in the future, focus inward on your unique competitive advantages as you educate and develop your people, update business processes to be more customer-friendly, and deploy technology strategically to support the risk-reward proposition that is the foundation of banking.

May your 2019 be full of new adventures that bring wisdom and shape your bank for an age of discovery and monumental accomplishment.

Jimmy Sawyers is Co-Founder and Chairman of Sawyers & Jacobs LLC, and is one of the most independent and informed voices in the industry. Leaders in Innovation-Risk Management-Cybersecurity-Technology through the firm's four brands.

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