2023 Strategic Priorities Benchmark Study

Strategic Inflection Points in 2022 Drive Market Shifts in 2023

jack henry™

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Study Methodology

Between January and March of 2023, Jack Henry™ conducted an online survey of core clients. Responses were received from 118 bank and credit union CEOs. The sample included Jack Henry's core clients across the U.S. with assets ranging from below $500M to more than $10B.

executive summary

Voice of the CEO

Welcome to the fifth annual Jack Henry Strategic Priorities Benchmark Study.

The intent of this study is to identify top strategic priorities for bank and credit union CEOs in 2023 and 2024. The survey provides a peer benchmark for your strategic planning and enables Jack Henry to align with your long-term direction, pinpoint emerging areas of opportunity, and expedite timely innovation in areas that matter most.

In addition to gathering high-level insights, we've focused on key competencies across your technology infrastructure and major business lines (core, open banking, digital, lending, payments, and risk, fraud, and security).

Below are key takeaways from the study:

- **Growing deposits and improving operational efficiency are top priorities for all financial institutions in 2023 and 2024.** Banks, however, are keenly focused on growing loans, while credit unions are focused on leveraging data, improving accountholder experience, and acquiring new accountholders.
- **79% of all financial institutions plan to increase technology spend over the next two years.** Most (35%) plan to increase investments between 6% and 10%.
- **Digital banking, fraud and security, and data analytics are the top three technology investments planned over the next two years.** Relative to banks, credit unions give outsized priority to investments in artificial intelligence (AI).

The survey provides a peer benchmark for your strategic planning and enables Jack Henry to align with your long-term direction, pinpoint emerging areas of opportunity, and expedite timely innovation in areas that matter most.

- Beyond a shared fear of deposit attrition and displacement, **banks and credit unions differ in their top concerns**. Banks' top concerns include talent retention, NIM compression, and regulatory changes, while credit unions' chief concern is an economic slowdown – and a related rise in delinquencies.
- **Almost all (90%) financial institutions plan to embed fintech into their digital banking experiences** with 65% planning to embed payments fintechs. Credit unions are also looking to embed digital-marketing and consumer-financial-health fintechs while banks are looking to fintechs for help with data collection and analysis.
- While **fintechs remain financial institutions' top competitive threat for the third year in a row, that fear has diminished significantly** since 2021. Banks consider "other community financial institutions" the second biggest threat, while credit unions point to "big banks" as theirs. Banks also named wealth-techs and brokerage firms as important competitive threats in this year's survey.
- With downward pressure on retail revenues, **serving small and medium-size businesses (SMBs) is a key priority for most financial institutions** – with 65% indicating plans to expand SMB services. Commercial lending tops the list of SMB services financial institutions are planning to add.
- **95% of all financial institutions plan to enhance their lending capabilities**, but priorities diverge sharply and predictably between banks and credit unions given their differences in commercial versus consumer focus. For banks, digitizing loan applications and a single, end-to-end loan platform for commercial/retail lending take precedence. For credit unions, automated decisioning/funding and cross-selling are key – as is leveraging AI for underwriting.
- **Banks and credit unions are expanding lending types across the board.** While most financial institutions (67%) are planning to expand small business lending, banks are prioritizing mortgages (68%) and commercial loans (CRE and C&I) while credit unions are focusing on home equity lines of credit (61%) as well as direct (70%) and indirect (39%) auto lending.
- 90% of banks and credit unions plan to add new payments services over the next two years. **Adding FedNow℠ Service (66%), contactless cards (46%), and a P2P alternative to Zelle® (35%) are the top three payments priorities**. One-third of financial institutions also plan to offer Payments-as-a-Service (PaaS) to third parties.
- **Phishing attacks and data breaches are considered top fraud and security threats by all financial institutions** over the next two years. However, credit unions (69%) are more concerned about real-time payments fraud while banks (60%) remain vigilant about ransomware.

Charting strategic direction is critical to remaining relevant and capitalizing upon new opportunities as they emerge. By understanding your peers' plans and priorities, you can innovate faster, close strategic gaps, and capture market share amid ongoing disruption. **Our mission at Jack Henry is to help you see around corners, strengthen relationships with the people and businesses you serve, and reduce barriers to financial health for everyone.**

strategic inflection points in 2022 drive market shifts in 2023

Economic and Regulatory Uncertainty Requires Focus and Foresight

2022 produced a cascade of inflection points.

An inflection point is a change in the business environment that requires significant adjustments in the operation and management of an organization. Record-breaking inflation led to rapidly rising interest rates, reduced loan demand, and declining deposits. According to data from the FDIC, total bank deposits experienced their first sustained fall in 80 years.

As consumers chase higher rates in 2023, deposit churn will accelerate.

Like all change, inflection points create fear, uncertainty, and doubt. The instinctive response to a downturn is one of withdrawal and retrenchment. As a financial institution, however, you are uniquely positioned to lean on your risk competence and capital reserves to tap upside potential while less experienced, unchartered, and poorly capitalized providers struggle.

The End of Fintech 2.0 and the Beginning of Fintech 3.0

In 2022, higher rates tightened fintech access to venture capital, bringing the era of consumer-oriented fintech 2.0 to a close while launching enterprise-focused fintech 3.0.

Growth no longer substitutes for sound unit economics and many fintechs that lack the runway to achieve those economics will fail or be acquired in 2023.

The consolidation and demise of smaller, direct-to-consumer fintechs and unchartered neobanks in 2023 also means banking-as-a-service (BaaS) providers (and/or the financial institutions standing behind them) will be challenged – especially those with exposure to fallout in the crypto space.

Even larger, well-established fintechs have quickly tightened belts and cut staff.

Tech companies laid off more than 150,000 workers in 2022 – giving banks and credit unions their first real opportunity to acquire the talent needed to fast-track ongoing digital transformation, pursue niche strategies, develop cloud competence, and modernize tech stacks.

Record-breaking inflation led to rapidly rising interest rates, reduced loan demand, and declining deposits.

Knock-On Effects and Market Shifts in 2023

Gradually, then suddenly.

Though inflection points seem sudden, they have long gestation periods and even longer tails. And it's those longer tails that are shaping 2023 and beyond.

2022's inflection points gave rise to durable market shifts that are challenging status-quo assumptions and disrupting traditional business models. Dizzying rates, falling deposits, pressure on retail revenues, growing demand for Buy-Now-Pay-Later (BNPL), and the "crypto winter" are shifting markets and forcing financial institutions to rethink strategy, pricing and go-to-market approaches for deposits, lending, and payments.

Surprise ... You Serve Small Businesses!

Two dynamics camouflage the threats posed by competing financial apps.

First, in the average community financial institution, 13-35% of consumer accounts are being used to run small businesses. These are primarily solopreneurs involving only one person. There are 59 million freelancers, gig workers, and sole proprietors in the U.S. – accounting for the majority of small businesses.

Second, so-called "consumer payment apps" like PayPal and Cash App attract your camouflaged small businesses with easy payment-acceptance capabilities.

These capabilities give third-party apps a window into the business owner's cash flow, which is all that's needed to score creditworthiness and extend credit (often automatically) to the small business. Recent studies show for every $1 deposited into your financial institution from a third-party app, $7 remains in the third-party app.

"Crypto Winter" Spawns "Wealthtech Spring" in 2023

Perhaps the most dramatic inflection point of 2022 was the daisy-chained implosions of several major crypto exchanges and tokens that led to a "crypto winter."

But by focusing on the drama, you miss the market shift and new opportunities.

Crypto losses and fraud have attracted the scrutiny of regulators and legislators. This shift, combined with a pressing need for new revenue streams, will drive a new wave of wealth-tech offerings among financial institutions – bringing a full spectrum of safe and regulated investment options (including cryptographic digital assets) to average accountholders in 2023.

As financial institutions pivot to mitigate deposit churn in 2023, many will deploy automated savings and investment options to protect core deposits and foster financial health among accountholders buffeted by the economic downturn.

The Silver Lining: Winnowing Competition Creates New Opportunities in 2023

Three trends bode well for banks and credit unions this year.

First, many smaller neobanks have neither the capital nor the competence to weather growing loss ratios in a rising rate environment.

Even Goldman Sachs was unable to tolerate the losses required to scale its neobank, Marcus. Many neobanks and direct-to-consumer fintechs will consolidate or fail in 2023. And while fintech failures will narrow the pool of competition, those failures also mean financial institutions with embedded fintech strategies must use more discriminating due diligence to embed only the highest-grade fintechs into their digital platforms.

Second, while BaaS blurred the lines between financial institutions and non-bank competitors in the “easy money” environment of 2021 and early 2022, higher rates, impending regulations, and economic downturn are positioning chartered financial providers' core competencies (risk management, fraud mitigation, and compliance) as a significant competitive advantage as they drive trust and resilience.

Third, open banking rails have enabled the fragmentation of money across a number of providers and apps used by the average consumer. These same open banking rails also give banks and credit unions the means to solve fragmentation by using secure APIs to aggregate a comprehensive and comprehensible picture of their accountholders’ finances into a single view – putting your financial institution at the center of their financial lives.

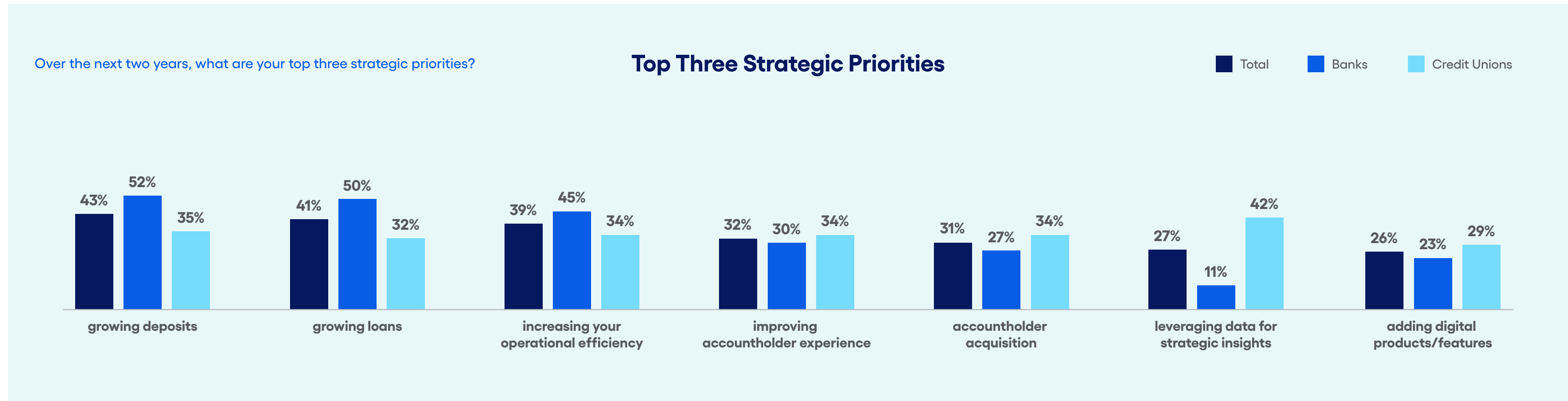
Once consumers and businesses can easily see and understand their money across disparate providers, they’re more inclined to act on the next-best products and services you suggest.

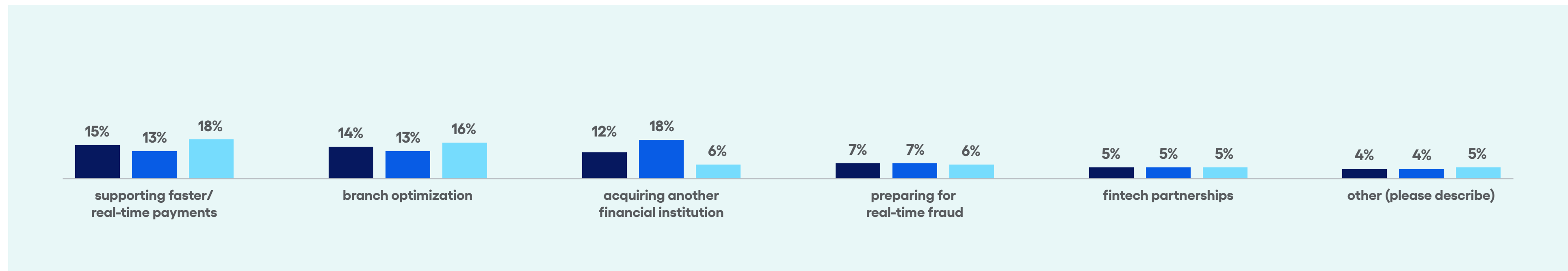
This is your opportunity to **regain market share** and **become a more effective agent of financial fitness** in 2023.

key findings

Study Results: Strategic Priorities

Growing deposits (43%), growing loans (41%), and increasing operational efficiency (39%) are the top strategic priorities over the next two years.





Key Insights

In addition to being the most important strategic priority over the next two years, **growing deposits is also considered the most difficult priority to achieve**. In addition, the smaller the institution, the more difficult growing deposits is perceived to be. **CEOs report accountholder acquisition as the second most difficult priority to achieve** – no surprise given opening new accounts is one very important way of growing deposits.

Net interest margin, return on assets, and efficiency ratios are the top three performance metrics cited across all financial institutions.

of credit unions

report leveraging data for strategic insights as their number one strategic priority, **while 52% of banks** report growing deposits as their number one strategic priority.

**Statistically significant*

Key Insights

CEOs have ranked NIM a top-three concern for each of the last three years (2021 - 2023), yet other priorities have shifted. In 2021, CEOs' main concerns focused on fraud and security and failure to innovate, driven by the pandemic's mandate for digital-first transformation. **In 2022 and 2023, their top concerns were talent acquisition and retention**, that is, having the people necessary to drive digital transformation in all its forms.

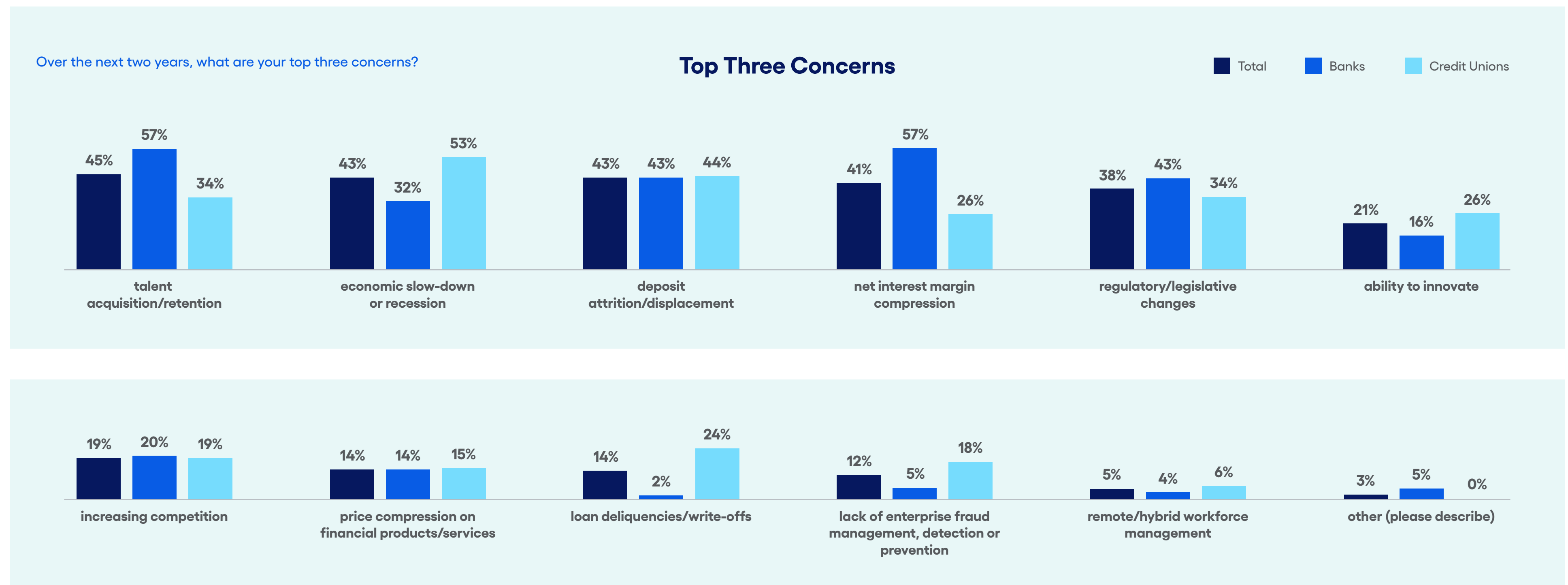
Banks and credit unions differ on several top concerns. **53%* of credit unions** report economic slow-down as their top concern, while **57%* of banks** report talent acquisition/retention tied with net interest margin compression as their top concerns.

Credit unions report loan delinquencies (24%*) and lack of an enterprise fraud solution (24%*) as bigger concerns compared to banks.

**Statistically significant*

Study Results: Top Concerns

When asked about their top concerns, CEOs report talent acquisition and retention (45%), economic slow-down (43%), deposit attrition and displacement (43%), and net interest margin (NIM) compression (41%) in priority order.



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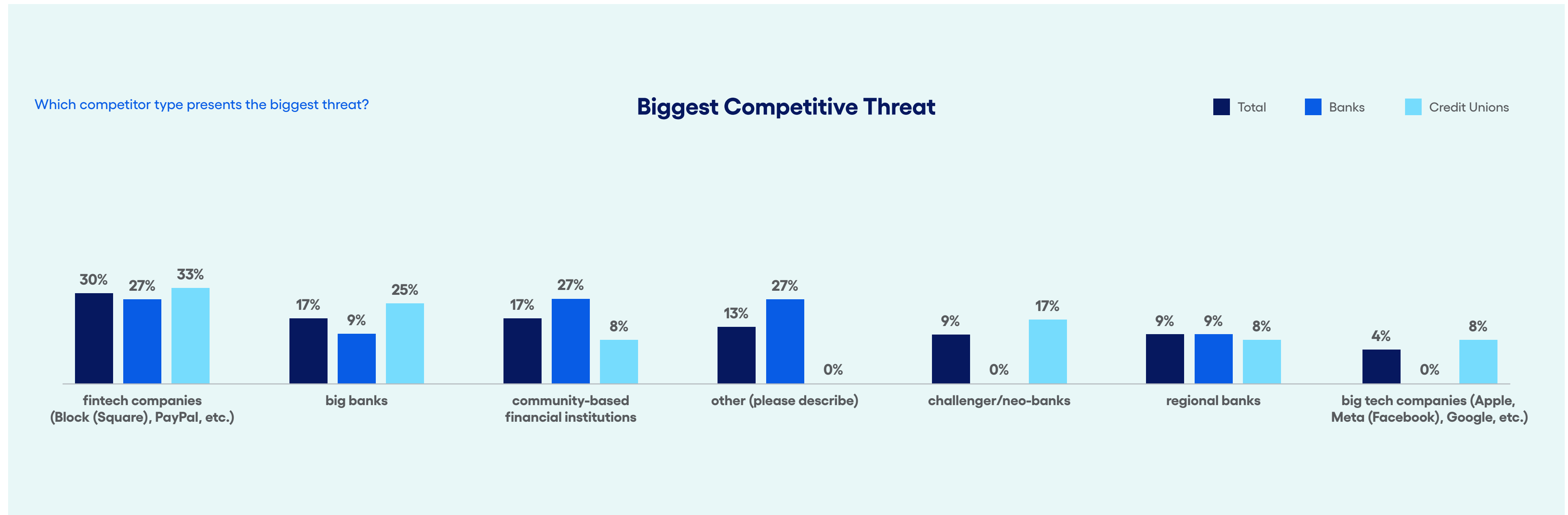
Study Results: Biggest Competitive Threat

While fintechs remain financial institutions' top competitive threat for the third year in a row, fear of fintechs has diminished significantly since 2021. Banks consider "other community financial institutions" the second biggest threat, while credit unions point to "big banks" as theirs. Banks also named wealth-techs and brokerage firms as important competitive threats in this year's survey.



Key Insights

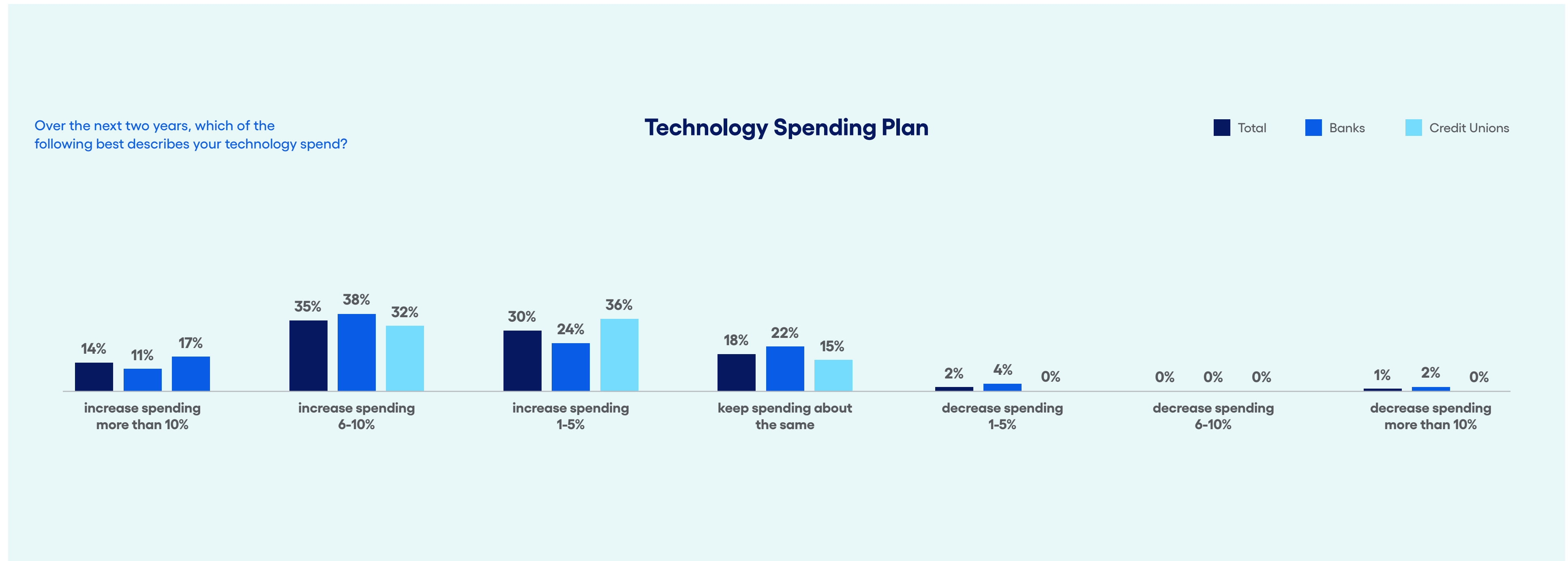
This year's survey was **the first year in which big tech companies were not considered a top competitive threat**, yet companies like Apple are introducing a high-yield savings account as well as attractive BNPL options.

80%* of financial institutions with asset sizes of $500M-<$1B reported fintechs as their primary competitive threat.

**Statistically significant*

Study Results: Technology Spending Plans

The vast majority (79%) of banks and credit unions plan to increase technology spend over the next two years.



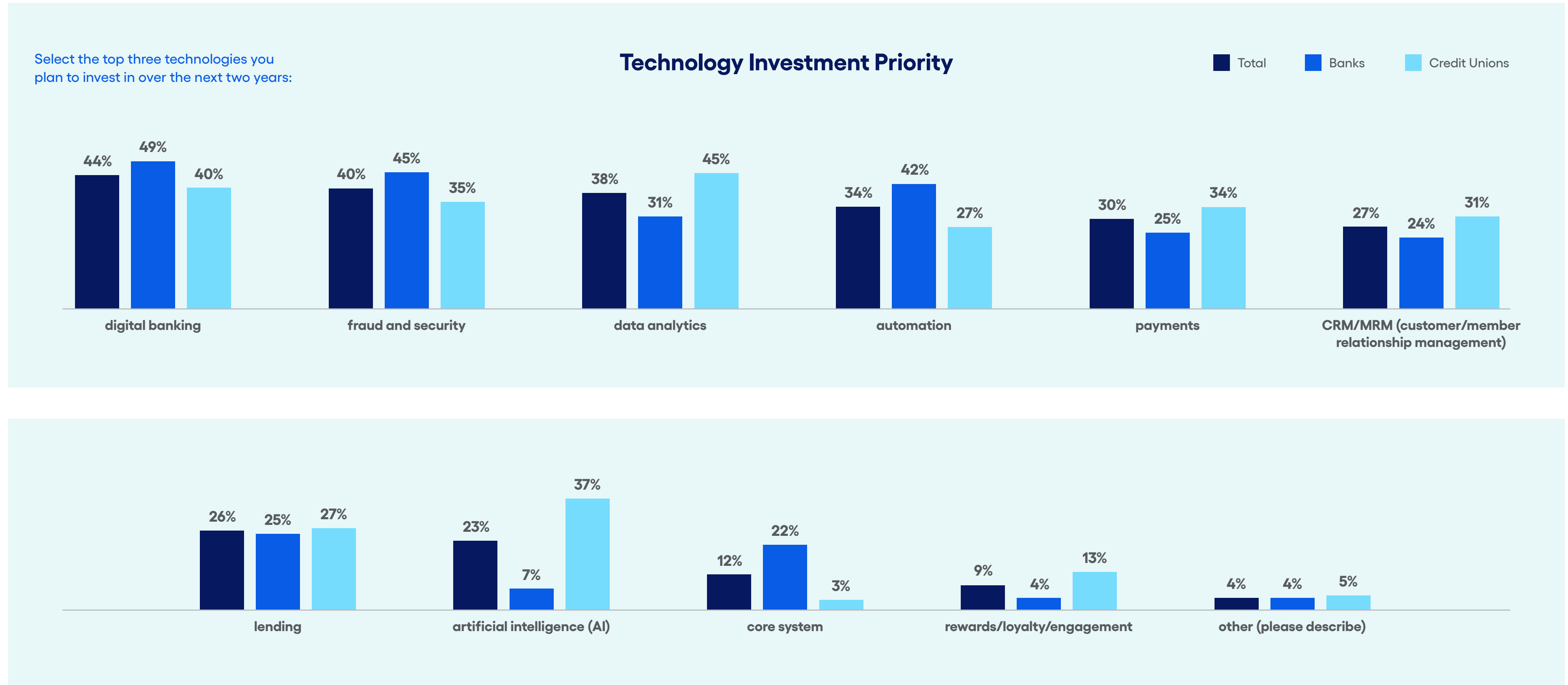
Key Insights

Of those planning to **increase their technology spend**, the biggest segment (35%) plans to increase investments between 6% and 10%.

Larger financial institutions (with assets $500M and up) plan to **increase investments** more than those in smaller asset tiers.

Study Results: Technology Investment Priorities

Digital banking, fraud and security, and data analytics are the top three technologies CEOs plan to invest in over the next two years.



Key Insights

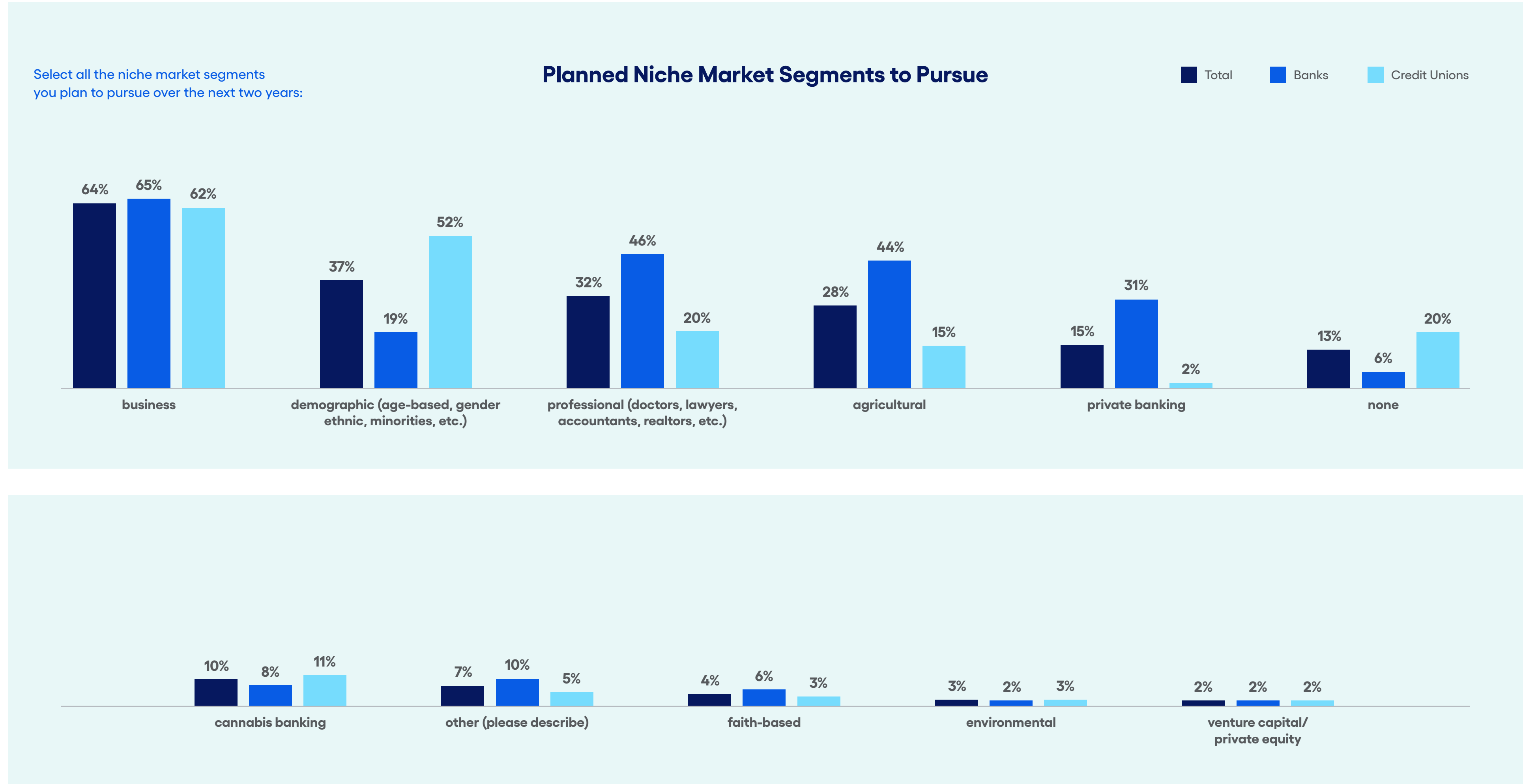
Credit unions have more interest in **data analytics** while banks report higher interest in **digital banking and fraud and security**.

Credit unions are much more **focused on AI** (37%*) compared to banks, which report higher interest in **core systems** (22%*).

**Statistically significant*

Study Results: Niche Plans

Banks and credit unions continue to be keen on pursuing niche markets. The top three types of niches financial institutions are targeting over the next two years are business, demographic, and professional.



Key Insights

87% of respondents plan to serve a niche market – with businesses as their top priority.

Of those that plan to target businesses, **78% are focusing on sole proprietors.**

Of those that plan to target a demographic, **71% are focusing on age-based segments.**

Credit unions are more focused on **demographic niches** (52%*), while banks are more focused on **professional** (46%*), **agricultural** (44%*), or **private banking** (31%*) **niches.**

**Statistically significant*

74%*

of banks

plan to serve mid-sized businesses while **18%* plan to serve corporate entities.**

**Statistically significant*

Study Results:
Plans to Expand Small Business Services

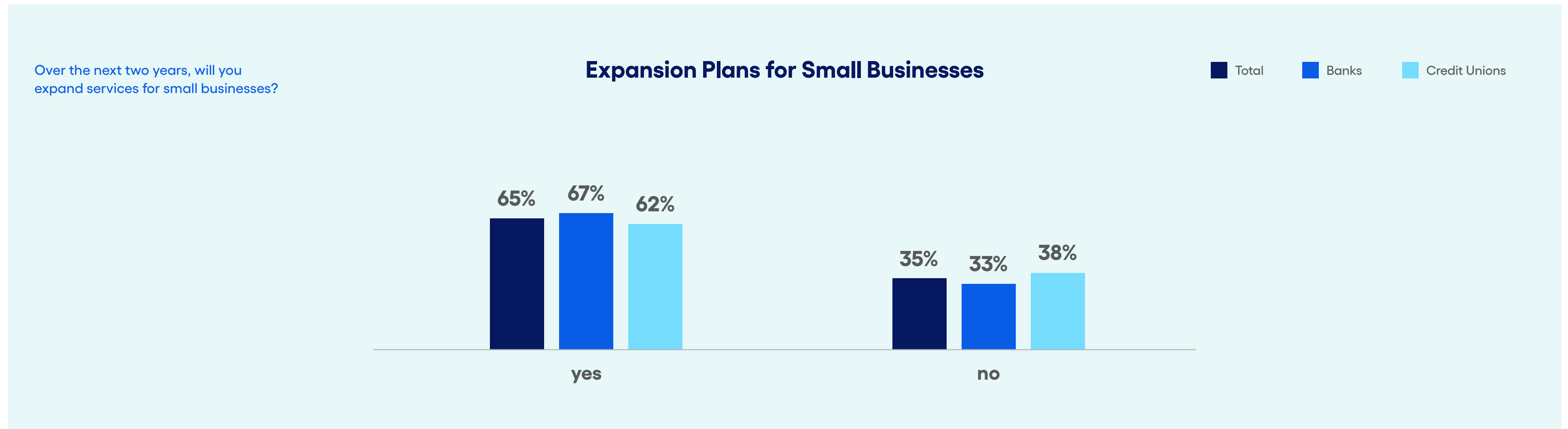
Given banks and credit unions are focused on pursuing business niches, we also asked participants about their plans to expand services for small businesses.

42%*

of credit unions

plan to offer business payroll services **within the next two years.**

Statistically significant



Key Insights

65% of financial institutions plan to expand services to small businesses.

Almost **two-thirds of financial institutions** plan to add business credit/lending with nearly 50% planning to add merchant services.

Only **24% of financial institutions** plan to add cash flow analysis, a critical capability for all businesses, especially if a downturn materializes this year.

core

Clouds and Cores: The Path Is Clear, Incremental, and De-Risked

The Big Picture

The cascading inflection points of 2022 have placed an even higher premium on strategic agility, real-time data strategy, and modern tech stacks in 2023.

While economies of scale drove the initial adoption of cloud computing, an underlying shift is quickly making the public cloud the only option for most computing applications – especially mission-critical, time-sensitive, transactional applications.

Behind the scenes of modern computing is a wide array of powerful, public-cloud tooling that is critical to the services and apps we rely upon every day. And, increasingly, developers of those services and apps are designing them to be cloud-native.

To access the latest analytical algorithms, the most advanced and effective security services, the fastest real-time data management, and the best zero-trust environments for privacy, you have to be in the public cloud.

What's Next

According to a recent survey by Arizent, 80% of U.S. financial institutions expect to have at least 20% of their apps in the cloud in 2023.[1]

More than one-fourth of institutions expect to have over half of their apps in the cloud, and nearly 40% say cloud-based architectures are a top spending priority in 2023.[2]

To access the latest analytical algorithms, the most advanced and effective security services, the fastest real-time data management, and the best zero-trust environments for privacy, you have to be in the public cloud.

While the journey to full-service, cloud-based cores is still in its early stages, the relative costs of doing nothing are rising. Cloud-native development allows organizations to benefit from continuous innovation and deployment, enhancing speed to market and reducing the resources required to make changes – a critical component of success in an environment regularly upended by new inflection points and market shifts.

Cores designed for composability via microservices architecture also provide the ability to deploy and enhance standalone applications quickly.

Cloud is also driving new industry pricing standards.

As scalability becomes much more elastic, it becomes feasible to offer usage-based cost models in which organizations only pay for the capacity they consume. The ability to eliminate the costs of excess capacity coupled with a lower overall cost of ownership will ultimately make it easier, faster, and less expensive to operate a financial institution.

In this way, cloud architecture levels the playing field between small and large providers.

What to Do

In recent years, pressure to go to market quickly with a separate digital brand or a one-off offering led some financial institutions to deploy a "side core" in the cloud.

Side cores are not full-service cores. They cannot run your entire financial institution. Also, because side cores are not integrated with the primary core, they add complexity, operational fragmentation, and technical debt.

Given the flexibility of cloud-native architecture, some full-service legacy cores are unbundling and rebuilding each of their functions as micro-services on the cloud. By doing so, banks and credit unions have the opportunity to modernize their cores over time and eliminate the pain of a rip-and-replace conversion. This approach de-risks your gradual conversion to a fully modernized tech stack – providing roll-back to any legacy core function in the interim for any reason.

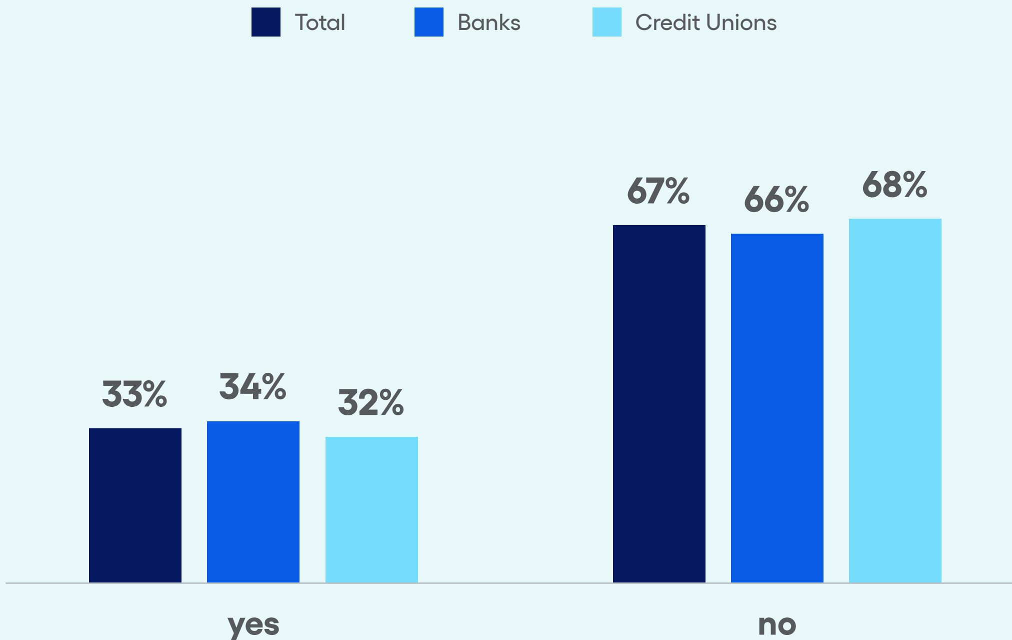
No matter the final state of evolving full-service, cloud-native cores, the benefits of modern, public-cloud architecture and design are clear and compelling.

The expertise and skills required to manage cloud infrastructure, however, differ from those needed to manage traditional, on-premise IT. To remain competitive, banks and credit unions should begin developing cloud competence and recruiting the talent necessary to optimize cloud-native management of data and applications.

No matter the final state of evolving full-service, cloud-native cores, the benefits of modern, public-cloud architecture and design are clear and compelling.

Study Results: Plans for Public, Cloud-Native Cores

Banks and credit unions are learning to embrace the public cloud. One-third of financial institutions plan to include a public, cloud-native core in their strategic plans within the next two years.



Key Insights

Financial institutions with asset sizes of $500M-<$1B (45%*) and >$1B (48%*) are **much more likely to have a public, cloud-native core** in their plans. **Statistically significant*

As banks and credit unions become more knowledgeable of cloud technologies, they also **acclimate to the incremental, de-risked migration paths** that cloud-native components and architecture make possible.

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digital banking

Revenue Headwinds Force Financial Institutions to Get Serious About Small Business and Commercial Enterprise

The Big Picture

The small- to medium-sized business (SMB) market is a $370 billion revenue opportunity.[3]

Given downward pressure on non-interest income, regulatory scrutiny of OD/NSF fees, and consumer reluctance to pay for generic digital financial services, both banks and credit unions rolled into 2023 looking to leverage digital-first, relationship-based banking to expand and monetize their share of SMBs.

That's a tall order considering the top 25 U.S. banks now account for 84% of primary banking relationships with SMBs.

Meanwhile, community financial institutions have seen their share of primary business banking relationships shrink from 28% in 2018 to 16% in 2022 – an astounding 43% drop.[4]

On the other side of the SMB squeeze are the usual suspects: Block (fka Square®), Paypal, Intuit®, BaaS-fortified players like Shopify, and small-business-focused neobanks such as Bluevine® and Grasshopper™. These competitors continue using payments services (specifically, the collection of payments) to segway into lending and finance – providing short-term working capital to small businesses based on cash flow and accounts-receivable volumes.

What's Next

Unlike most fintechs and neobanks, community and regional financial institutions know the markets their SMBs serve, and they can use that knowledge to offer more attractive financing to SMBs.

While a recession may force some small companies to close, providing live, local, personal service in digital contexts will be a lifeline for many main-street businesses. Such service rendered digitally at the moment of need is something only local financial institutions can deliver, creating a unique opportunity for local banks and credit unions to recapture SMB market share while business-focused fintechs go upmarket with larger enterprises in a bid to endure a looming downturn.

What to Do

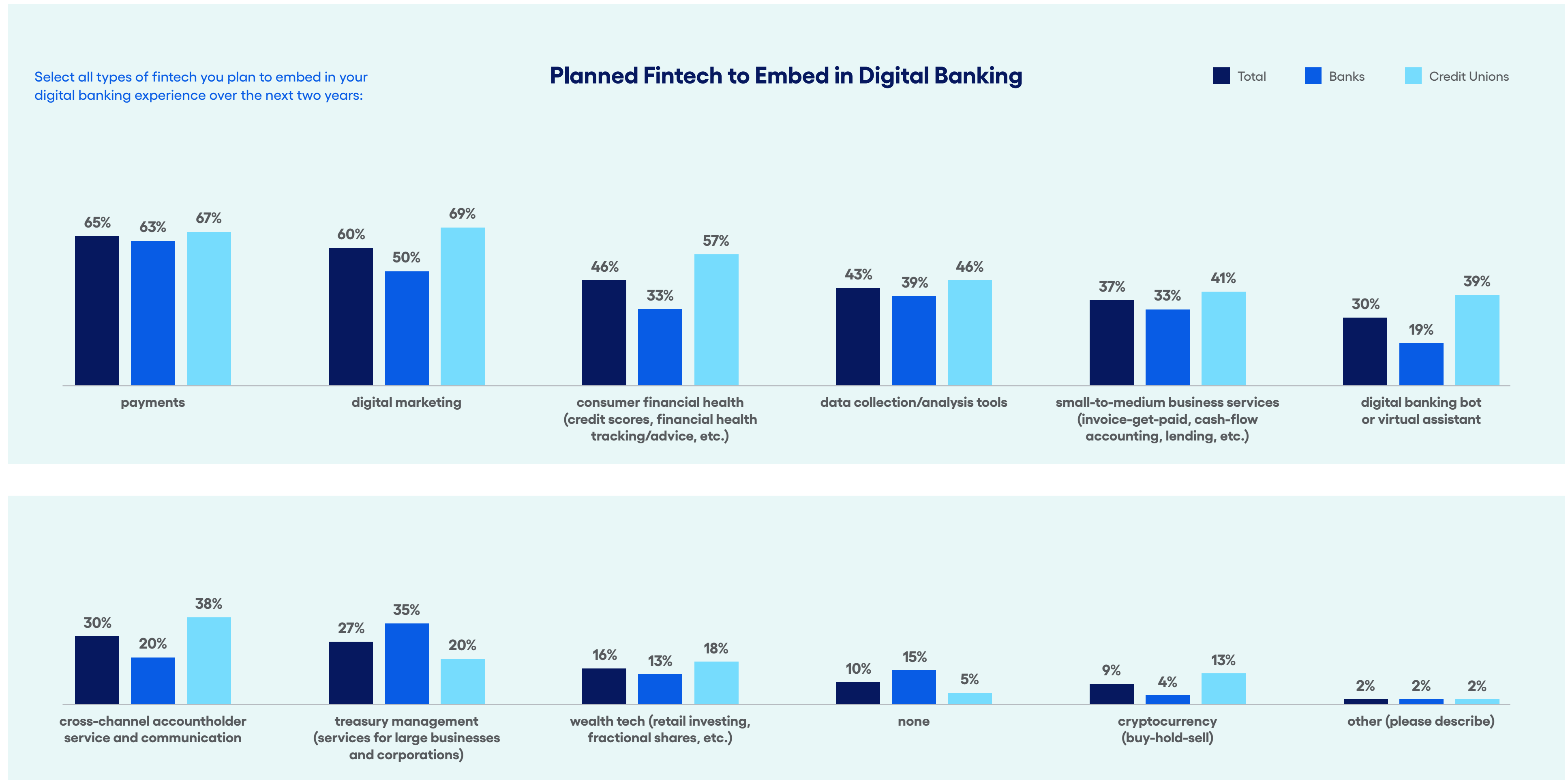
This year, SMBs need a single view from which to manage all of their cash positions, send and receive payments, predict cash flow, and easily tap working capital.

Simplified, universal payment acceptance across a growing and complex array of tender types and payment rails will be critical for SMBs struggling to survive economic headwinds.

Meanwhile, consumers expect early direct-deposit of paychecks in addition to automated savings and investment options. Co-managed account services for caregivers and parents will also be important for financial institutions that want to maintain generational loyalty and capture generational wealth transfers.

Study Results: Embedded Fintech Plans

Almost all financial institutions (90%) plan to embed fintechs into their digital banking experiences over the next two years, with 65% planning to embed payments fintechs – no surprise given the new payments rails coming online and open-loop, P2P alternatives maturing. Credit unions are also looking to embed digital marketing and consumer financial health fintechs while banks are looking to fintechs for help with data collection and analysis.



Key Insights

While only **4% of banks and credit unions** expressed interest in **launching a separate digital brand**, all those financial institutions plan to use their existing core (rather than an additional side core) to do so.

In general, credit unions are much more focused on solutions that **enhance their accountholder experience** (e.g., digital marketing (69%*), **consumer financial health** (57%*), **cross-channel communication** (38%*), and **digital banking bots or virtual assistants** (39%*)). In contrast, banks show more focus on treasury management (35%).

Statistically significant

90%

of financial institutions plan to embed fintechs into their digital banking.

open banking

Open Banking Enables Financial Institutions to Achieve First-App Status

The Big Picture

The proliferation of financial data exchange in the U.S. has made it easier for consumers to share their account information with a wide range of providers.

Even before rates began to rise in 2022, deposits held at community and regional financial institutions were being steadily displaced by a long list of new competitors and disruptors. The average American consumer uses 15 to 20 different financial service providers and 14 financial apps. Gen Y and Gen Z couples use upwards of 30 to 40 financial service providers.

This financial fragmentation makes it difficult to know where consumers stand with their money or which steps they should take next to improve their financial health.

Financial fragmentation, inflation, and the higher cost of living drove a decline in financial health in 2022 – the first decline of its kind in the last five years – resulting in 70% of Americans being considered financially unhealthy.[5]

What's Next

Product innovation and differentiation will be key drivers in 2023.

Strategic agility and the ability to match accountholders with the most relevant, high-grade fintech solutions in meaningful timeframes will be vital. Embedded fintech strategies will be tailored to specific segments and require a coherent API strategy and open platform for timely, third-party integrations.

What to Do

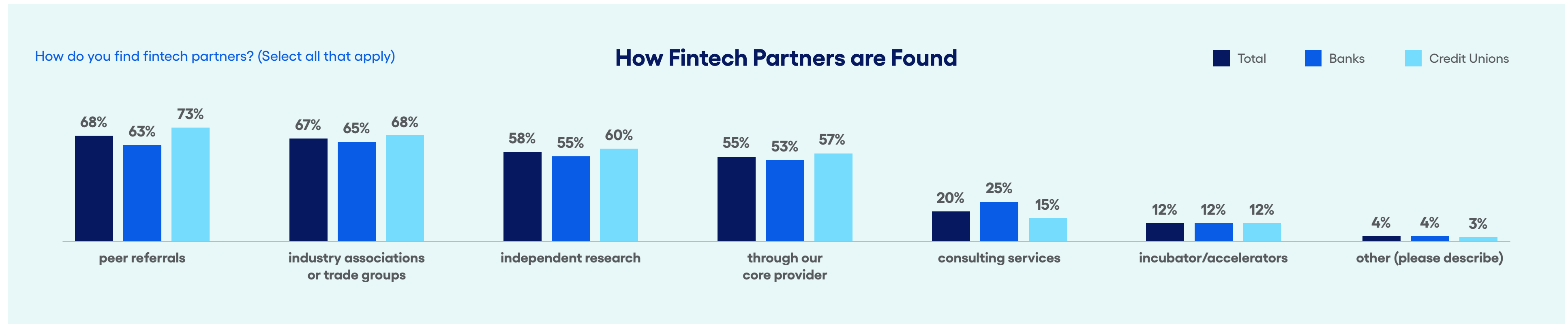
In 2023, successful banks and credit unions will use open-banking rails to solve financial fragmentation, achieve first-app status, eliminate inbound screen scraping, and reclaim their position at the center of their accountholders' financial lives.

By doing so, accountholders will be empowered with a full, 360-degree view of their finances and have the ability to share and control all of their financial data easily and securely in one place – far ahead of any mandate by the Consumer Financial Protection Bureau (CFPB) in 2024 around open banking and Section 1033 of the Dodd-Frank Act.

Strategic agility and the ability to match accountholders with the most relevant, high-grade fintech solutions in meaningful timeframes will be vital.

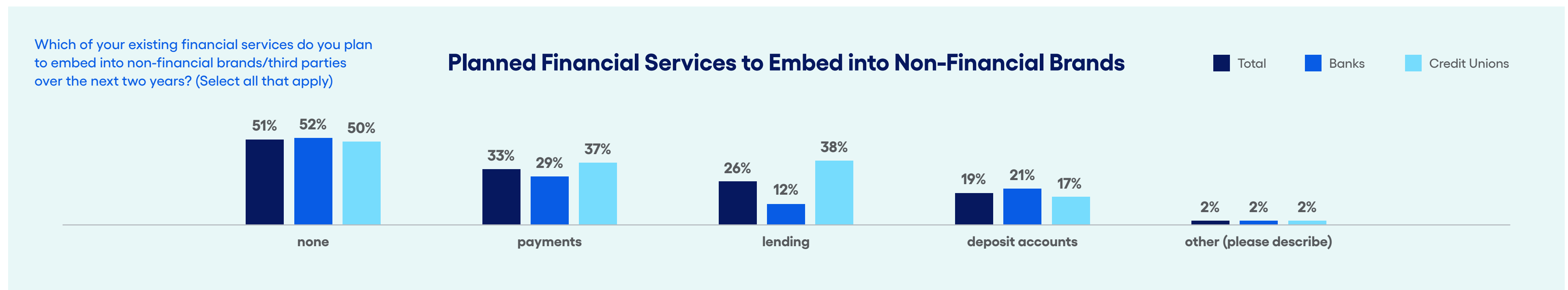
Study Results: How to Find Fintech Partners

Financial institution CEOs rely on a mix of resources to find fintech partners with their top choices including peer referrals, industry associations, consulting services, and core providers.



Study Results: Plans to Embed Banking into Third Parties

CEOs are about 50/50 when it comes to embedding their financial services into non-financial, third-party brands, with payments leading the type of service they're planning to embed. But with less than 3% of U.S. financial institutions offer Banking-as-a-Serivce (BaaS) and regulatory scrutiny increasing, many CEOs' plans may be more aspirational than fully realized over the next two years.



Key Insights

Compared to banks, credit unions (38%*) have a **greater interest** in embedding lending into third parties.

Payments lead plans for both outbound offerings as well as inbound embedded fintech strategies.

Almost

50%

of financial institutions plan to embed their financial services into third parties.

jh

payments

Slowdown in Payments Growth Shifts Behavior, Preferences, and Fintech Business Models

The Big Picture

Consumers returned to in-person shopping at physical stores in 2022, slowing ecommerce growth from 40%+ CAGR in 2020 to 10%+ CAGR in 2022.[6]

Meanwhile, debit cards overtook credit cards as the most preferred payment card driven by double-digit growth in debit card usage among younger generations: Gen Z's use of debit cards grew 26.8%, Millennials 18.4%, and Gen Xers 18.6%.[7]

Looking to avoid debt amid rising recession concerns, preference for debit cards, cash, and BNPL will continue to grow in 2023.

Large banks are bracing for slowing spending growth as consumers rack up record debt at record high rates. Net charge-offs and delinquencies are on the rise.

The inflation-fueled cost of living crisis continues to drive growing demand for cheaper, non-revolving forms of credit, especially among Gen Y and Gen Z. More than half of all consumers have used BNPL, and 67% of those consumers believe BNPL will replace traditional credit cards.[8]

What's Next

An economic slowdown in 2023 will further slow payments growth and severely challenge the payments-based business models of direct-to-consumer fintechs and neobanks. One out of every four payments fintechs is projected to fail in 2023.[9]

Meanwhile, the payments space will continue to fragment and grow in complexity as new tender types proliferate and new payment rails come on line.

Consumers and businesses must wrangle with different user experiences, multiple settlement times, and varying payment limits. The challenge will be to streamline the payments experience in ways that reduce complexity and allow the consumer or business to choose who they want to pay—and how soon—without having to know or choose which method of payment is used on the backend to effect settlement.

The inflation-fueled cost of living crisis continues to drive growing demand for cheaper, non-revolving forms of credit, especially among Gen Y and Gen Z.

While most of the largest U.S. banks have enrolled in The Clearing House's (TCH's) RTP network, many small and mid-size banks and credit unions have yet to join.

The launch of the Federal Reserve's FedNow℠ Service in 2023 will provide smaller financial institutions with an alternative (or complementary) instant-payments capability. Historically, new public payment rails inaugurate new eras of innovation built around new payments use cases and reimagined older use cases.

Account-to-account transfers (A2A), also known as pay-by-bank, will also gain traction as merchants look for cheaper, faster ways to get paid in the downturn.

What to Do

As momentum builds for simpler, faster, cheaper ways to pay, the challenge for banks and credit unions will be developing a payments strategy for the near- and long-term that keeps pace with innovation and evolving user expectations, especially around digital wallets.

Financial institutions should focus on removing complexity, integrating real-time options, and analyzing payments flows against which to extend working capital and credit to SMBs. Given attractive interest rates, businesses will, ironically, use faster payments to slow down accounts payable—making payments at the very last minute to maximize returns on deposits.

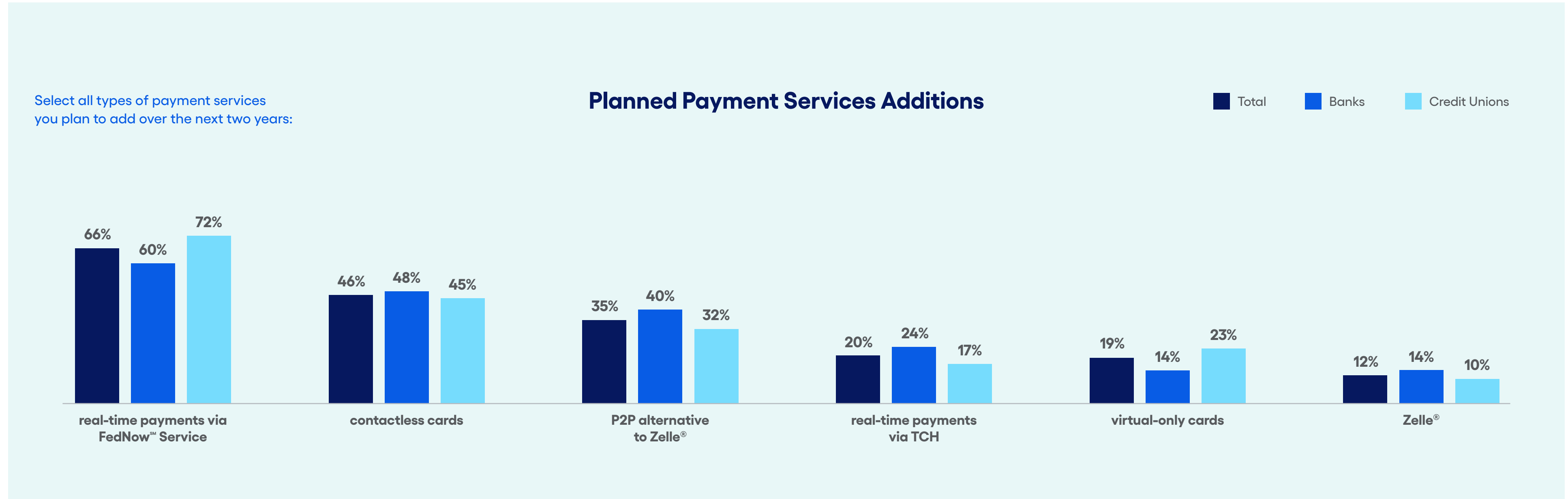
While impending BNPL regulations by the CFPB provide a convenient excuse to remain disengaged, banks and credit unions risk further cannibalization of their card franchises if they continue to ignore the rising demand for BNPL.

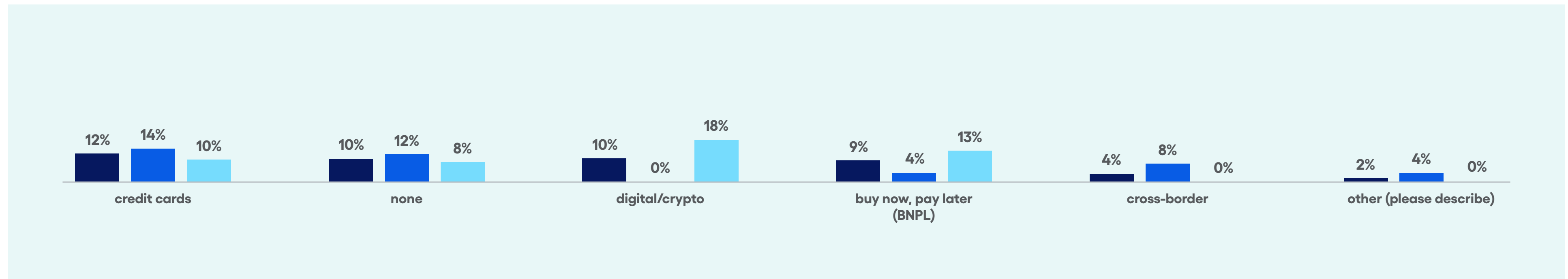
Finally, collecting and analyzing payment data will play an important role in strategic planning, as payments data helps financial institutions gather competitive intelligence, understand accountholder patterns and preferences for marketing segmentation, and identify/prevent cross-channel fraud in real-time.

Financial institutions should focus on removing complexity, integrating real-time options, and analyzing payments flows against which to extend working capital and credit to SMBs.

Study Results: Plans for New Payments Services

Payments continue to be a top priority for banks and credit unions, as almost all financial institutions plan to add new payments services over the next two years with FedNow℠ Service topping the list followed by contactless cards and a P2P alternative to Zelle®.





Key Insights

Faster payments factor into the top four payment services banks and credit unions plan to add.

Credit unions express a higher relative interest in digital/cryptocurrency (18%*) while banks indicate more interest in cross-border payments (8%*).

*Statistically significant

90%

of financial institutions plan to add payment services.

lending

How to Overcome Economic Headwinds and Waning Loan Demand

The Big Picture

In the first half of 2022, financial institutions reaped the rewards of high loan growth.

Unlike the first half of the year, the second half brought rising interest rates, inflation, and a looming recession – impacting both loan demand and the borrower's ability to repay. As a result, banks and credit unions are seeing loan momentum slow while delinquencies and charge-offs rise.

With these challenges come opportunities.

What's Next

Many financial institutions will continue to lend but must do so while mitigating risks and managing the accountholders' ability to repay.

Other financial institutions may automate and optimize the lending environment since loan volume is no longer driving balance sheets and income statements.

These strategies are a normal reaction to market conditions.

What to Do

Now is the time to capture market share by identifying new products and partnerships.

Consider lending strategies specific to your borrowers' lifestyles and reaching a more niche segment by meeting borrowers where they are. Explore partnerships with a local business where your financial institution may have a human connection while remembering that a disproportionate amount of consumer spending still takes place at the physical point of sale.

Finally, differentiate and tailor your loan offerings to your specific markets and segments rather than reacting predictably to general economic conditions.

Now is the time to capture market share by identifying new products and partnerships.

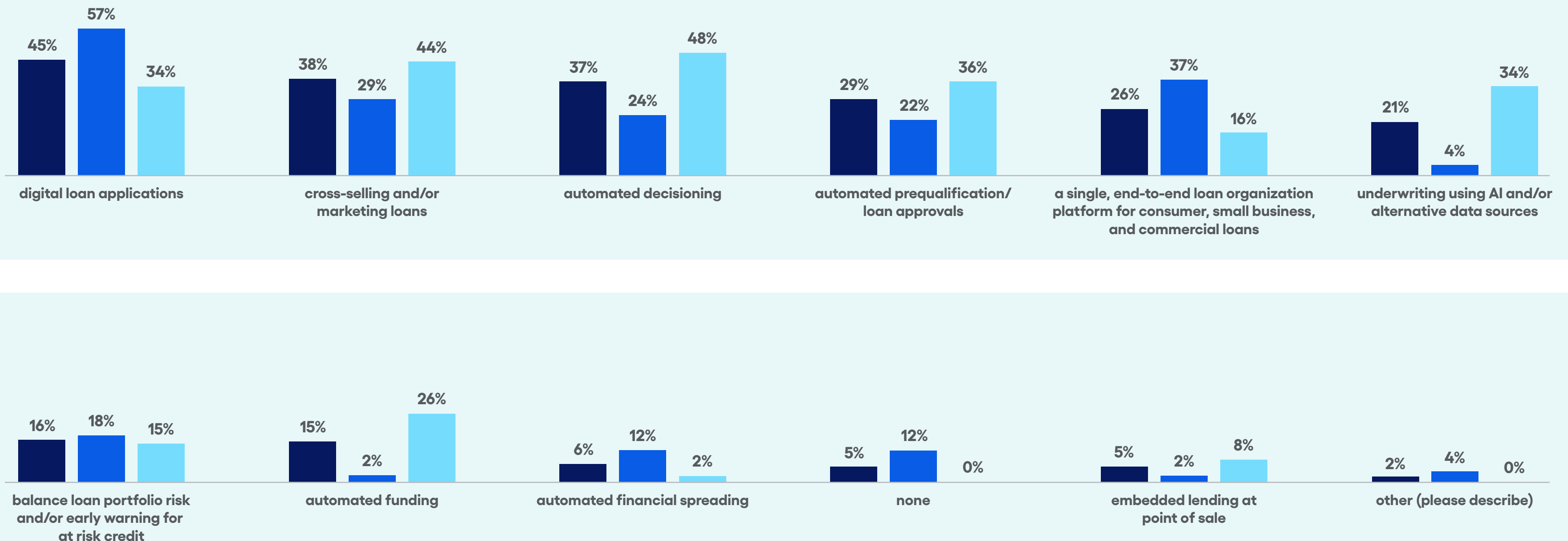
Study Results: Lending Priorities

For lending, digitizing loan applications comes in as the top priority followed by cross-selling/marketing, automated decisioning, and automated prequalification of loan approvals.

95% **of financial institutions** plan to enhance lending solutions.

Key Insights

Banks prioritize digital loan applications (57%*), single end-to-end loan platform (37%), and automated financial spreading (12%*), while credit unions report automated decisioning (48%*), underwriting using AI/alternative data (34%*), and automated funding (26%*) as their main focus.



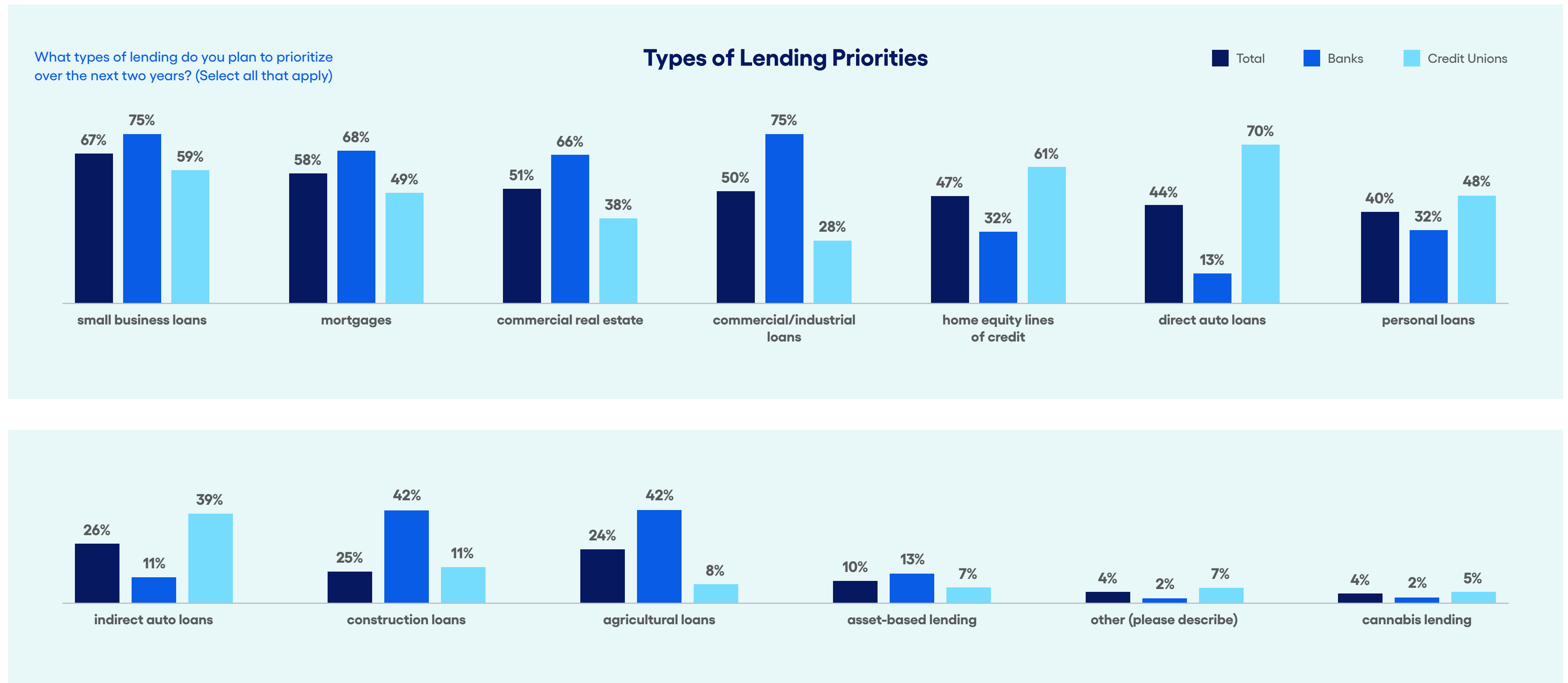
Study Results: Types of Lending

While 95% of all financial institutions plan to enhance their lending capabilities over the next two years, priorities diverge sharply and predictably between banks and credit unions. Despite their differences in commercial versus consumer focus, both banks and credit unions are expanding their types of lending across the board.

Key Insights

Banks show a higher interest in mortgages (68%*), commercial real estate (66%*), commercial or industrial loans (75%*), construction (42%*), and agricultural (42%*) loans.

Credit unions show a greater interest in home equity lines of credit (61%*), direct auto loans (70%*), and indirect auto loans (39%*).



risk, fraud, and security

Payments Innovation Exposes Security Weaknesses and Strains Unprepared Financial Institutions

The Big Picture

With real-time payments driving speed and innovation, consumers are taking advantage of enhanced ease of use, immediate funds transfers, and frictionless experiences.

So are fraudsters.

With real-time payments comes real-time fraud and the need for real-time fraud detection, prevention, mitigation, and data analytics – including the AI and machine learning (ML) that make these protections possible.

Compounding the speed of fraud is the sheer number of fraudsters attacking. The influx of fraudsters that emerged over the course of the pandemic is here to stay – creating long-term consequences for financial institutions, such as rising attack volumes, consumer-targeted scams, and zero-day threats that render traditional, rules-based fraud-control methods inadequate.

All of these challenges contribute to the need for enhanced security and fraud mitigation – another top tech spending priority for banks and credit unions in 2023.

What's Next

In 2023, authorized push payment (APP) fraud will continue to rise.[10]

APP is a form of fraud in which victims are manipulated into making real-time payments to fraudsters, typically by social engineering attacks involving impersonation. For fraudsters, this method is easy and the rewards are immediate.

Combatting APP fraud will remain a priority for financial institutions as losses grow.

Expect the CFPB to clarify questions surrounding APP-fraud liability, especially in and around P2P services like Zelle and Venmo. The United Kingdom's contingent reimbursement model (CRM) may be used as a guidepost for future CFPB action.

In 2023, authorized push payment (APP) fraud will continue to rise.

As consumer attacks persist, commercial entities will also be targeted.

Data breaches will accelerate, and the data harvested from those breaches will be used to wage ransomware attacks against smaller businesses with less sophisticated cybersecurity infrastructures. Given financial institutions' renewed focus on serving more SMBs in 2023, authentication and security for digital business banking – as well as the communication between financial institutions and SMBs – must be robust.

What to Do

Mature open-banking rails and growing volumes of financial data exchange broaden the attack surface for a growing array of cybersecurity and fraud threats.

However, financial data exchange is also a powerful new tool for authenticating identity, verifying authorizations, and validating information. Being able to use financial data exchange tools in real-time is key. Your financial institution must ensure the right systems with the right data can communicate in real-time to identify anomalies and malicious patterns across digital behavior and transactions.

Given that the most advanced AI/ML and effective security algorithms are now exclusive to the best public-cloud providers, financial institutions will continue to migrate applications, data, and tech stacks to zero-trust, cloud-native environments in 2023 and beyond.

Your financial institution must ensure the right systems with the right data can communicate in real-time to identify anomalies and malicious patterns across digital behavior and transactions.

Study Results: Fraud & Security Threats

Phishing attacks and real-time payments fraud are the most concerning fraud and security threats.

Key Insights

CEOs are most concerned about spear phishing attacks (70%), followed by real-time payments fraud (54%) and data breaches (49%). While a real concern exists across the board for fraud and security in general - as **both financial institutions and fintechs have experienced historically high rates of fraud over the last 12 months** - insider fraud barely registers (4%).

recommendations

Last year's inflection points gave rise to distinct market shifts that are creating new opportunities for banks and credit unions in 2023:

Growing deposits in the face of contraction, churn, and displacement:

The collapse of Silicon Valley Bank (SVB) accelerated deposit churn that began in December of 2022. The recent launch of Apple Card's new high-yield savings account adds even more urgency for banks and credit unions to strengthen existing deposit relationships and grow deposits by acquiring new accountholders.

The best deposit strategies are targeted, tiered, segmented and strategic.

High-performing peers not only price deposits strategically, but they also get creative with the old tools of CDs and savings accounts and, for example, offer re-financing of CDs mid-term or create hybrid bundles that better balance the financial institution's liquidity and low cost of funds with the accountholder's desire for a marginally better rate.

Even before SVB's failure, banks and credit unions looking to shore up deposit gaps among Gen Y and Gen Z were offering early-paycheck access and mobile-only account openings that don't force account funding upfront – both staples among neobanks like Chime.

Talent acquisition:

Last year, recession fears and rising interest rates tightened fintechs' access to venture capital and prompted mass layoffs at fintechs of all sizes. U.S. tech companies laid off more than 150,000 workers in 2022 – giving banks and credit unions their first real opportunity to acquire the tech talent needed to fast-track ongoing digital transformation,

The best deposit strategies are targeted, tiered, segmented and strategic.

pursue niche strategies, and develop competence in data analytics and cloud management.

This year, the collapse of SVB accelerated tech layoffs, giving financial institutions an even larger pool of talent from which to recruit. Many tech workers are now looking for the stability that chartered financial institutions offer.

Small and medium-sized business (SMB) lending:

Given downward pressure on non-interest income, regulatory scrutiny of OD/NSF fees, and consumer reluctance to pay for generic digital financial services, both banks and credit unions entered 2023 looking to leverage digital-first, relationship-based banking to expand and monetize their share of SMBs.

Rising rates make it harder for SMBs to secure loans – meaning startups can't launch, early-stage companies struggle to grow, and fewer SMBs have access to working capital. Unlike most fintechs and neobanks, community and regional financial institutions know the markets their SMBs serve and can use that knowledge to mitigate credit risk and offer more attractive financing to SMBs – giving banks and credit unions an opportunity to reclaim market share lost to fintechs and neo banks over the last five years.

From "crypto winter" to wealth-tech spring (automated savings and investment capabilities):

There is a growing concern, especially among bank CEOs, about the competitive threat posed by investment brokerages and robo-advisors. As consumers chase rates and deposit churn accelerates in 2023, more banks and credit unions will deploy automated savings and investment options to protect core deposits, attract new depositors, and foster financial health among accountholders – for which demand grows, given over 70% of Americans are financially unhealthy.[11]

The "crypto winter" of 2022 combined with a pressing need for fresh revenue streams will drive a new wave of wealth-tech offerings among financial institutions – bringing a full spectrum of safe and regulated investment options to average accountholders.

Payments strategy is deposit strategy in 2023 and 2024:

The launch of the Federal Reserve's FedNow℠ Service in 2023 will provide financial institutions with an alternative (or complementary) instant-payments capability.

Historically, new public payments rails inaugurate long eras of innovation built around new payments use cases and reimagined older use cases. The biggest originators of payments in the U.S. will use FedNow to optimize their payments orchestration. At a minimum, banks and credit unions should elect to receive FedNow payments to bolster their deposit acquisition strategies.

As momentum builds for simpler, faster, and cheaper ways to pay, the challenge will be developing a payments strategy for the near- and long-term that keeps pace with innovation and evolving user expectations – especially around digital wallets. Driven by the prospect of new revenues and new sources of deposits, one-third of financial institutions are looking to embed payments capabilities into third-party brands.

Differentiating on real-time fraud and security:

With real-time payments driving speed and innovation, consumers are taking advantage of immediate funds transfers and frictionless experiences – as are fraudsters. With real-time payments comes real-time fraud and the need for real-time fraud detection, prevention, and mitigation – including the data analytics, ML, and AI that make these protections possible.

While the increasing exchange of financial data broadens the attack surface for a growing array of cybersecurity and fraud threats, open banking rails also provide a powerful new tool for authenticating identity, verifying authorizations, and validating information in real time. Ensuring the right systems with the right data can communicate in real-time to identify anomalies and malicious patterns across digital behaviors and transactions will be a key differentiator in 2023 and 2024. Competency in real-time fraud mitigation also enables financial institutions to raise transaction limits, remove friction, and deliver better payments services and experiences across the board.

Financial institutions that proactively take advantage of market shifts are better positioned to capture upside potential and mitigate downside risk – no matter how the economy unfolds in 2023.

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Next Steps

Thank you to every CEO who participated in our 2023 survey. We appreciate your time! All Jack Henry core clients are invited to participate in our annual study. Be on the lookout for an email from Jack Henry this December.

Participants in the survey receive:

- A summary of your responses to compare against those of your peers.
- An invitation to a webinar review of results, strategic implications, and key takeaways.

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At Jack Henry, we believe the world is a better place with community and regional banks and credit unions. And we intend to keep it that way. For more than 45 years, we've put financial institutions at the center of our modernization. We're here to help you innovate faster, differentiate strategically, and compete successfully – all with one goal in mind: to improve the financial health of the people you serve.

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