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Disruptive Technologies

a Risk & Compliance Solutions Webinar

New advances in technology are still disrupting our industry — in many cases — for the best.

Today’s Panelists

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Technology Trends to Monitor

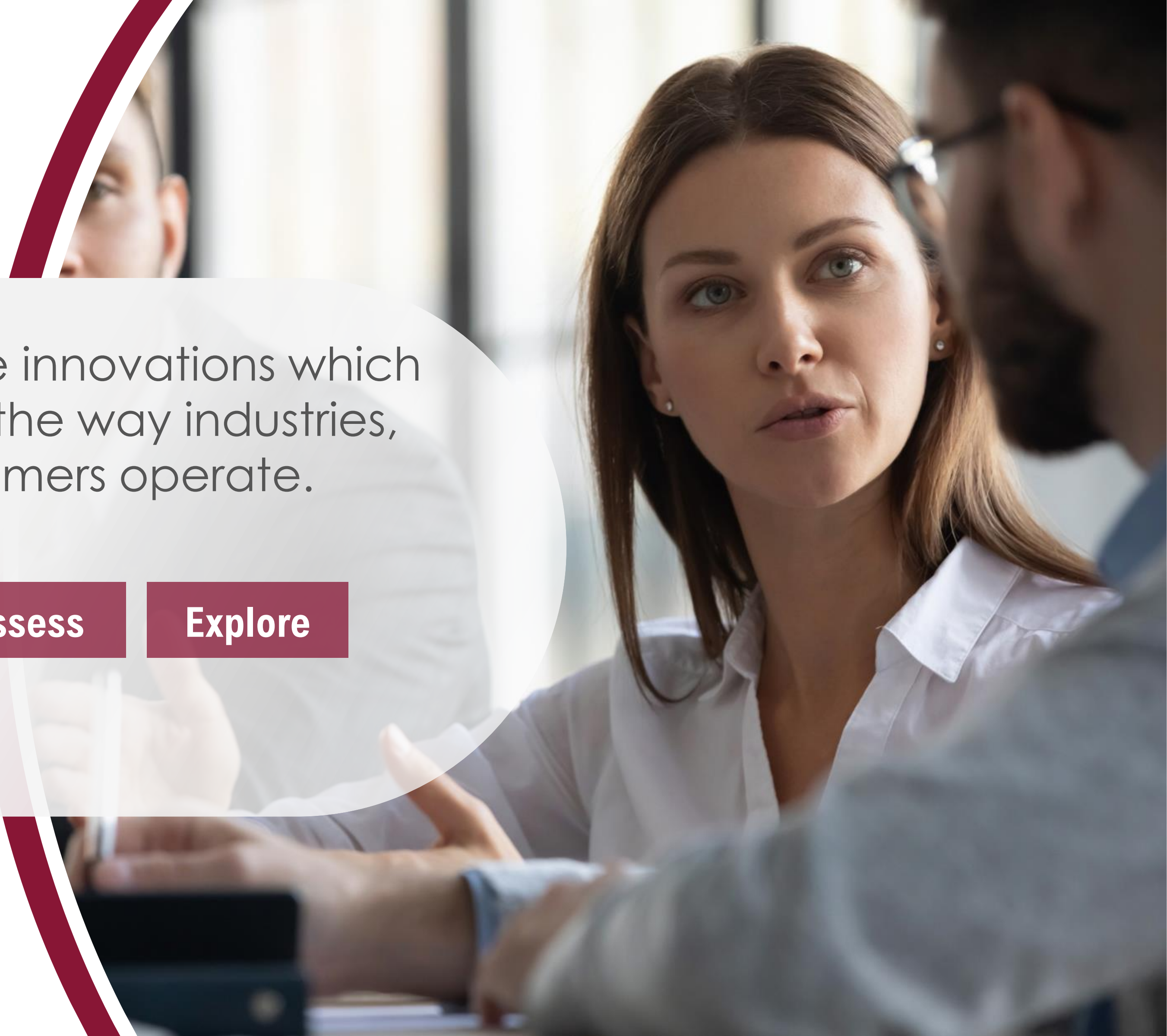
- Internet of Things (IoT)
- Artificial Intelligence (AI)
- Robotic Process Automation (RPA)
- Blockchain & Distributed Ledger Technology (DLT)
- Open Banking
- Big Data Analytics

A disruptive technology is usually one that enters the mainstream and changes the way most people and consumers think or behave.

By Definition

Disruptive technologies are innovations which can significantly change the way industries, businesses, and consumers operate.

Adopt | Trial | Assess | Explore



Credit unions need to ensure the financial reward or upside is compelling enough

Disruptive Technology Considerations

- Operational Forces
- Strategic Forces
- Regulatory Forces
- Talent / Skill Challenges
- User Adoption or Resistance

Artificial Intelligence (AI)

- Customer service from chatbots and robots
- Instrumental in the way FIs enhance security and prevent / detect fraud

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Big Data

- The amount data generated by a credit union is extensive
  - Credit card transactions
  - ATM withdrawals
  - Credit scores
  - Purchase payments
- Assists with real-time business decisions including learning about spending habits, sales management (segmenting customers to optimize marketing), product cross-selling, fraud management, risk assessment

The banking sector is one of the top investors by industry in big data and business analytics solutions

Robotic Process Automation (RPA)

RPA in the banking industry is to assist in processing work that is repetitive in nature

- Automated report generation
- Member onboarding
- Compliance
- Account opening
- Loan processing

Artificial Intelligence Voice Interfaces

- Provides a faster way to complete tasks – such as customer support, account management, user authentication
- Speech recognition allows software programs to recognize speech
- Allows merging products/services with voice services such as Siri, Amazon Echo, or Google Assistant
- Minimizes the need for members to recall passwords and date to access accounts

Interactive Voice Response (IVR) tools:

- Help track the status of member inquiries
- Work to engage with different financial services

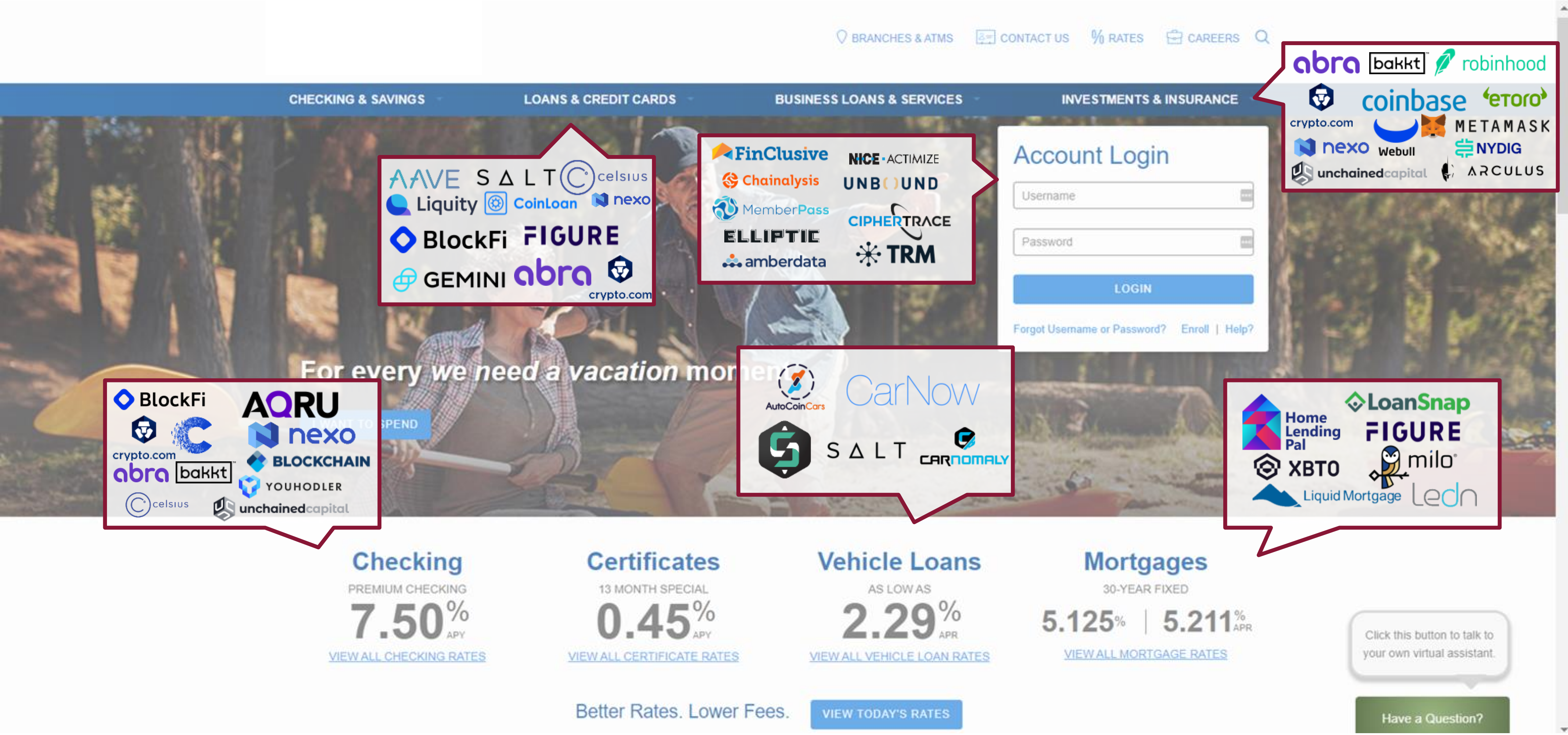
Blockchain Impacts: Credit Unions

Category	Impact		Timeline	Description
	Opportunity	Risk		
Deposits	Medium	High	Immediate	• Credit unions are currently competing against crypto players for deposits and members. 56% of consumers were likely to switch financial institutions to one with crypto services[1]. • Many services are launching that enable users to lend out their crypto, often at little increased risk from holding. The average annual return can exceed 10%, diluting credit union's savings or checking rewards programs • Near term opportunity for credit unions to offer crypto offerings as well as crypto rewards to capture new members and deposits or retain members
Credit Underwriting	Medium	Medium	3-5 years	Removes current centralized and complicated credit system with decentralized registry of historical behaviors and payments. This adoption could allow for increased lending to people who are left out of the legacy credit system today.
Digital Identity / KYC	Medium	Medium	3-5 years partial adoption; 5+ years full adoption	• Digital identity can be stored as a system of smart contracts enabling users to own their own identity. The smart contract processes the user's validating documents and can validate the user's identity to requestors without giving access to PII. • For the credit union, this cuts down on KYC time and costs as well as reduces some level of PII exposure risk.
Payments / Remittances	Medium	Low	1-2 years	Members can send and receive money quickly and at low cost, in contrast with current ACH and remittance processes that can take up to 5 days and cost up to 2% of total transaction

[1]Visa Survey

Blockchain Impacts: Lending

Category	Impact		Timeline	Description
	Opportunity	Risk		
Lending	High	Medium	3-5 years	• Shared permission ledgers facilitate information across all lending parties including borrowers, lenders, credit score providers, co-signers, etc. • When a loan or loan pool is put on a blockchain, it is easily transferable from one party to the next with minimal to zero diligence needed. • Defi lending disintermediates traditional retail banking products, permitting consumers to lend their capital for returns well above those offered by traditional savings accounts.
Auto Lending	High	Medium	3-5 years	• Blockchain, used in conjunction in in-vehicle telematics, can track a car's history throughout its life span. This can make the vehicle finance process faster and cheaper for lenders, dealers, insurers and consumers • In used car sales, a purchaser can ensure proper and seamless transfer of the title • Blockchain could accelerate the adoption of usage-based insurance and taxes • Vehicle registration, vehicle service records, proof of insurance and driver information could all be stored as an NFT
Mortgage	Medium	Medium	5+ years	Frequent sale and purchase of mortgage loans and servicing rights is costly and burdensome. The use of blockchain would enable the seamless exchange of MSR while reducing friction for the end homeowner.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Partnering with Fintechs

Benefits

- Value of collaboration > sum of the parts
- Solve pain-points with minimal capital investment
- Flexibility to adapt with changing technology
- Members receive a differentiated experience

89% of credit unions and community banks believe fintech and financial institution partnerships will be common by 2027

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Considerations

- Understand integration process and timeline
- Probe into current fintech partnerships
- Consider regulatory requirements
- Evaluate financial health and management team

Types of Partnership

Strategic Needs	Partnership Types
To enhance processes, monitoring capabilities, or technical infrastructure	Operational Technology
To enhance various customer-facing aspects of its business	Customer-Orientated
To diversify customers and revenue by leveraging fintech interface	Front-End FinTech

Steps to Get Started

	Examples
1 Prioritize	• Prioritize partnerships at the executive level, get board buy-in • Make part of strategic or digital transformation plan; create playbook • Dedicate resources when able
2 Collaborate	• Review strategies and partnerships with peer credit unions • Use peers as references when able
3 Get involved	• Attend fintech conferences (Money 20/20, Finovate, Lendit, etc.) • Attend industry conferences (NACUSO, NAFCU, GAC, League Events, etc.) • Join CMFG Ventures' Fintech Forum
4 Experiment	• Start with trial / pilot programs • Focus on "low-hanging fruit" • Keep objectives manageable and achievable

Evaluating Potential Partners

	Commentary
Business Health	• Financial health • Major investors, board members, executive team • Competitors
Legal & Compliance	• Compliance policies • Compliance prioritization • Current/past legal issues
Data Security	• Utilization of customer data • Standards (e.g., ISO 27000) and methods (e.g., multi-factor authentication)
References	• Speak with multiple references • Learn about history, conflict resolution, positives, negatives, plans for renewal, etc.
Other	• Company value alignment, founders' goals • On-site visit to see operations / culture in action • Ensure proper insurance policies are in place such as E&O and others as applicable

Conducting Due Diligence on Financial Technology Companies – A Guide for Community Banks

FDIC - August 2021

Note: These focus areas are not all inclusive. Diligence should be tailored to each potential partner

Tell us what you think…

With technologies and fintechs, what are the common mistakes that can be made?

6 Common Mistakes to Avoid

Lack of ownership

Lack of strategy

Paralysis by analysis

Chasing the shiny object

Risk aversion

Unrealistic expectations

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The next wave of **disruptive technology** is here, providing forward-looking organizations with an opportunity to be ready for consumer demands today and in the future.

Learn more insights >>> [Disruptive Technologies Risk Overview]

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Discovery Fund

Created to level the playing field for underrepresented entrepreneurs who are building solutions for financial inclusion. The fund will invest $15M over the next three years in early-stage fintech companies led by BIPOC, LGBTQ+, and women founders.

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