

# Crossroads: Banking and Fintech Financial Technology Conference

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# Welcoming Remarks



# Tweet About Today

- #xroadsconf

# Audience Polling Instructions

- Visit the website [slido.com](https://www.slido.com) on your mobile device or download the slido app
- Enter the event code: 0552

## PRACTICE POLL QUESTION:

- What type of company do you work for?
  - Bank
  - Fintech Company
  - Professional Services Firm
  - Investor
  - Other

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# The Importance of Fintech in the Banking Industry

**Jeffrey Adams, Managing Director, Banks Street Partners**  
**Jonathan Hightower, Partner, Bryan Cave LLP**

*April 21, 2016*

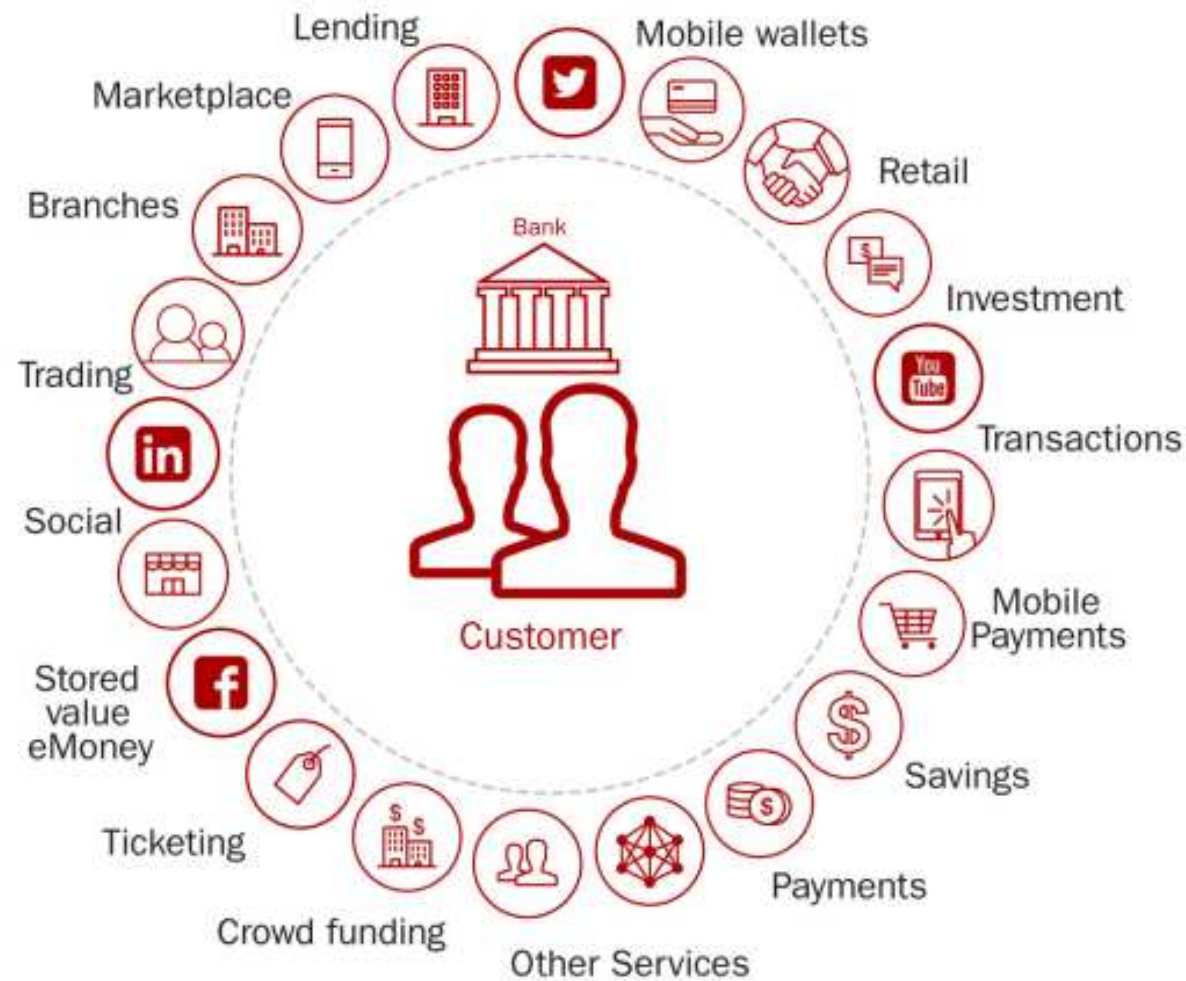


# Fintech and Banking in the News

- “Sheila Bair Goes the Fintech Route” – CNBC (4/1/16)
- “Fintech Firms are Taking on the Big Banks, but Can They Win” – NYTimes.com (4/7/16)
- “San Francisco Fed Head Sees Banks Coexisting with Fintech Startups” – SNL (4/11/16)
- “Banks’ Business Customers are Also Clamoring For Fintech Solutions – Are You Ready?” – CheckAlt (4/12/16)
- “Fintech is Hot, But the Demise of Traditional Banking Has Been Greatly Exaggerated” – Forbes (4/13/16)



# Fintech Solutions Across the Financial Services Spectrum





# Blurred Lines – Banking and Fintech



# The Basics

- Charles Brady, co-founder of Invesco: the aggregation of financial assets, in whatever form, is the ultimate driver of value
- The goal is to be a go-to provider of financial services for a given market: how do we do it?
- Market conditions demand a look at fintech and other creative delivery channels and processes

# AUDIENCE POLL

What is the top industry force that drives the need for banks to explore fintech partnerships?

- A. Burdensome regulatory environment
- B. Desire to drive operating efficiencies
- C. Desire to expand geographically without building branches
- D. Customer preferences

# Trend 1: Regulatory Environment Demands Efficiency

- Since the financial crisis, new legal and regulatory demands make almost all products more time consuming and expensive, from mortgage loans to commercial construction loans.
- This burden ties up a bank's resources so that they cannot be deployed into expensive business acquisition strategies such as new branches.
- Banks have to find ways to free up resources to be able to expand.

## Trend 2: 24/7 Presence with Customers

- Whether generational or a broader trend, customers want immediate responses at times convenient for them.
- No longer satisfied with a webpage or app that directs them to call a toll free number or come in to visit a branch.
- While the physical branch is still important, a delivery channel that provides constant access is critical.

# Where do these concepts merge?

- If banks need more efficient processes and customers want more immediate access, a virtual delivery channel makes the most sense.
- However, not just any web presence or app will do.
- Look no further than Regions Bank's recent partnership with Avant to see that banks are recognizing the need to optimize their delivery of services to compete with fintech providers.



# Regulatory Recognition of the Trend

- Regulators are attempting to address the emergence of fintech in banking without stifling innovation.
- On March 31, 2016, the OCC released a white paper with its proposed framework for “responsible innovation,” as the OCC positions itself as a fintech-friendly regulator.
- The FDIC published an article in its Winter 2015 Supervisory Insights stressing the various risks for banks in partnering with marketplace lenders.

# Where does that leave us?

- Banks of all sizes should look for methods to increase visibility and accessibility to customers to capture market share.
- At the same time, finding the most efficient processes for operating is essential in today's environment.
- Examining fintech partnerships that fit within or complement the bank's business strategy is only logical.
- Regulators and industry observers recognize the evolution.

# But proceed with caution...

- Regulators are curious and cautious when it comes to fintech partnerships.
- The regulatory environments for banks and fintech companies are merging, and each firm should focus on compliance for the benefit of the partnership.
- There is a path to a successful partnership, but it requires attention to detail by each party to achieve the desired business outcomes and manage the regulatory risks.

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Investing Experience  
To Transform Financial Services

# State of the Fintech Market

Crossroads: Banking and Fintech  
Financial Technology Conference

April 2016

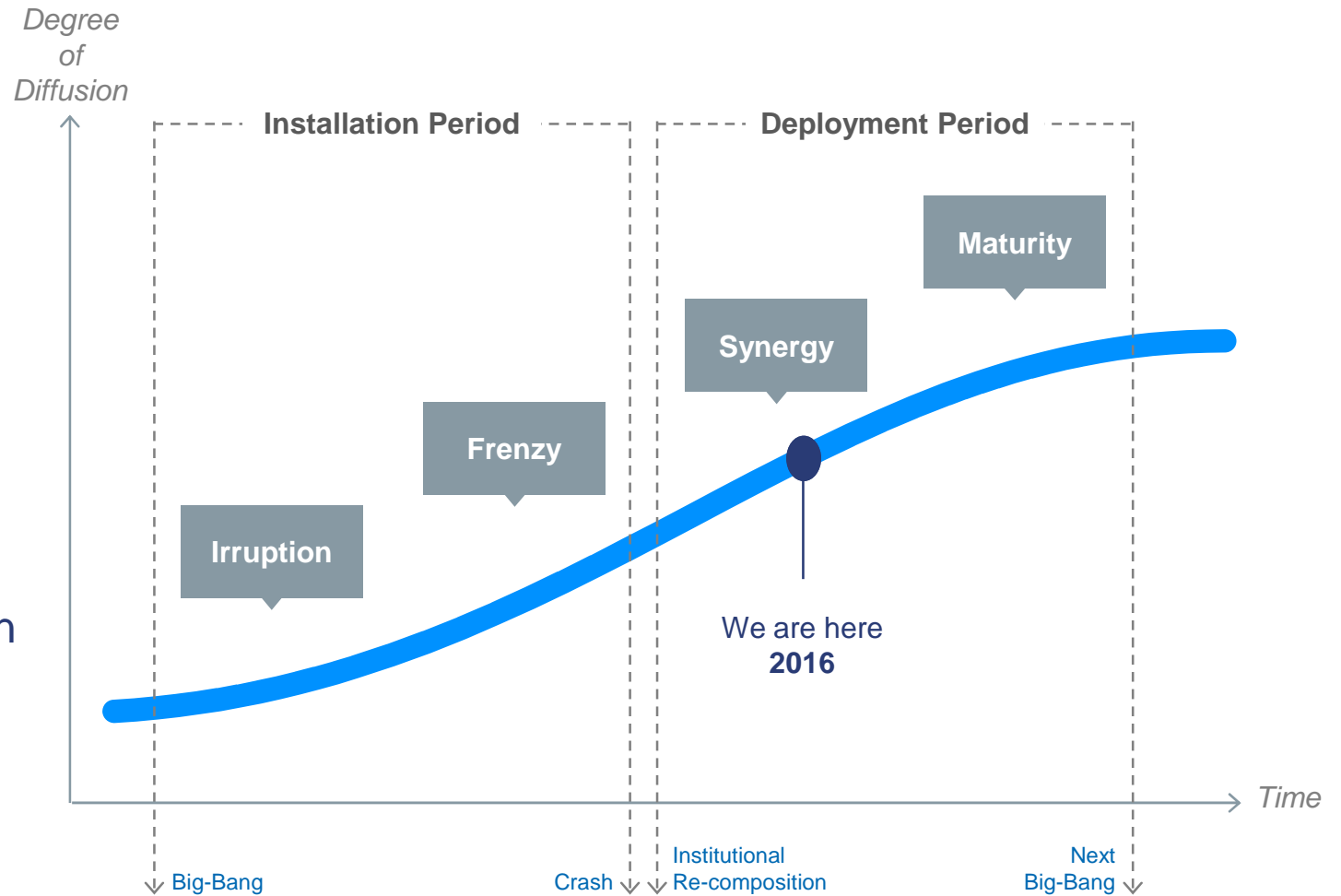


# Evolution of Technology

## 5 Periods in Last 300 Years

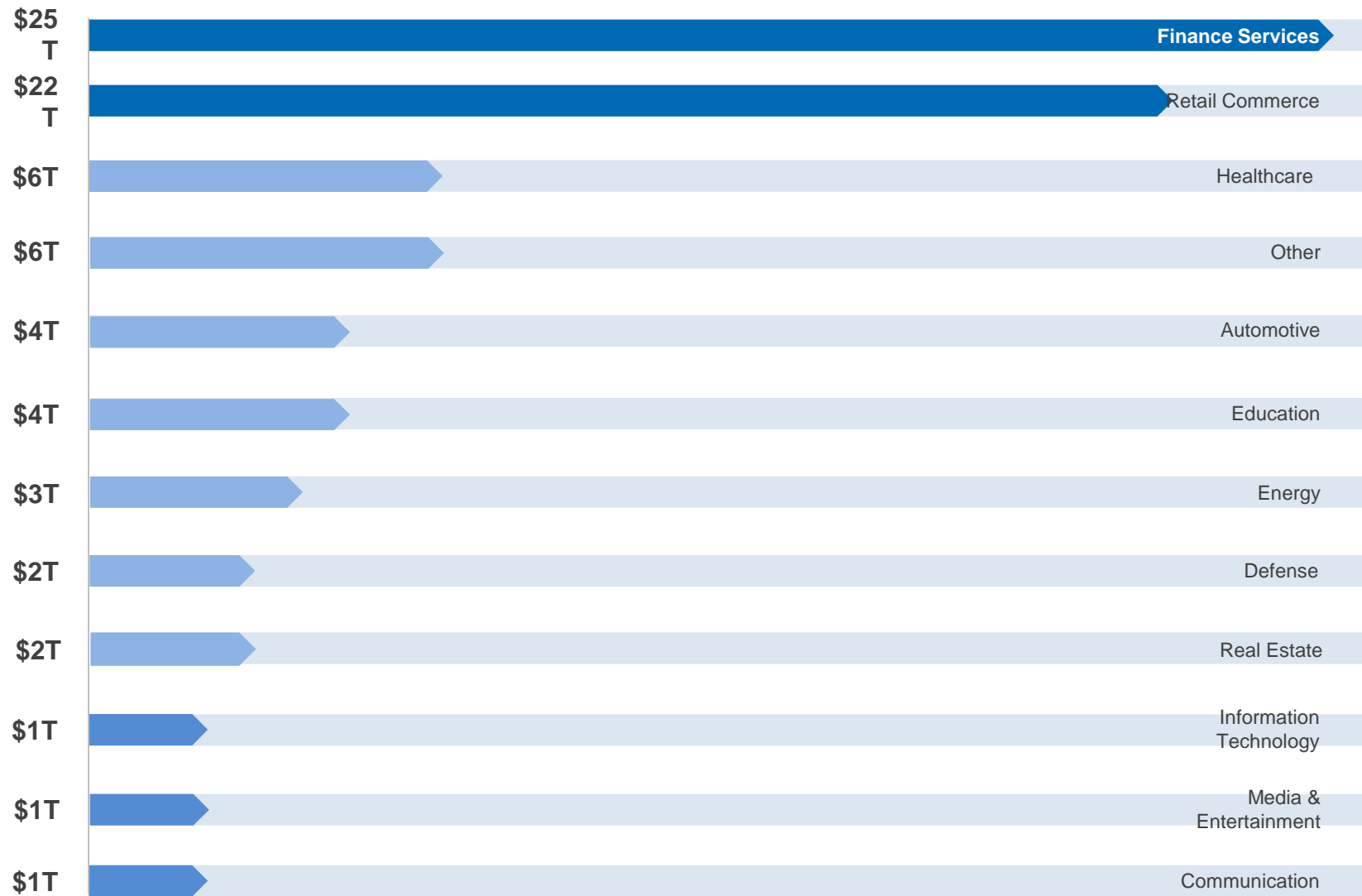


- Industrial Revolution
- Railroads
- Steel
- Transportation
- Information Technology

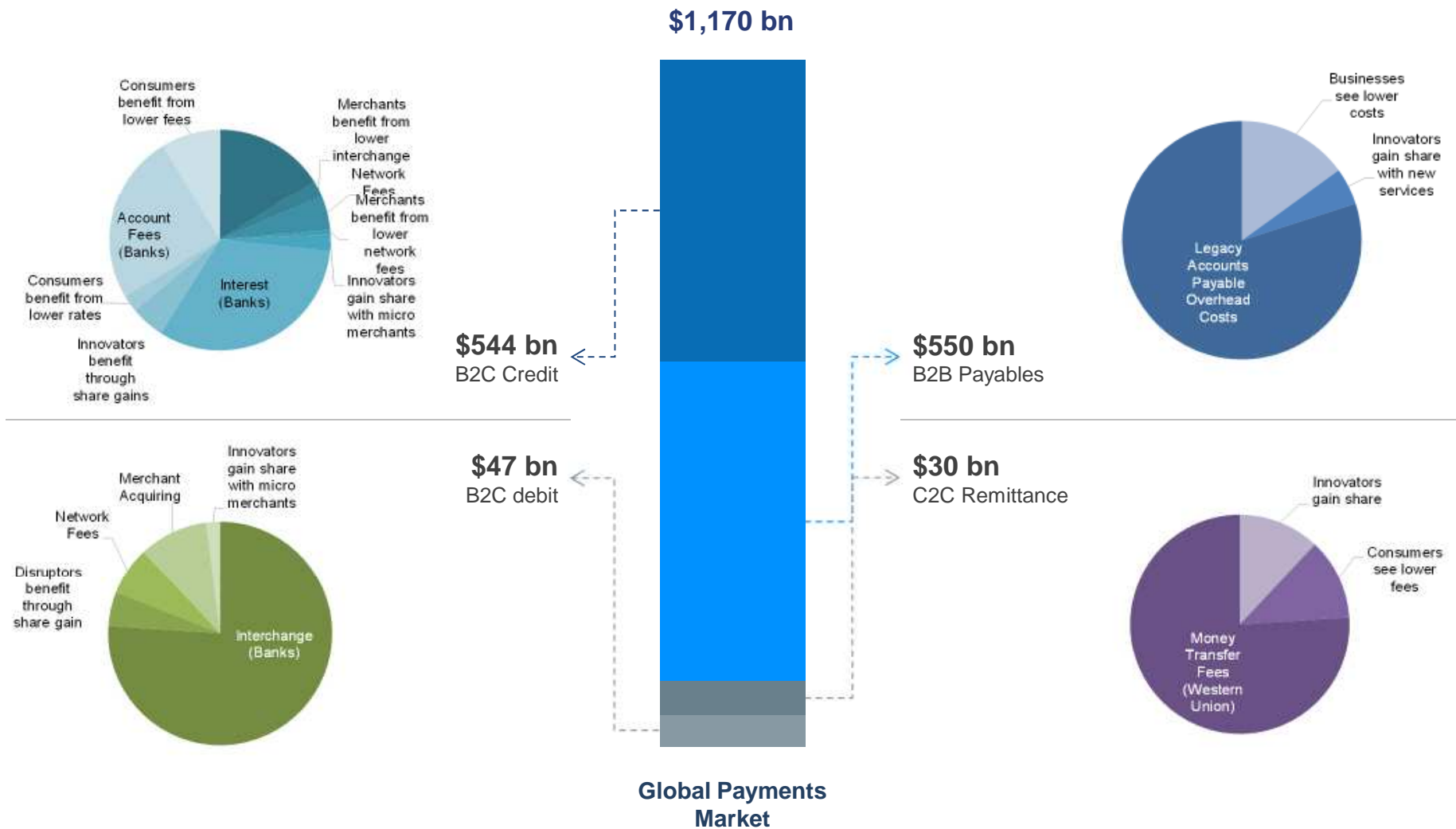




# Technology is impacting every sector (annual global GDP)



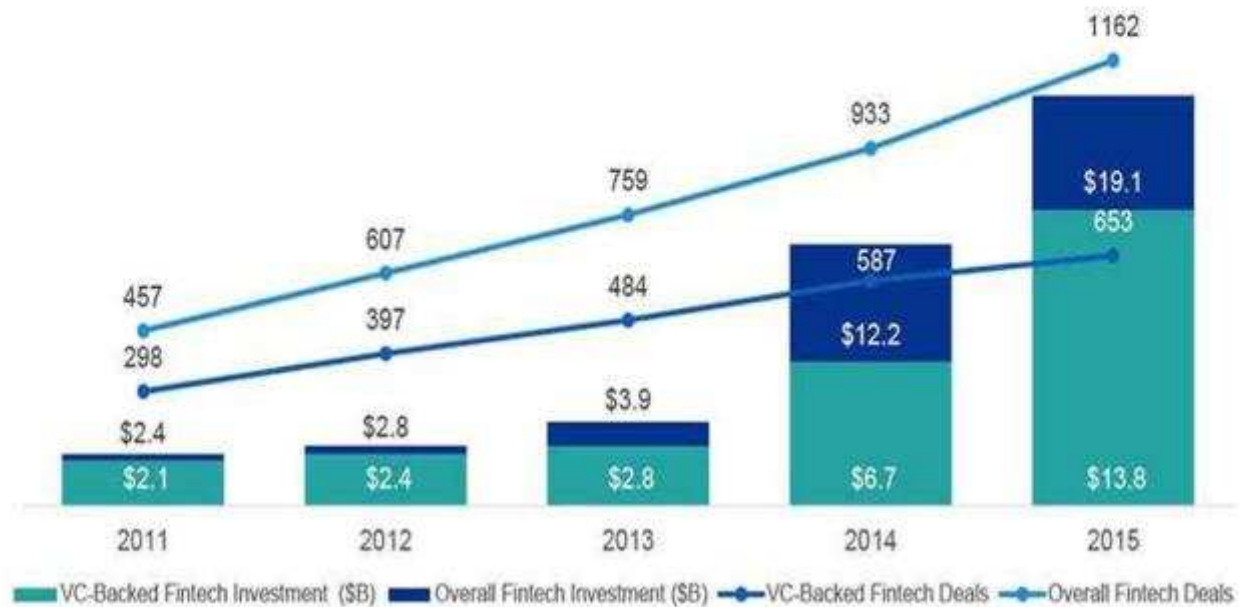
# Global financial services revenues \$4.7T annually; Payments alone \$1.2T in revenues\*



# Fintech Financing Trends

## Annual Global Fintech Financing Trend

VC-Backed Fintech Companies vs. Overall Fintech Investment\*, 2011 - 2015



'The Pulse of Fintech, 2015 in Review: Global Analysis of Fintech Venture Funding',  
 Consultancy UK based on information gathered by CB Insights.

# Unbundling Retail Banking



# How the Millennials See Financial Services

## THE MILLENNIAL DISRUPTION INDEX

scratch  
VISION MEDIA NETWORKS



71%

would rather go to the dentist than listen to what banks are saying.



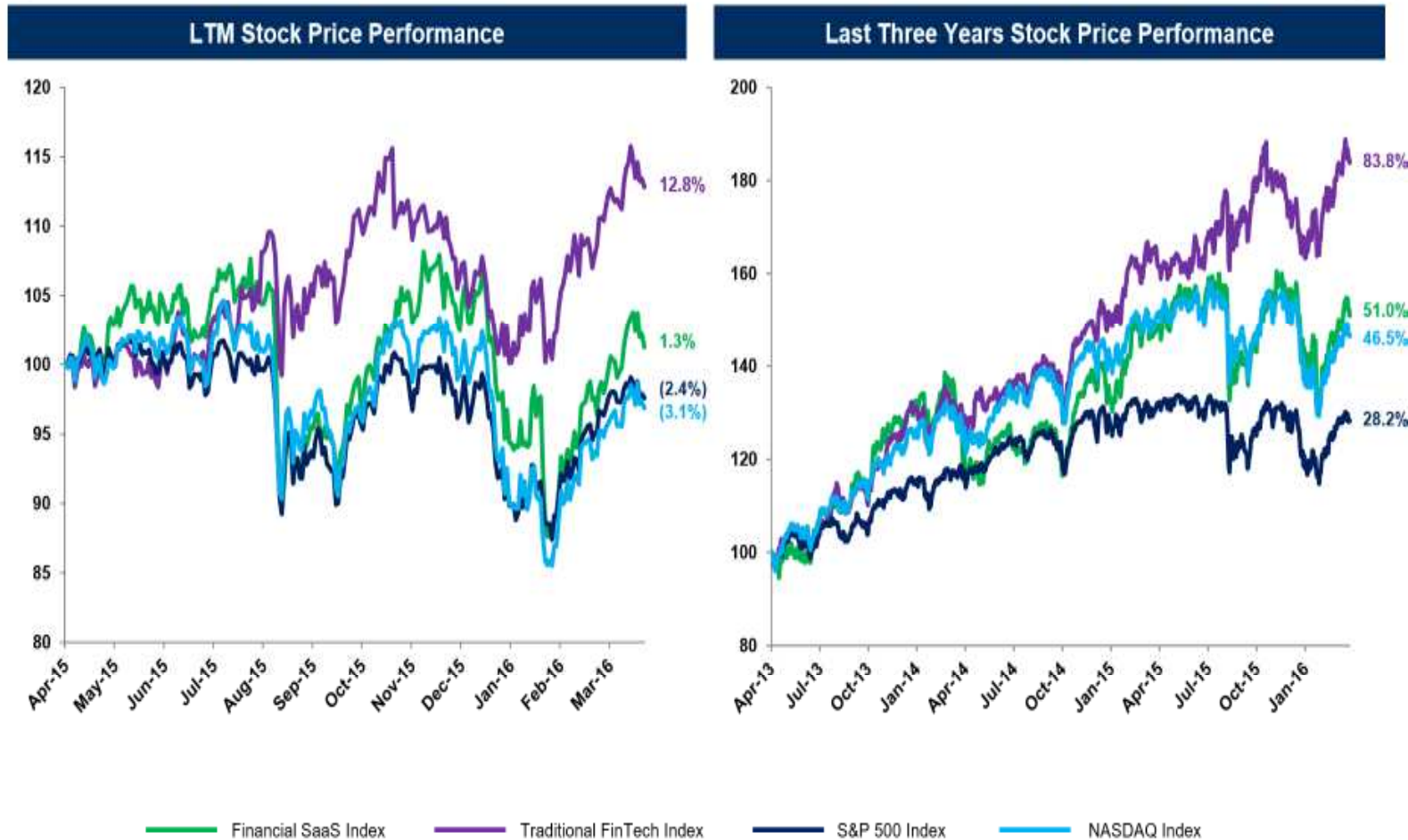
73%

would be more excited about a new offering in financial services from GOOGLE, AMAZON, APPLE, PAYPAL or SQUARE than from their own nationwide bank.

71% OF CONSUMERS SAYING THAT BANKING IS TRANSACTIONAL RATHER THAN RELATIONSHIP DRIVEN.



# Strong Public Equity Performance



Data as market close of April 11, 2016.

(1) Financial SaaS comparables include Envestnet, Financial Engines, Guidewire Software, Intuit, Paycom Software, Paylocity, Q2 Holdings, RealPage, Sage, SPS Commerce, SS&C Technologies, Ultimate Software, Veeva Systems and Xero Limited.

(2) Traditional FinTech comparables include ACI Worldwide, Bottomline Technologies, DH Corporation, FIS, Fiserv, Jack Henry and Temenos.





Investing Experience  
In Financial Technology

# Thank You !

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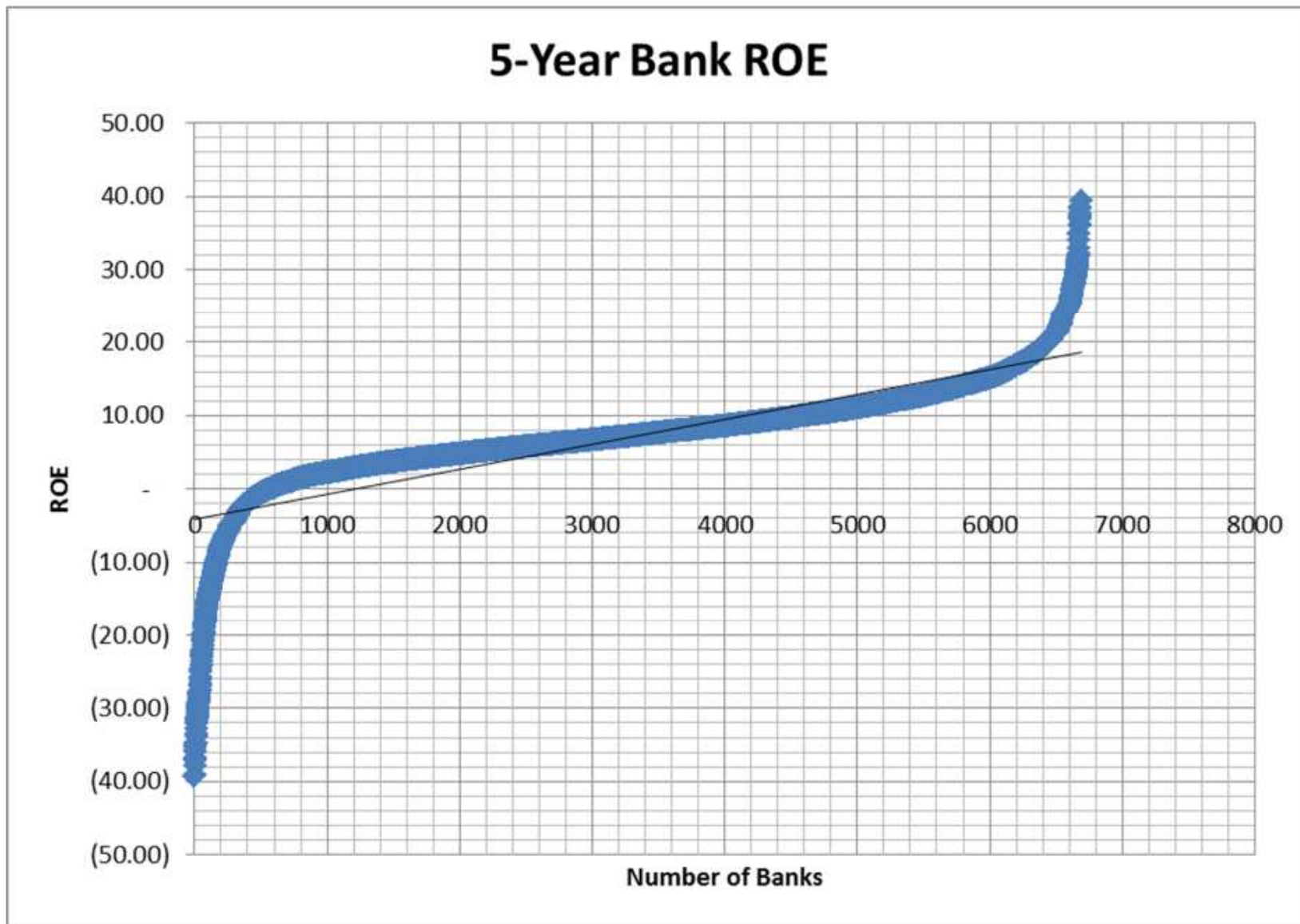
**Crossroads: Banking & Fintech Conference  
Atlanta, April 2016**



# The Art of Tug-a-War



# We All Act The Same



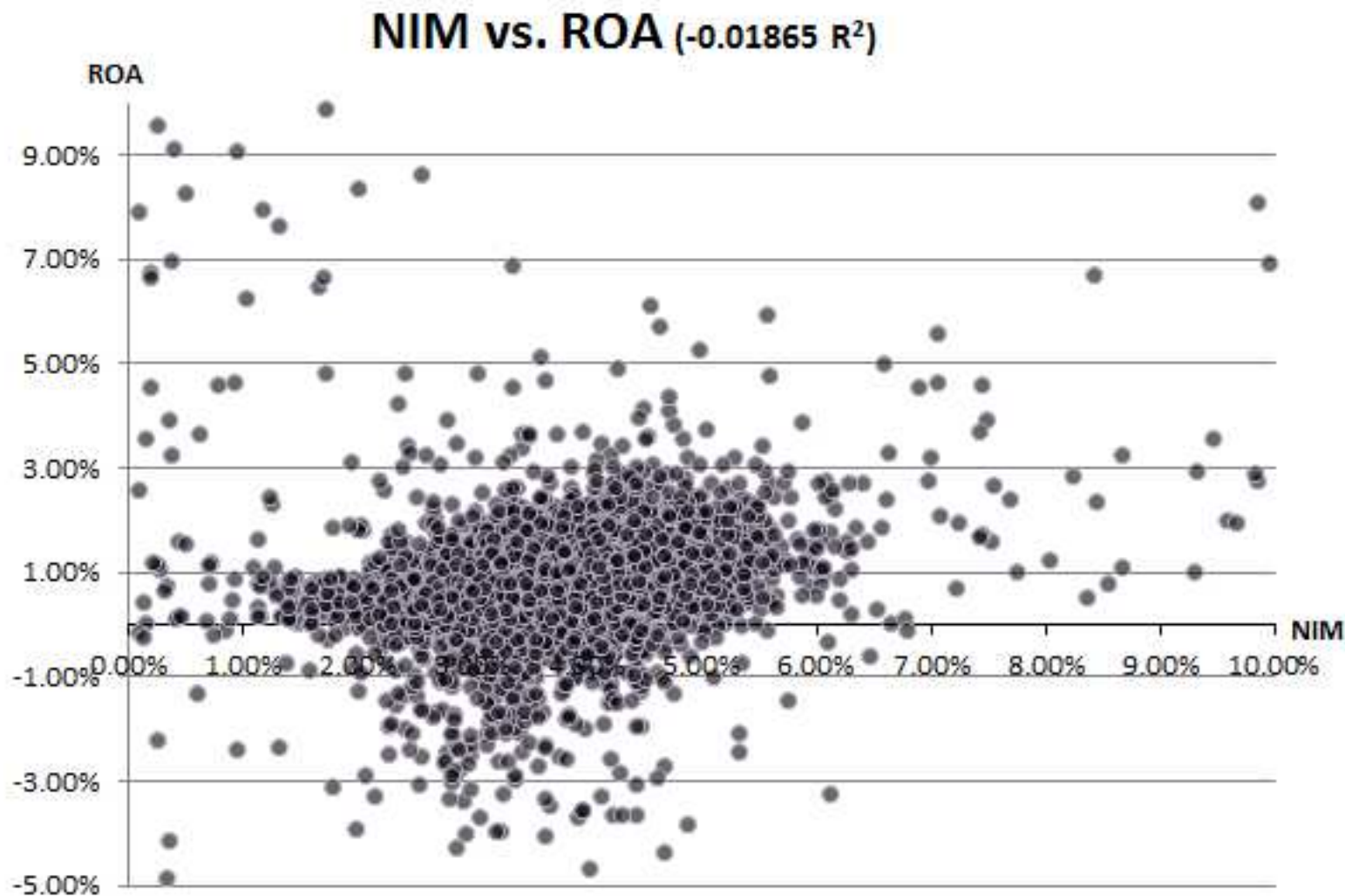


# The Data



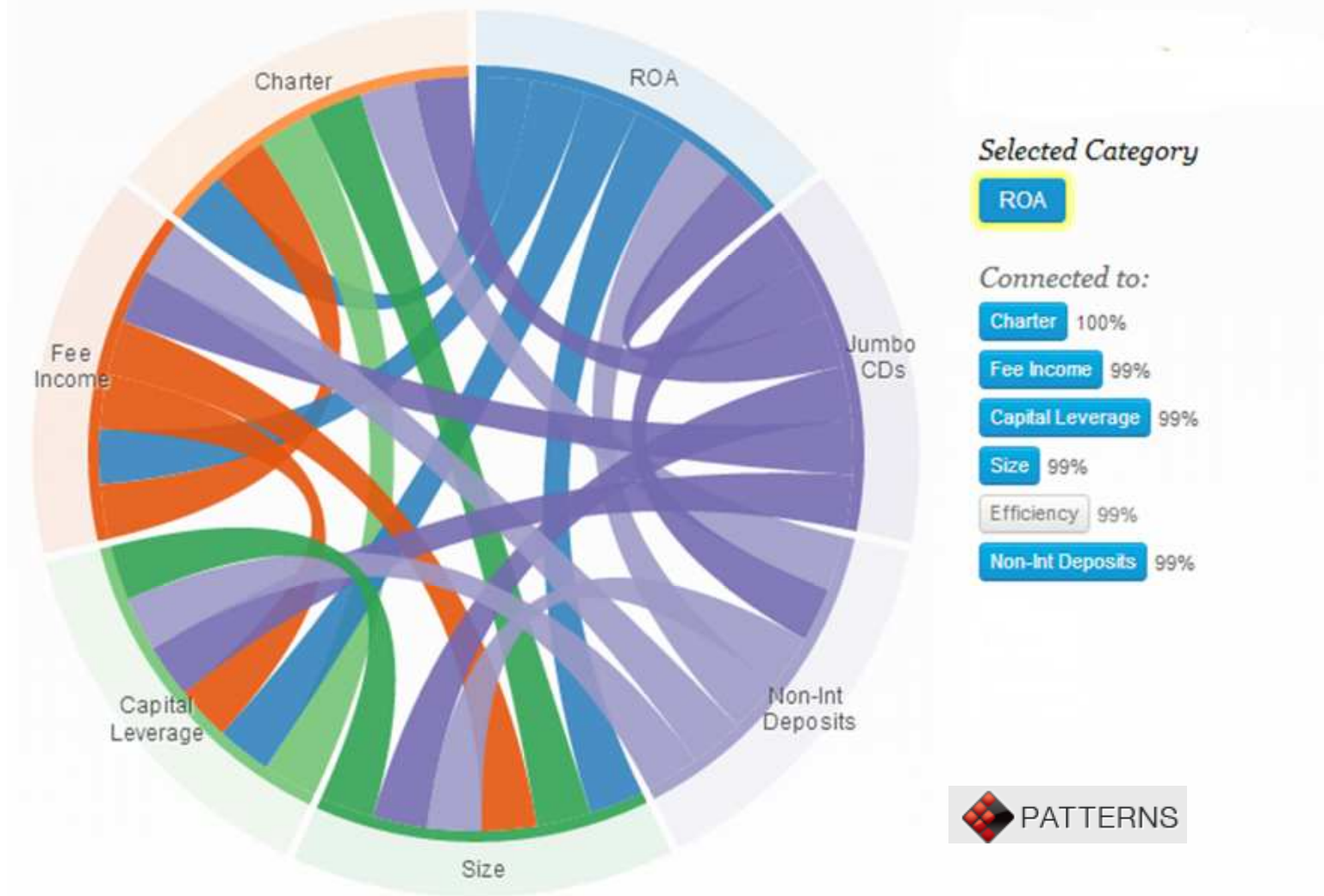


# The Fallacy Of NIM



# Drivers Of Profitability

*Cause & Effect: Reveal the Relationships Among Categories*



# Top Performing Bank



## Item Detail Superior

Superior 2 Item Clusters:

#	Items	Category	Freq	Strength ▼1	Correlation
1	<span>Extremely High</span>	Fee Income	60	<span>Strong</span>	13.9%
2	<span>Extremely Low</span>	Capital Leverage	70	<span>Strong</span>	16.2%
3	<span>High</span>	Net Interest Margin	98	<span>Strong</span>	22.7%
4	<span>Very Efficient</span>	Efficiency	246	<span>Strong</span>	57.1%
5	<span>Extremely Efficient</span>	Efficiency	44	<span>Fairly Strong</span>	10.2%
6	<span>Low</span>	Loan Problems	288	<span>Fairly Strong</span>	66.8%
7	<span>State</span>	Charter	298	<span>Fairly Strong</span>	69.1%
8	<span>Extremely High</span>	Net Interest Margin	7	<span>Fairly Strong</span>	1.6%
9	<span>Extremely High</span>	Yield On Loans	13	<span>Fairly Strong</span>	3.0%
10	<span>Very Low</span>	Transaction Accounts	60	<span>Fairly Strong</span>	13.9%

# Lagging Banks

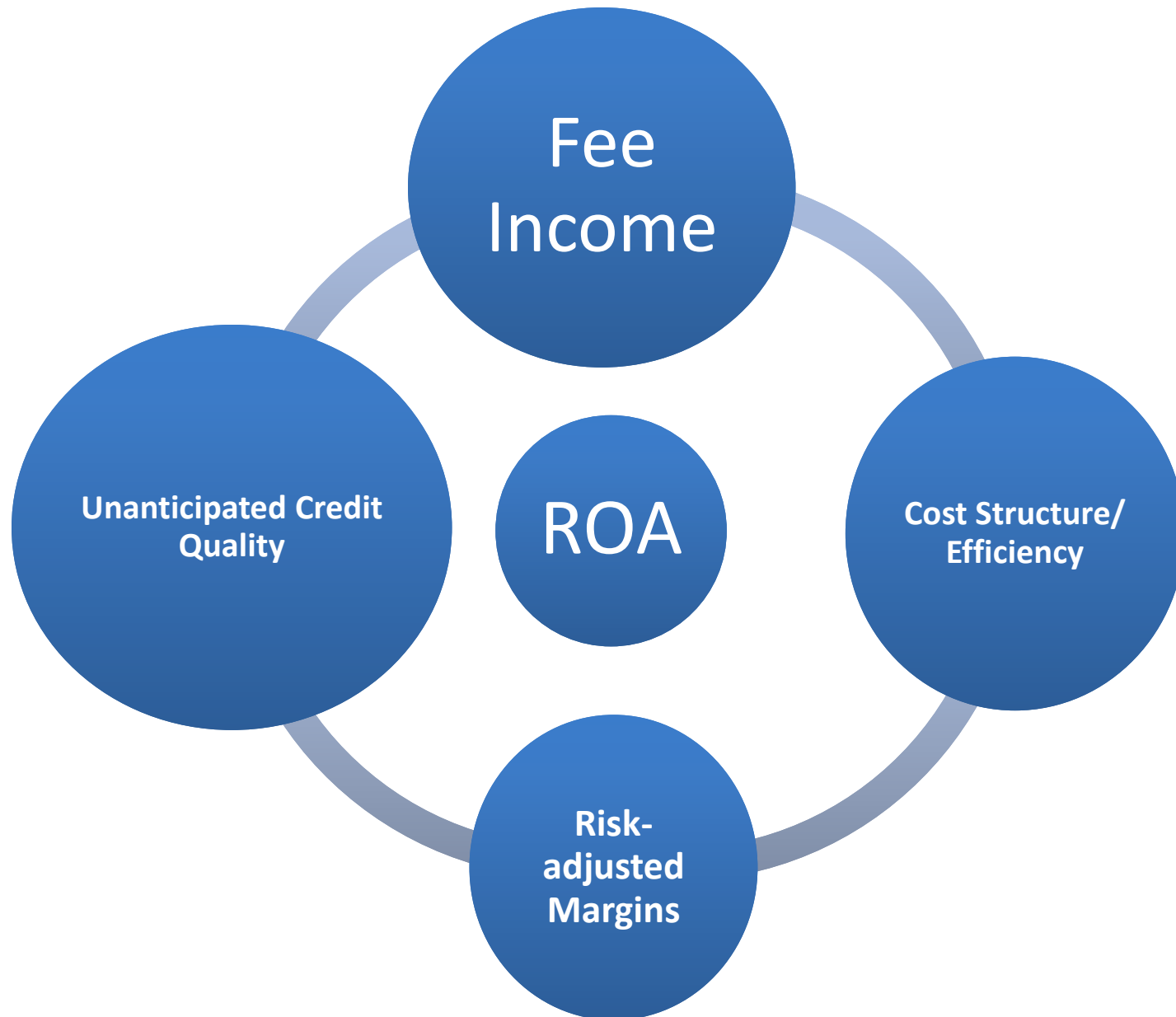
## Item Detail Poor

Poor 2 Item Clusters:

Download

#	Items	Category	Freq	Strength ▼1	Correlation
1	<span>Very Inefficient</span>	<a href="#">Efficiency</a>	221	<span>Strong</span>	34.5%
2	<span>High</span>	<a href="#">Loan Problems</a>	241	<span>Strong</span>	37.6%
3	<span>Negative</span>	<a href="#">Asset Growth</a>	325	<span>Strong</span>	50.7%
4	<span>Negative</span>	<a href="#">Loan Growth</a>	317	<span>Strong</span>	49.5%
5	<span>Negative</span>	<a href="#">Deposit Growth</a>	292	<span>Strong</span>	45.6%
6	<span>Inefficient</span>	<a href="#">Efficiency</a>	376	<span>Strong</span>	58.7%
7	<span>High</span>	<a href="#">Capital Leverage</a>	100	<span>Strong</span>	15.6%
8	<span>Very Low</span>	<a href="#">Ag/Loans</a>	415	<span>Strong</span>	64.7%
9	<span>Negative</span>	<a href="#">Fee Income</a>	103	<span>Strong</span>	16.1%
10	<span>Average</span>	<a href="#">Money Mkt Accounts</a>	428	<span>Strong</span>	66.8%

# Drivers Of Bank Performance



# Defining Innovation



Not just technology but:

- Process
- People
- Product
- Marketing, etc.

Not just customer-facing but:

- Infrastructure

What do you think is the most important ingredient for successful innovation at your bank:

1. Visionary leadership
2. Having the right culture
3. Training on how to innovate
4. Ability to collaborate with customers
5. Access to right technology partners



# Why Innovate?





## Reasons For Bank Innovation

- Cut costs
- Increase revenue
- Increase engagement
- Lengthen lifetime value / retention
- Capture imagination / leadership



# The Great Equalizer

We cannot hope to compete with a mega-bank's branch footprint, but we can compete against their innovation.



# Branch Alternative



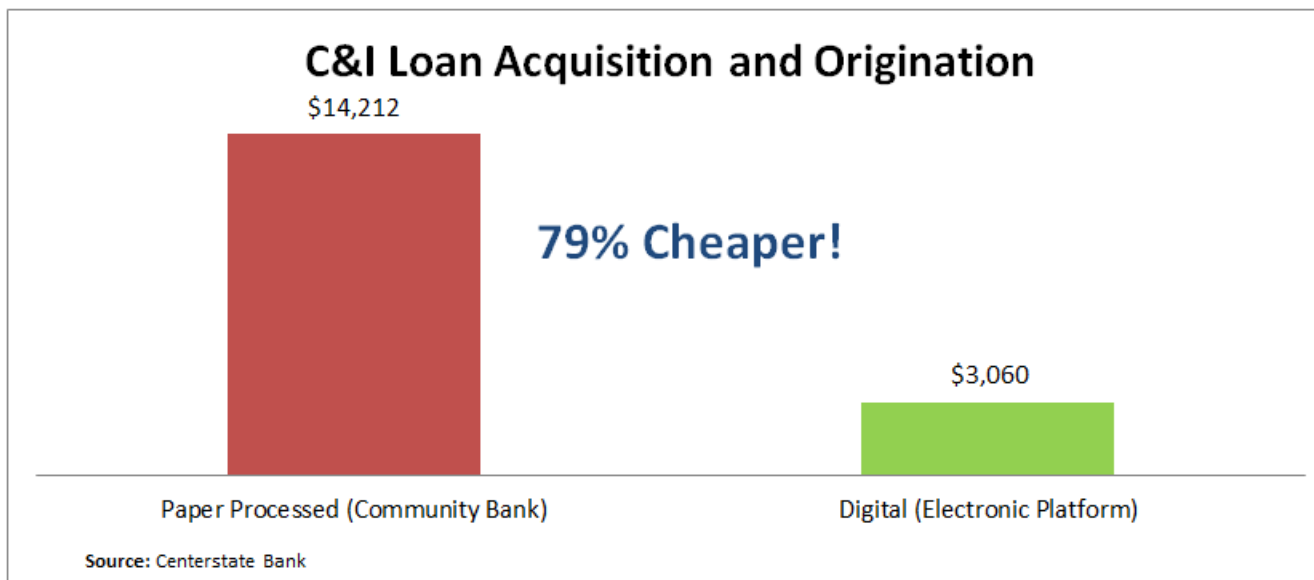
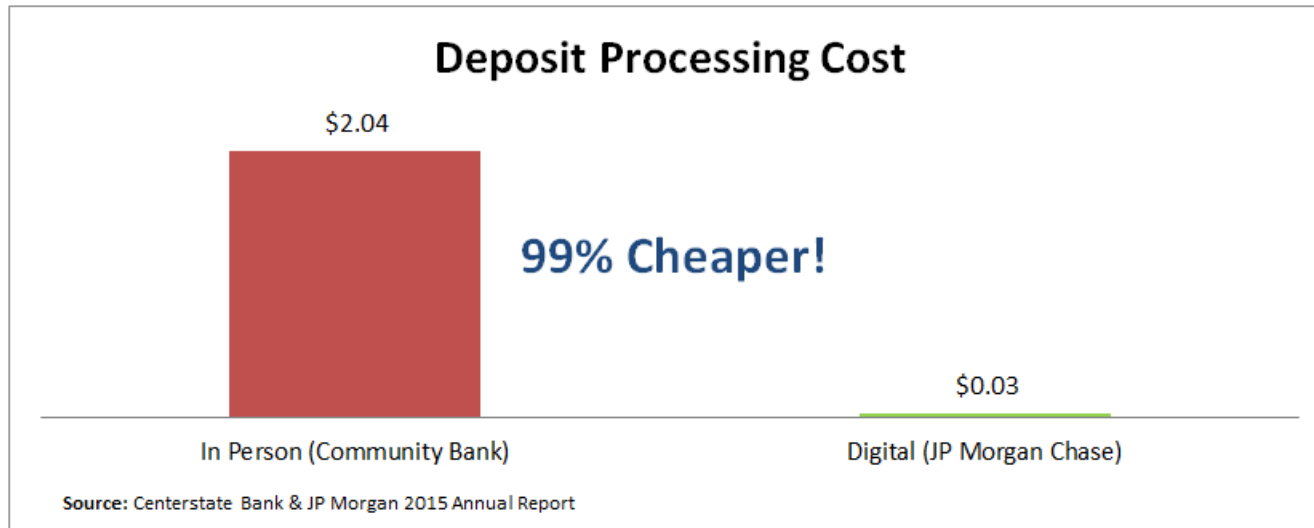
Branch	Cost
To Build (2)	\$750,000
To Maintain	\$949,000
To Serve	2,500
Cost per Customer	\$390/Yr
Engagement	24/Yr

Online / Mobile (1)	Cost
To Build (2)	\$650,000
To Maintain	\$324,000
To Serve	23,000
Cost per Customer	\$20/Yr
Engagement	122/Yr

(1) Online Mobile: Online banking, bill pay, geolocation, payment, alerts, specialty apps

(2) Depreciation: 30 years for building / 5 years for online/mobile

# It Is Now A Strategic Imperative



# It Is An Attractant

- Talent
- Customers
- Vendors
- Capital
- Press



# Some Current FinTech Initiatives



# Underlying Assumptions

1. Retail and small business banking will be largely mobile
2. Data and analysis will be a competitive advantage
3. Technology allows us to scale AND increases engagement
4. Fee income will grow in importance
5. Relationships are 4x more valuable than transactions
6. The profitability battle will be won with cash management
7. Efficiency ratio should be below 40% to be competitive





# Technology / Engagement Projects



- International services
- Invoicing / AR management
- Fixed asset management
- Alert functionality
- Budget management
- Prepaid cards
- Lock Box
- Risk management
- Loan structuring

**Striving for a goal of 40% plus  
from fee revenue.**





# Loan Platform



CenterState BANK

How It Works Small Business Loans Qualifying Login

Begin your application today

Company Name

First and last name

Your email

Phone number

Get Started >

## How it Works



STEP 1

Complete Our Simplified  
2 Min.  
Online Application.



STEP 2

Review Up To 20 Offers, Select & Sign  
the Funding Best Suited For Your  
Business.



STEP 3

That's It. Expect Funding To Occur  
Within 24 to 48 Hours.

smartbiz SBA Loans Made Easy

How it Works Pricing Testimonials FAQs

Contact Us 1.888.283.8726

CBS California Business Bank

### How much do you want to borrow?

\$1,000  \$50,000

Loan Amount	Monthly Payment	Loan Term
\$100,000	\$1,110.21	10 years
Interest Rate	Deposited Amount Less Fees	APR including Fees*
6.00%	\$95,683	6.98%

Learn More >

Get Started

**Low Interest Rates**  
From 6% to 9%\*  
More >

**Fast funding, slow repayment**  
Money in days with years to repay  
More >

**Our 30 Minute Guarantee!**  
It's easy to apply  
More >

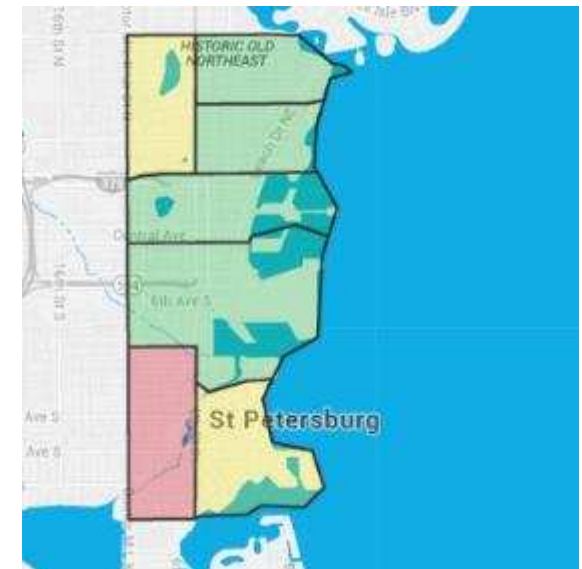
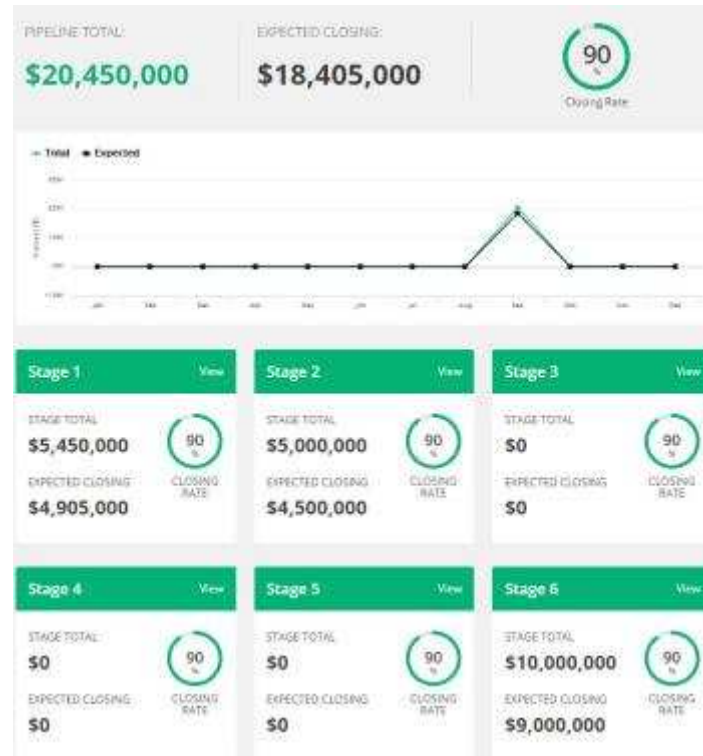
\* Loans have a variable rate of Prime Rate plus 2.75% to 4.75%. Monthly payment, fees and Annual Percentage Rate (APR) are estimates and may vary. APR includes fees whereas interest rate does not. Fees in APR calculation are referral and packaging fees and closing costs. Loans can be paid off at any time with no prepayment penalty.

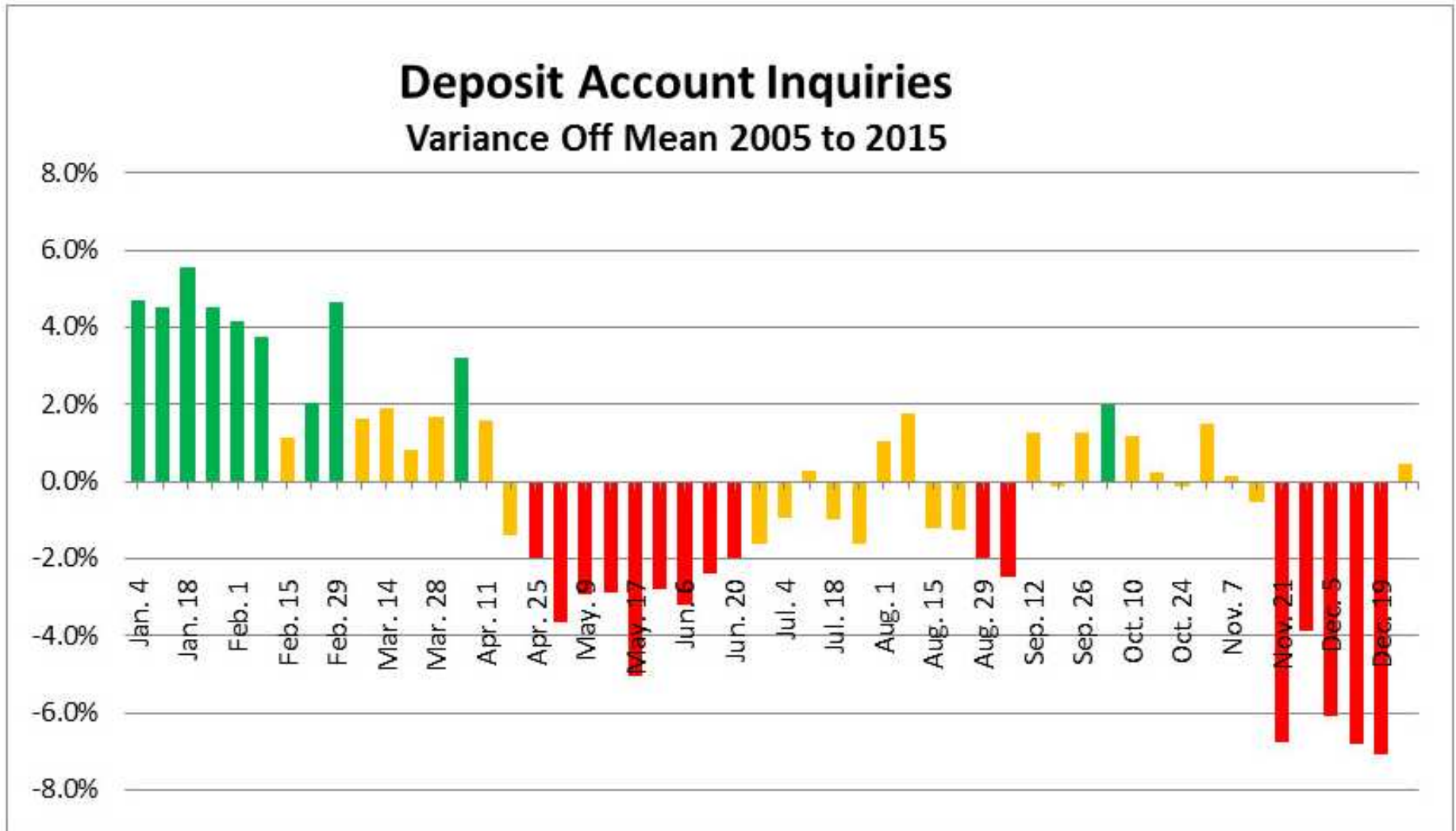
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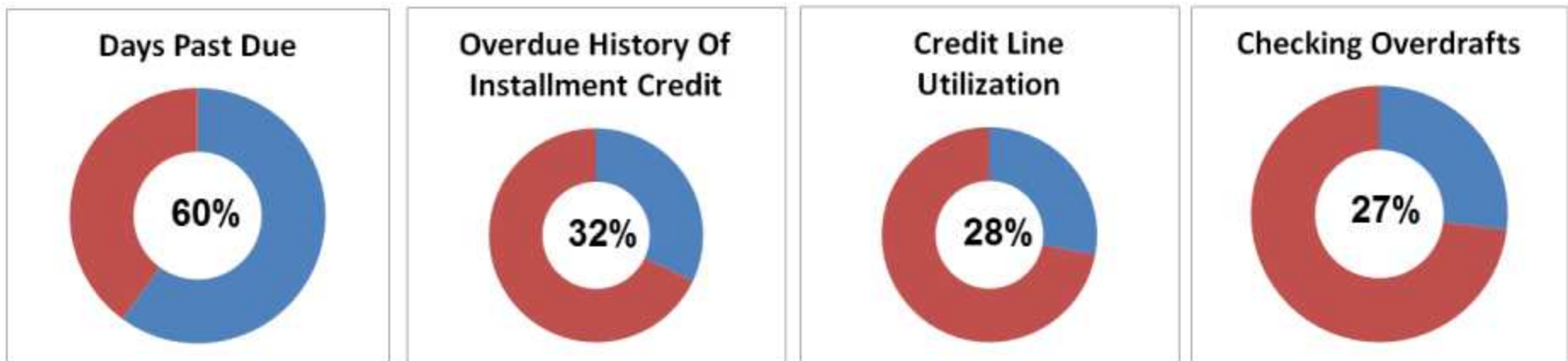
Contact Us Monday thru Friday 9:00 AM - 5:00 PM PST 1.888.283.8726 or support@smartbizloans.com  
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# Relationship Modeling





## Predictors Of Credit Defaults



- Approximate 15% difference in net exposure at default
- 5 to 9 months of early warning

# Branch Innovation

- Universal banker model
- More automated tellers - IVTs
- Cash recycling – branch + at the customer
- Smaller, open footprint
- Video conferencing
- Positioned for less transactions more sales / consultative focused





# Some Lessons Learned





Get IT & compliance input, but do not task them with creation.

Consider a developer “skunk works” project team.



# Consider The Big Picture Costs

You are replacing your existing process in some form.



# “A Digital Strategy,” Seriously?

An innovation focus should be part of a wider strategy.



## The 5 Es:

- Experiment
- Embrace failure
- Educate
- Experiment again
- Expand



Innovation is a skill  
and a separate  
core competency.

Vision + Culture +  
Training +  
Resources



# Target The Future

Invest to where you want to go, not where you are.

- Future customers
- Future process
- Future markets



# Create A “Success” Framework

- Set goals
- Have accountability
- Allocate budget/resource
- Create “space”
- Develop benchmarks
- Establish compensation for success



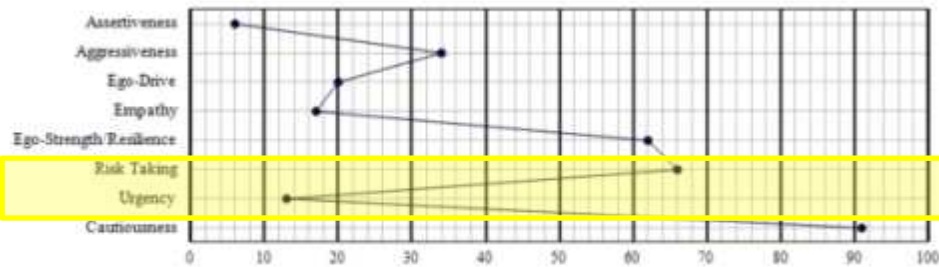
Pre-establish when to kill a project

# Hire For Innovation

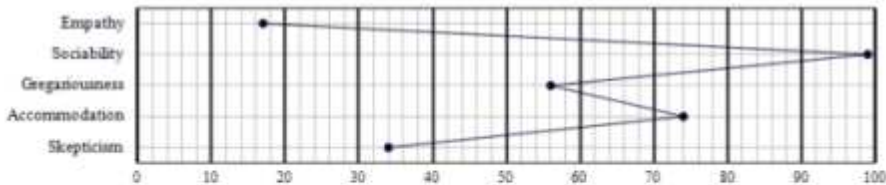


## Average Banker

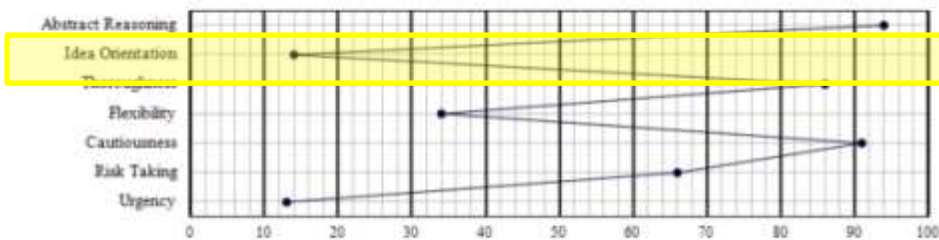
### Leadership



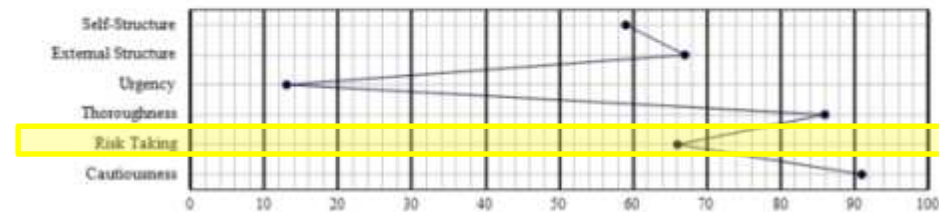
### Interpersonal



### Problem Solving/Decision Making

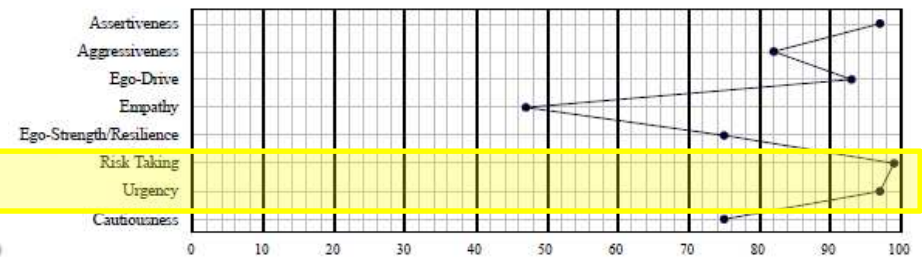


### Personal Organization/Time Management

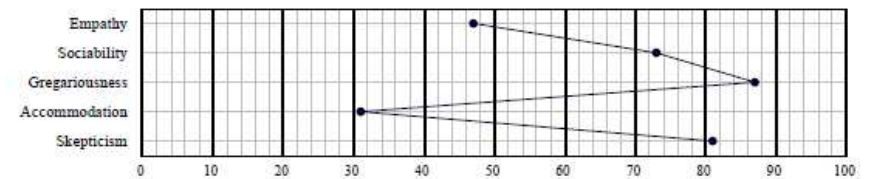


## Average Bank Innovator

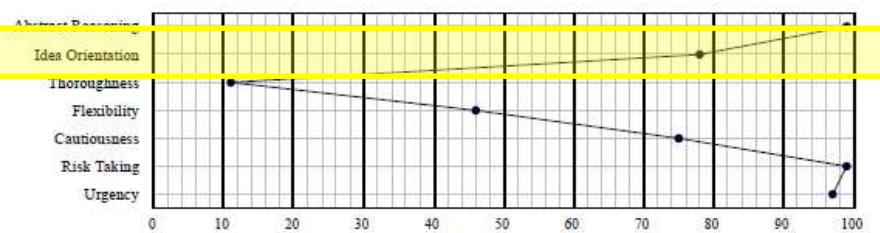
### Leadership



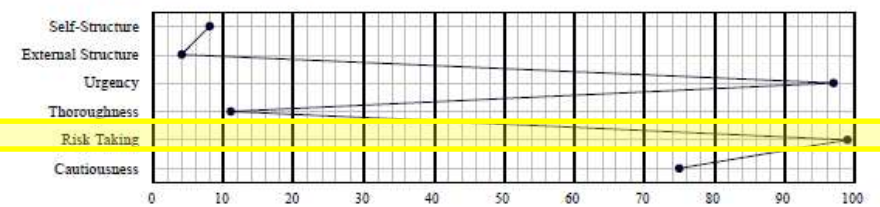
### Interpersonal



### Problem Solving/Decision Making

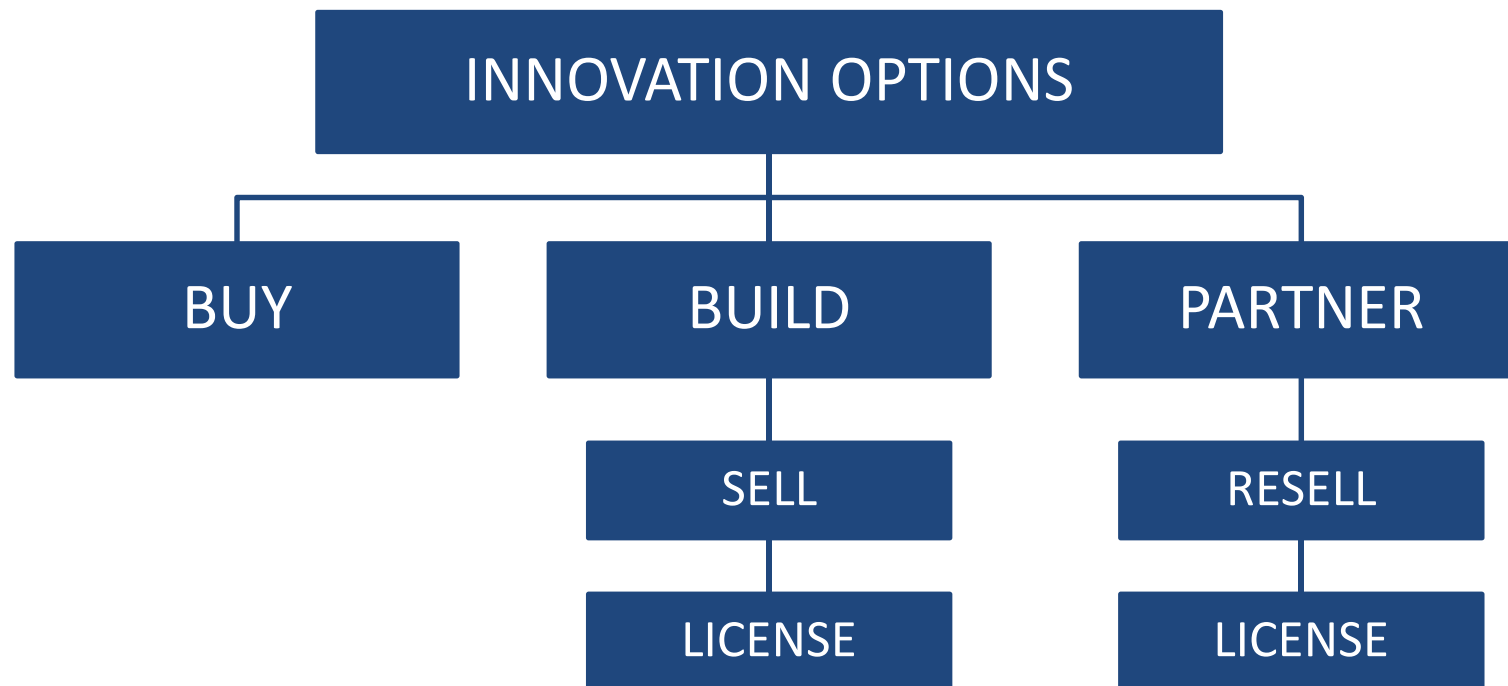


### Personal Organization/Time Management

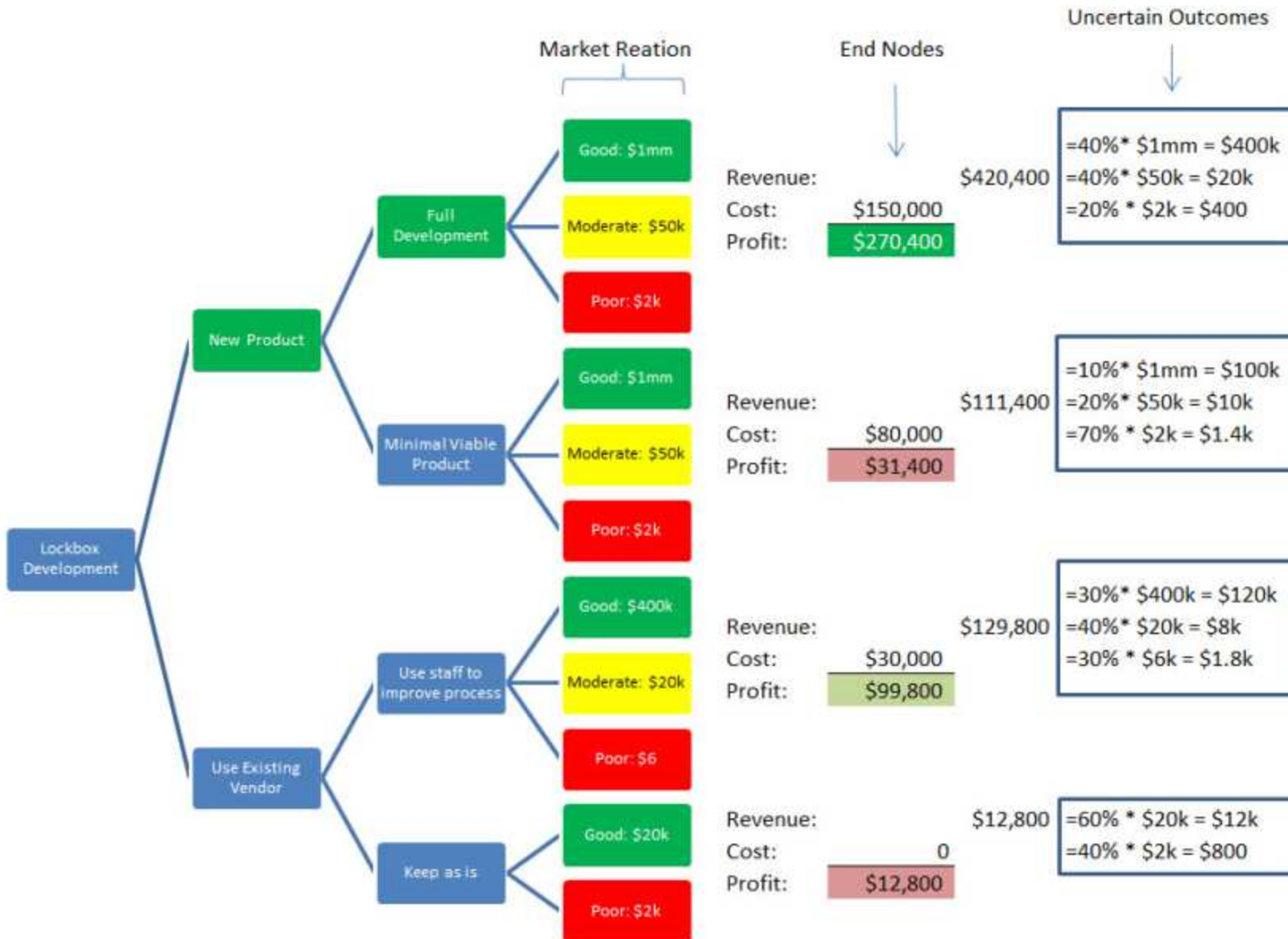




# Consider Decision Options



# Using Scenario Trees For Risk





# Questions?



# Elements of Bank Innovation

1. An “Always On” effort
2. Part of strategic plan
3. Focused roadmap
4. Focused on solving specific problems
5. Correct culture
6. Correct process



# The End Goal



**Engage the customer on an emotional level and help them achieve their goals.**



**The End**



**Thank You!**

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**Sign up at:**

**[http://csbcorrespondent.com/  
blog](http://csbcorrespondent.com/blog)**





# Appendix



# Capitalizing On Payments



Offer some form of mobile cards/wallet to remain relevant



Increase payment services in cash management offerings: AR, AP, one to many payments, etc.

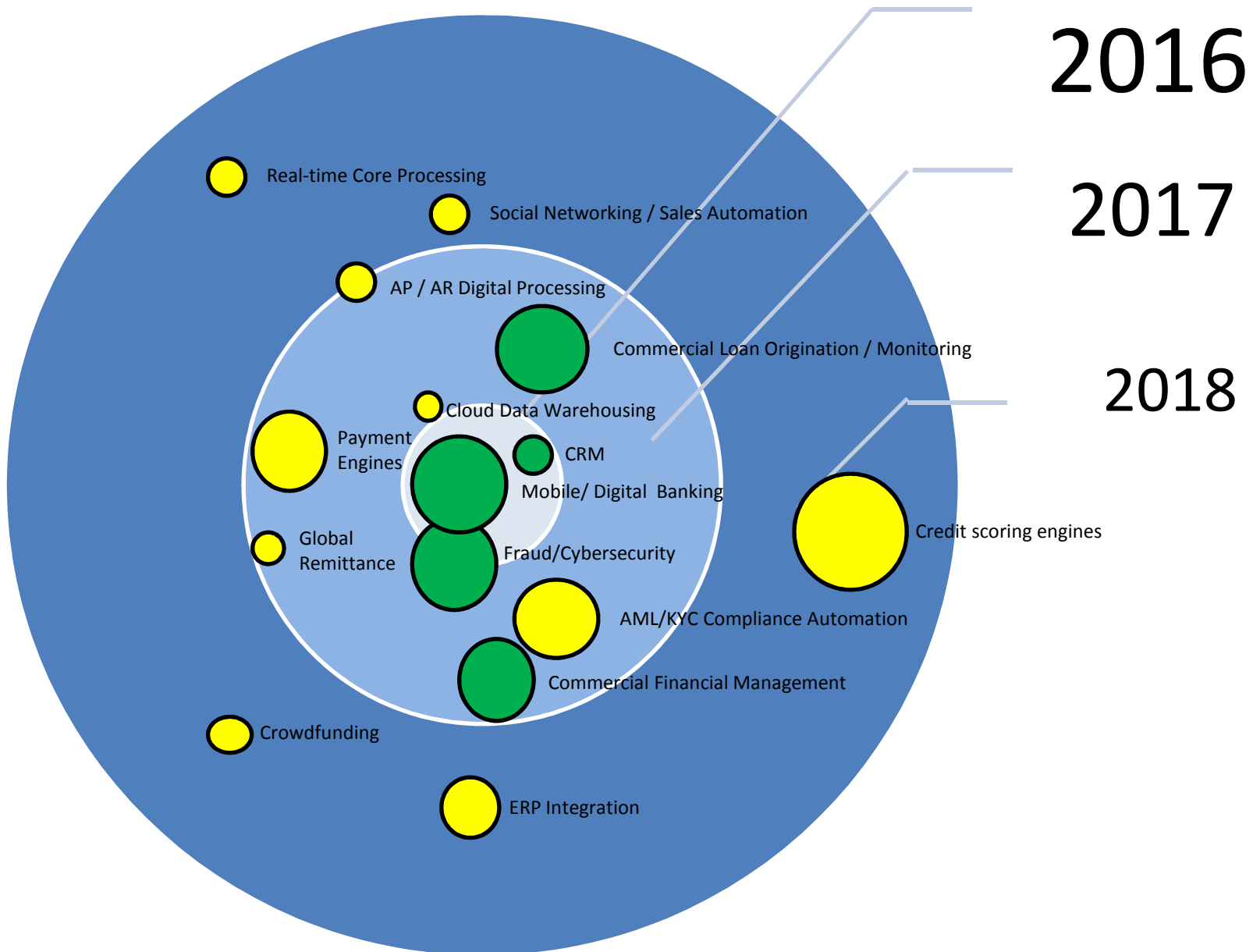


Consider the role of arbitration , escrow agent and guarantor for payments



Take on the role of an educator to merchants and customers

# Technology Expansion Plan



## Expand (R&D)

Subscription  
Based  
Banking

“Fitness  
Deposits”

Online  
Lending

## Acquire & Defend

Niche  
Segment

Mortgages

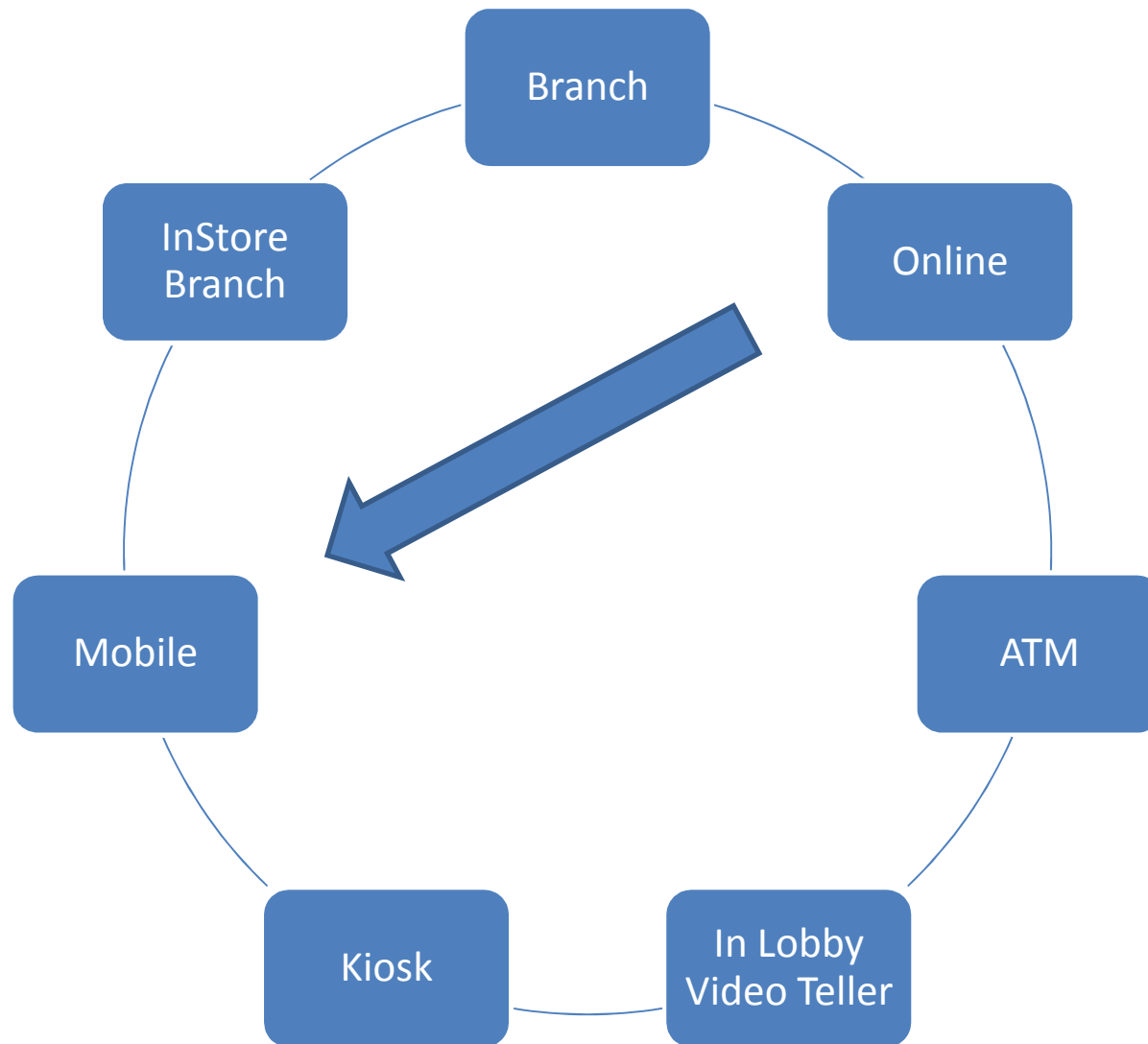
## Core Earnings

Loans

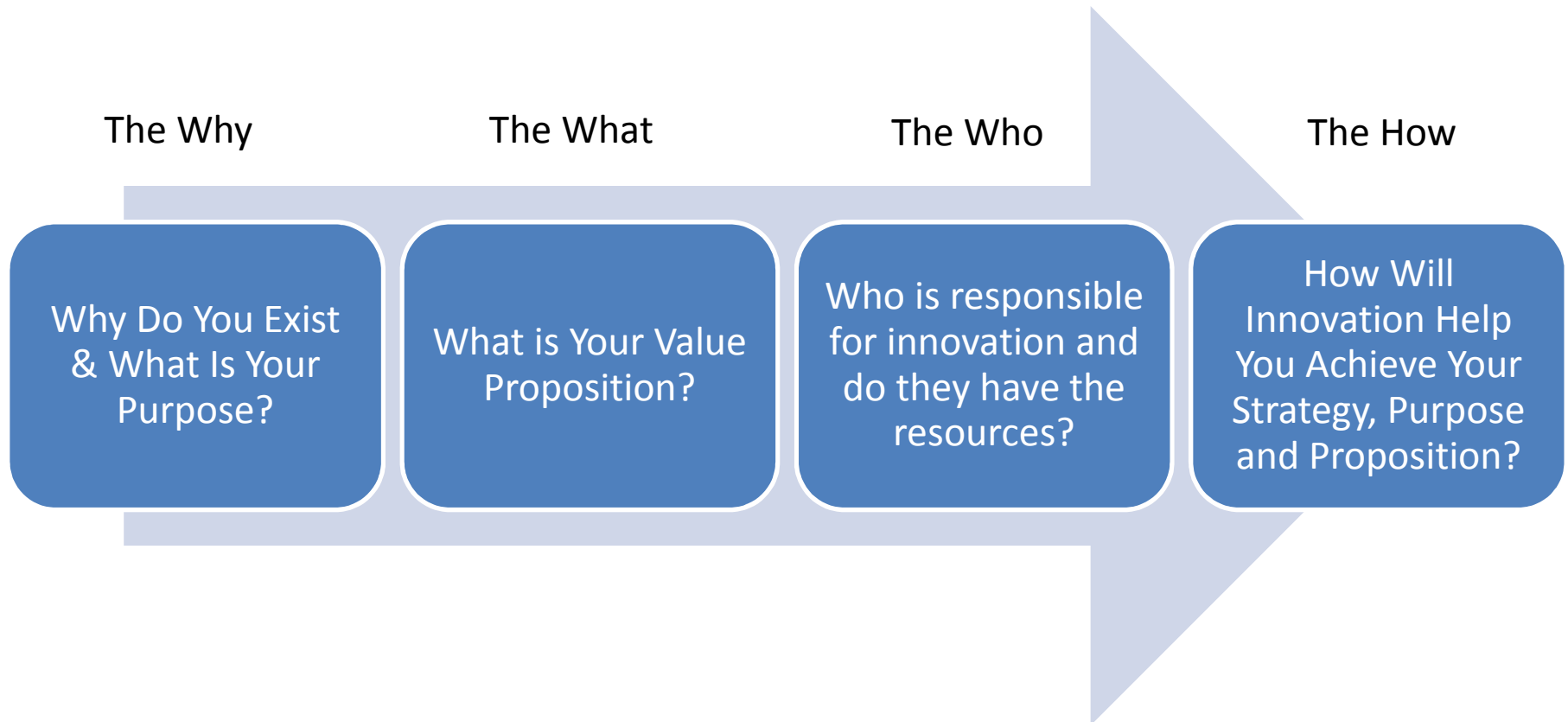
Deposits

Services (Wealth  
Management,  
etc.)

# Channel Strategy (Omni Channel)



# A Simple View



How Will You Measure Success?

# Disclaimer:



This presentation is for general strategic information only and should not be relied upon as a substitute for independent research before making a material management decision. This presentation does not take into account any particular bank's performance objectives, financial situation or needs. All banks should obtain advice based on their unique situation before making any decision based upon this presentation or any information contained within. In addition, any implied projections or views of the bank market provided by the authors may not prove to be accurate. While all the information contained herein is believed to be accurate as of the date of source or publication, the information is subject to change and constant revision.



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# AUDIENCE POLL

If a financial institution, are you currently considering working with an alternative finance company?

A. Yes

B. No

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# AUDIENCE POLL

What has been the single most effective communication tool for you?

- A. Annual shareholder letter
- B. Board package
- C. Blogging
- D. Paid advertisements
- E. One-on-one conversations
- F. Other

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# AUDIENCE POLL

What is the main reason you will look to partner with fintech companies in the future?

- A. New lending opportunities
- B. Better customer interface/engagement
- C. Reduce headcount
- D. Improve compliance



# **CROSSROADS: BANKING AND FINTECH**

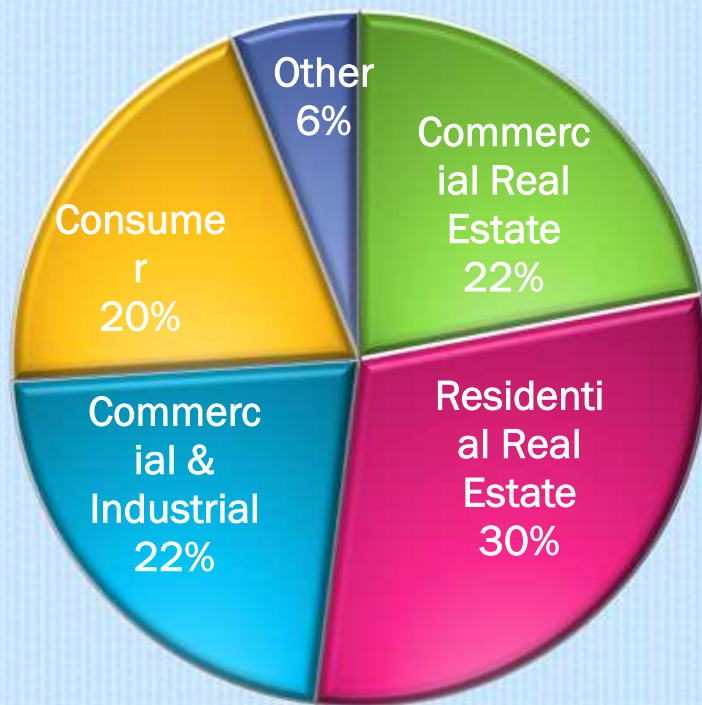
Panel:

*Real World Examples of Effective Partnering Between  
Community Banks and Fintech Companies*

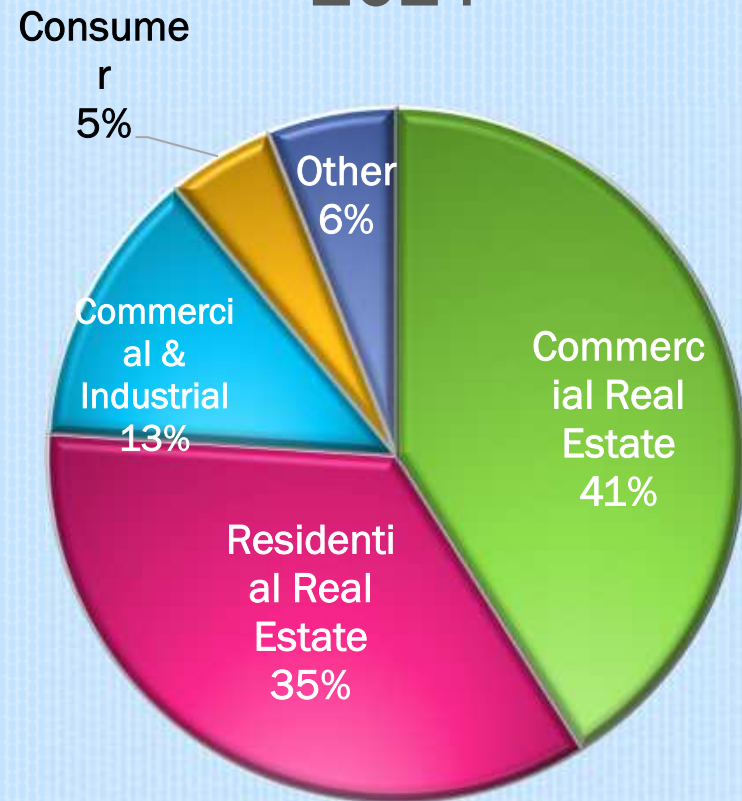


# HISTORICAL LOAN PORTFOLIO DIVERSIFICATION

1990



2014



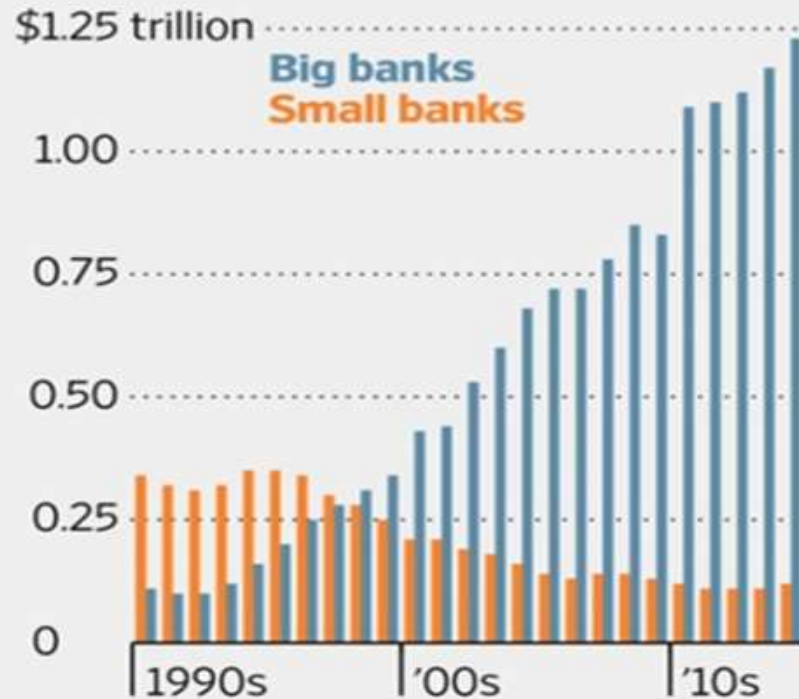
Community Banks < \$10 billion

# COMMUNITY BANK COMPETITION – MORE TO COME

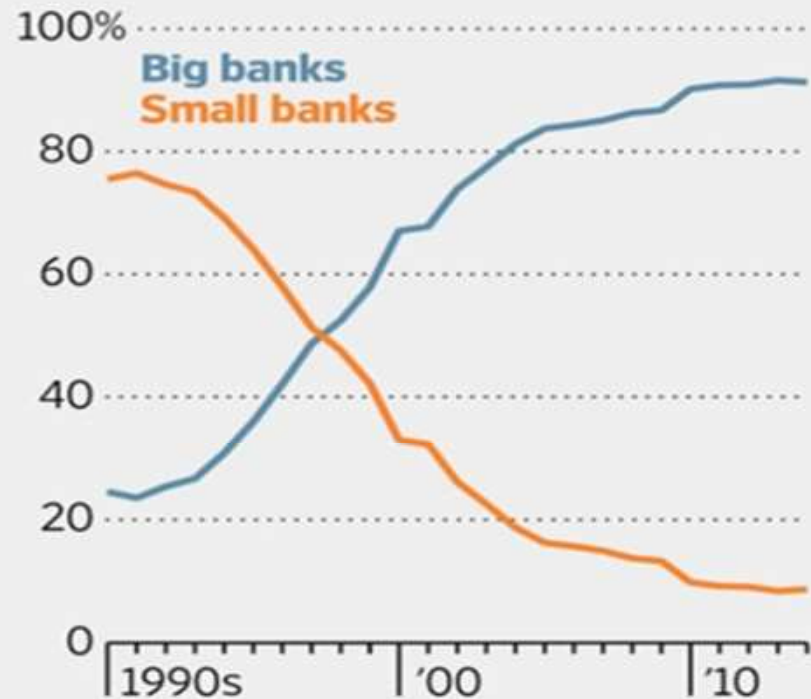
## Going Big

Smaller banks' and thrifts' share of the consumer-loan market have steadily shrunk in recent decades.

### Amount of consumer loans



### Percentage of consumer loans

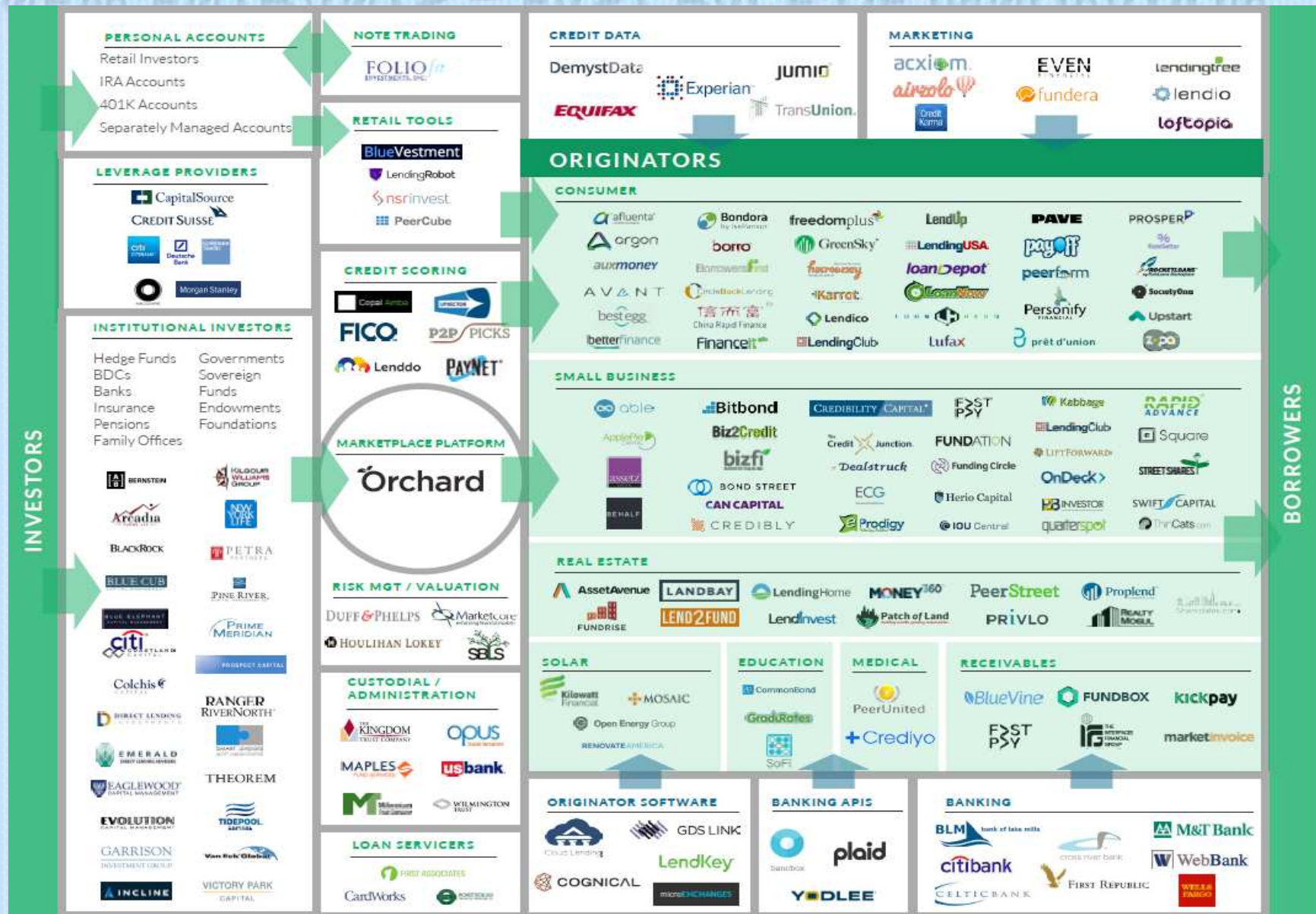


Note: Small banks are those with assets less than \$10 billion; large banks are those with assets greater than \$10 billion.

Source: SNL Financial  
The Wall Street Journal



# NEW ENTRANTS – FAST PACE OF INNOVATION



As of late 2014, the U.S. Peer-to-Peer lending space has a range of players and is expanding. While not comprehensive, the above is intended to serve as a simplified illustration of what Orchard believes are typical interactions between some of the categories of industry parties. The illustration should not be interpreted to imply a relationship (or lack thereof) between Orchard and any named company and is not an endorsement by Orchard of any named company.

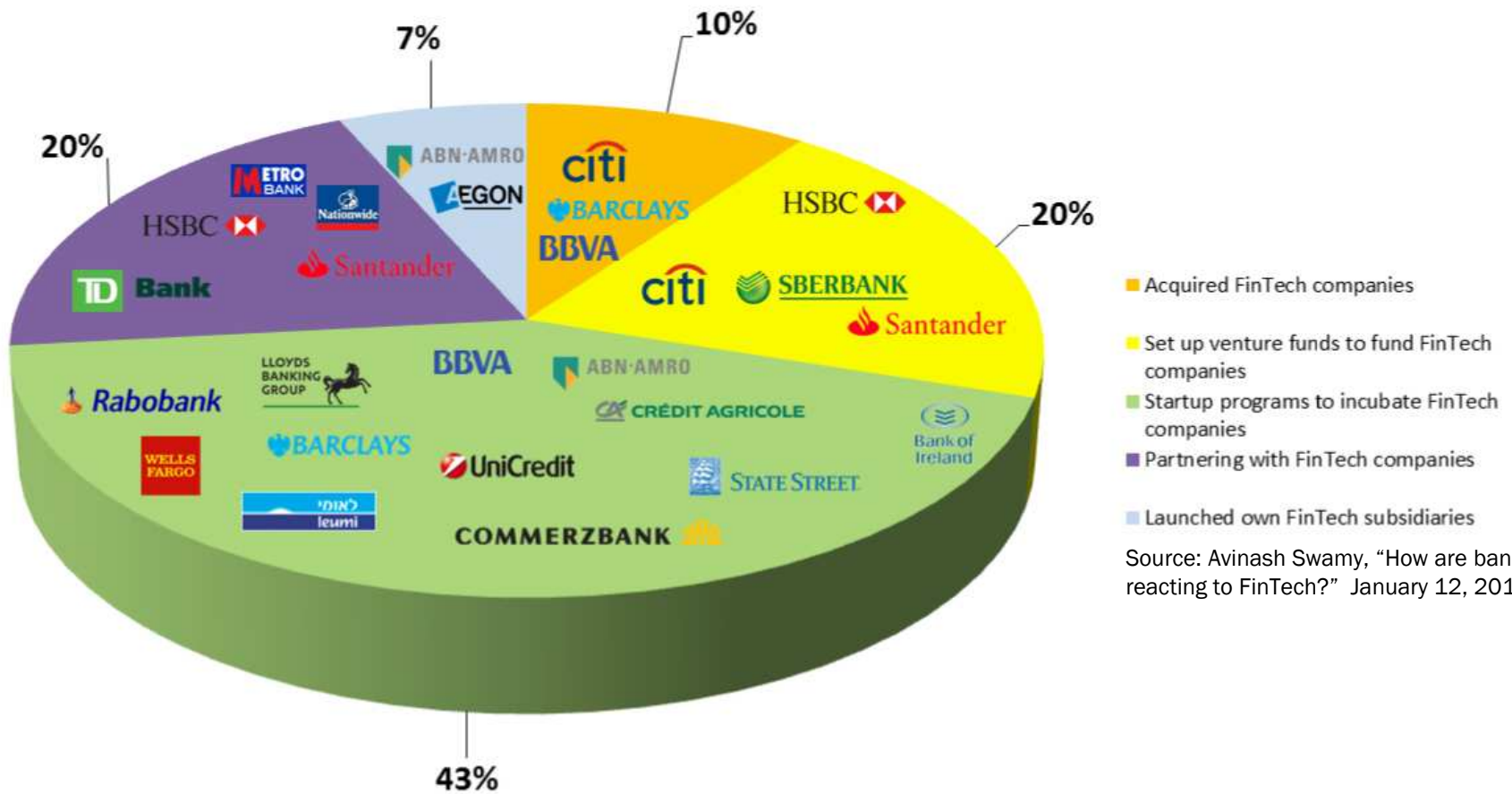




# CONVERT THE THREAT TO AN OPPORTUNITY

- **New entrants have significant competitive strengths in their new platforms**
  - Efficient business models, best-in-class systems
  - Focus on the customer experience
- **Key challenges to MarketPlace Lenders**
  - Access to customers
  - Access to diversified sources of bank capital for highest quality loans
- **Community banks have bank capital and customers**
  - Huge technology investment to compete
  - Lack access to scale needed to survive and win in their markets
- **Partnerships**
  - Be selective as there are as many as 4,000 FinTech companies
  - Must meet your style and culture – how you treat your customer
  - Enhance Vendor Management
  - Must understand the product/service

# MANY BANKS ARE MOVING TO ADOPT/PARTNER WITH FINTECH



Source: Avinash Swamy, "How are banks reacting to FinTech?" January 12, 2015

# Crossroads: Banking and Fintech Financial Technology Conference

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HANKS STREET PARTNERS

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