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CONSULTING

Fintech GTM Strategy Deck

Fintech Product I Banks and Credit Unions

Avg. Reading Time: 3 min

Safe Harbor Statement

Presentation contains forward-looking statements subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied. These risks include, but are not limited to, clients' abilities to utilize our services effectively, adverse legal or regulatory actions, negative publicity, and lengthy sales cycles. These statements reflect our current expectations, but should not be relied upon as predictions. We are not obligated to update them, except as required by law.

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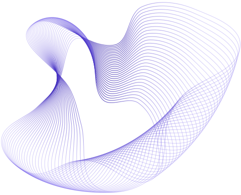
Mandate

Reduce sales cycles for fintech's selling to FI's by evolving the product to be more relevant to an FI. Specifically, relevant with respect to a financial outcome for the FI or becoming an integral part of a roadmap for an FI.

Deposits + Profitability



Concurrent Timeline

Product Knowledge (2-Weeks)	Develop GTM for FI's (2-4 Weeks)	Roadmap for FI's (4-6 Weeks)
Review Demo Content	Commercial Banking 101	Develop Pricing Model
Review Value Calculator	Balance Sheet Modeling	Capital Raising Assessment
Review Marketing & Value Stories	Product Vetting & Scorecard	Establishing A Blueprint For FI
Review Product Elements	Bank Personas	Develop A Roadmap For FI

Optimize Distribution Channels

Direct (Bank) **Direct (Credit Union)** **Digital Banking** **Core Banking** **Capital Markets (Venture)**
Capital Markets (PE) **Middleware** **Industry** **Accelerator** **Corporates**

Direct to Bank Channel

Primary touch point with the actual buyer. However, must be presented in the broader context of roadmap, strategic and financial objectives. Long sales cycle in this channel given the complexities of selling to FI's. Poor at marketing and gaining full utilization of product.

Direct (Bank) **Direct (Credit Union)** **Digital Banking** **Core Banking** **Capital Markets (Venture)**
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Direct to Credit Union Channel

Primary touch point with the actual buyer. Different business model than banks, but still have profit motivations. Like banks, must be presented in the broader context of roadmap, strategic and financial objectives. Long sales cycle in this channel given the complexities of selling to FI's. Poor at marketing and gaining full utilization of product.

Direct (Bank) **Direct (Credit Union)** **Digital Banking** **Core Banking** **Capital Markets (Venture)**
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Digital Banking Channel

Digital banking channel is very important because these are mission critical technologies given that FI's are not building their own technology. Important to be pre-integrated with this channel to allow for quicker implementation cycles. Economics of this channel can be challenging given the revenue sharing arrangements between Fintech's and channel.

Direct (Bank) **Direct (Credit Union)** **Digital Banking** **Core Banking** **Capital Markets (Venture)**
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Core Banking Channel

Core banking channel is very important because of ledgering technology that enables FI's to lend money and collect deposits. Important to be pre-integrated with this channel to allow for quicker implementation cycles. Economics of this channel can be challenging given the revenue sharing arrangements between Fintech's and channel partners.

Direct (Bank) **Direct (Credit Union)** **Digital Banking** **Core Banking** **Capital Markets (Venture)**
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JAM FINTOP CAPITAL
BankTech VENTURES
COTA CAPITAL
g

Capital Markets Channel

Capital markets channel, specifically venture and private equity, can be optimized to the extent the fintech has the right capital markets partners. To the extent, FI's have invested in the funds, the objectives of the Fund, the FI and the Fintech are all aligned from an economic perspective.

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BankTech VENTURES
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core10
b

Middleware Channel

Middleware channel is rapidly growing in the FI space as many FI's are seeking to reduce their reliance on the core, speed implementation times, develop data and payments strategies and ultimately create efficiencies in their technology stack. Partnerships with middleware likely provide better economics than the Digital Banking channel.

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TexasBankers Association
IBAT
America's Credit Unions

Association and Trade Group Channel

Middleware channel is rapidly growing in the FI space as many FI's are seeking to reduce their reliance on the core, speed implementation times, develop data and payments strategies and ultimately create efficiencies in their technology stack. Partnerships with middleware likely provide better economics than the Digital Banking channel.

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Accelerator and Incubator Channel

Similar to the capital markets channel, the accelerator and/or incubator channel can be advantageous to the Fintech. The interests of the FI, Accelerator and Fintech are all aligned from an economic perspective and Accelerators can make important introductions to the FI's it has relationships with.

Direct (Bank) **Direct (Credit Union)** **Digital Banking** **Core Banking** **Capital Markets (Venture)**

Capital Markets (PE) **Middleware** **Industry** **Accelerator** **Corporates**

Corporates Channel

Nothing more powerful than FI clients, both small and midsize businesses, asking an FI to incorporate a certain tool or technology. FI's will adopt, especially to the extent their clients are asking for something. Products that positively impact the corporate community will gain traction.

Developing an FI Roadmap

Developed in the context of key focus areas, resource allocation and overall risk assessment. Determining current state vs. desired future state for the FI within the overall culture of the FI.

Vendor Assessment

- # of Unique Vendors
- Overlap in Vendor Set
- Opportunities to Reduce Vendors
- Overall Technology Spend

FTE Assessment

- Organizational FTE Strategy
- # of FTE's in Roles
- Number of Different Organizations
- Overall FTE Cost

Financial Assessment

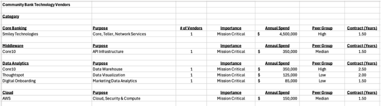
- Revenue Focus
- OpEx Reduction Focus
- ALM Strategy Focus

Recommendations

- Technology Roadmap
- LOB Profitability Analysis
- Peer Group Assessment

Vendor Selction and Technology Spend

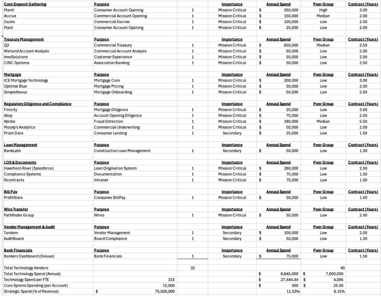
30+ Vendors in the Enterprise



Community Bank Technology Vendors						
Category						
Core Banking	**Purpose**	**# of Vendors**	**Importance**	**Annual Spend**	**Peer Group**	**Contract (Years)**
Smiley Technologies	Core, Teller, Network Services	1	Mission Critical	$ 4,500,000	High	1.50
Middleware	**Purpose**		**Importance**	**Annaul Spend**	**Peer Group**	**Contract (Years)**
Core10	API Infrastructure	1	Mission Critical	$ 350,000	Median	1.50
Data Analytics	**Purpose**		**Importance**	**Annaul Spend**	**Peer Group**	**Contract (Years)**
Core10	Data Warehouse	1	Mission Critical	$ 350,000	High	2.50
Thoughtspot	Data Visualization	1	Mission Critical	$ 125,000	Low	2.00
Digital Onboarding	Marketing Data Analytics	1	Mission Critical	$ 85,000	Low	1.50
Cloud	**Purpose**		**Importance**	**Annaul Spend**	**Peer Group**	**Contract (Years)**
AWS	Cloud, Security & Compute		Mission Critical	$ 150,000	Median	1.50

Vendor Selection and Technology Spend

Assessing technology spend and vendor stack is critical, especially in the context of peer group, per full time employee and per account costs. Generally, community banks are spending between $5-10MM per year (often equates to 6-7% of revenue) on total technology spend, much of which is spent on core banking and digital banking technology.



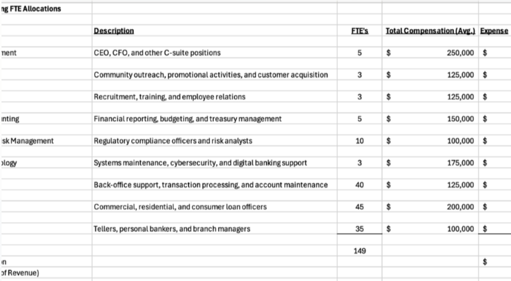
Core Deposit Gathering	**Purpose**		**Importance**	**Annaul Spend**	**Peer Group**	**Contract (Years)**
Mantl	Consumer Account Opening	1	Mission Critical	$ 350,000	High	3.00
Accrue	Commercial Account Opening	1	Mission Critical	$ 150,000	Median	2.00
Zsuite	Commercial Escrow	1	Mission Critical	$ 100,000	Low	2.00
Plaid	Consumer Account Opening	1	Mission Critical	$ 25,000	Low	2.00
Treasury Management	**Purpose**		**Importance**	**Annaul Spend**	**Peer Group**	**Contract (Years)**
Q2	Commercial Treasury	1	Mission Critical	$ 850,000	Median	2.50
Weiland Account Analysis	Commercial Account Analysis	1	Mission Critical	$ 50,000	Low	2.00
InvoSolutions	Customer Experience	1	Mission Critical	$ 50,000	Low	2.00
CINC Systems	Association Banking	1	Mission Critical	$ 50,000	Low	2.50
Mortgage	**Purpose**		**Importance**	**Annaul Spend**	**Peer Group**	**Contract (Years)**
ICE Mortgage Technology	Mortgage Core	1	Mission Critical	$ 200,000	Low	3.00
Optimal Blue	Mortgage Pricing	1	Mission Critical	$ 50,000	Low	2.00
SimpleNexus	Mortgage Onboarding	1	Mission Critical	$ 50,000	Low	2.00
Regulatory Diligence and Compliance	**Purpose**		**Importance**	**Annaul Spend**	**Peer Group**	**Contract (Years)**
Finicity	Mortgage Diligence	1	Mission Critical	$ 25,000	Low	3.00
Alloy	Account Opening Diligence	1	Mission Critical	$ 75,000	Low	2.00
Abribo	Fraud Detection	1	Mission Critical	$ 180,000	Median	5.50
Moody's Analytics	Commercial Underwriting	1	Mission Critical	$ 50,000	Low	2.00
Prism Data	Consumer Lending	1	Secondary	$ 25,000	Low	1.50
Loan Management	**Purpose**		**Importance**	**Annaul Spend**	**Peer Group**	**Contract (Years)**
BankLabs	Construction Loan Management	1	Secondary	$ 50,000	Low	1.50
LOS & Documents	**Purpose**		**Importance**	**Annaul Spend**	**Peer Group**	**Contract (Years)**
Hawthorn River (Salesforce)	Loan Origination System	1	Mission Critical	$ 280,000	Low	2.50
Compliance Systems	Documentation	1	Mission Critical	$ 75,000	Low	1.50
Ncontracts	Intranet	1	Mission Critical	$ 75,000	Low	1.50
Bill Pay	**Purpose**		**Importance**	**Annaul Spend**	**Peer Group**	**Contract (Years)**
ProfitStars	Consumer BillPay	1	Mission Critical	$ 50,000	Low	1.50
Wire Transfer	**Purpose**		**Importance**	**Annaul Spend**	**Peer Group**	**Contract (Years)**
Pathfinder Group	Wires	1	Mission Critical	$ 50,000	Low	2.00
Vendor Management & Audit	**Purpose**		**Importance**	**Annaul Spend**	**Peer Group**	**Contract (Years)**
Tandem	Vendor Management	1	Secondary	$ 100,000	Low	2.00
AuditBoard	Board Compliance	1	Secondary	$ 50,000	Low	1.50
Bank Financials	**Purpose**		**Importance**	**Annaul Spend**	**Peer Group**	**Contract (Years)**
Bankers Dashboard (Deluxe)	Bank Financials	1	Secondary	$ 75,000	Low	1.50
Total Technology Vendors		32			40	
Total Technology Spend (Annual)				$ 8,645,000	$ 7,000,000	
Technology Spend per FTE	315			$ 27,444.44	$ 4,095	
Core Sytems Spending (per Account)	15,000			$ 300	$ 25.00	
Strategic Spend (% of Revenue)	$ 75,000,000			11.53%	6.15%	

FTE Allocations and Spend

150+ FTE's (depending on size and complexity)

FTE Allocations and Spend

Assessing full-time employee allocations against overall spend and profitability is important, especially in the context of overall organizational readiness. Fintech's and FI's should be aligned with regard to any new resources necessary for successful execution of a strategy.



ng FTE Allocations				
	Description	**FTE's**	**Total Compensation (Avg.)**	**Expense**
nent	CEO, CFO, and other C-suite positions	5	$ 250,000	$
	Community outreach, promotional activities, and customer acquisition	3	$ 125,000	$
	Recruitment, training, and employee relations	3	$ 125,000	$
nting	Financial reporting, budgeting, and treasury management	5	$ 150,000	$
sk Management	Regulatory compliance officers and risk analysts	10	$ 100,000	$
ology	Systems maintenance, cybersecurity, and digital banking support	3	$ 175,000	$
	Back-office support, transaction processing, and account maintenance	40	$ 125,000	$
	Commercial, residential, and consumer loan officers	45	$ 200,000	$
	Tellers, personal bankers, and branch managers	35	$ 100,000	$
		149		
n				$
of Revenue)				

How FI's Evaluate Technology

5 Main Categories

Business Process Requirements

Overview & Desired Outcomes

Includes relevant information about product including problem being solved. Includes desired outcomes for LOB including revenue, cost and FTE requirements.

Requirements and Specs

LOB requirements to achieve desired outcomes including SME assessment. Outlines process map and requirements of all involved vendors.

Side-by-Side and Cost Assessment

Overview of relevant product and contract details across products being reviewed. Cost assessment includes both one-time and ongoing.

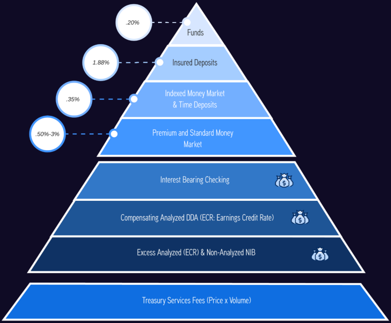
Risk Assessment and Implementation

Includes "failed project", data mapping and technology environment assessment. Implementation timelines include best and worst case scenarios.

Resource Requirements and Contract

Includes FTE modeling and other resource requirements including PM resources. Includes impacts on other existing and/or adjacent products. Contract negotiation to meet corporate objectives.

> Bringing in deposits toward the bottom of the stack is the key. These deposits are generally commercially oriented and less interest rate sensitive, which means they provide the most economic value to the bank.
>
> **Allan Rayson**, Founder, Finov8r Consulting


.20%
Funds
1.88%
Insured Deposits
.35%
Indexed Money Market & Time Deposits
.50%-3%
Premium and Standard Money Market
Interest Bearing Checking
Compensating Analyzed DDA (ECR: Earnings Credit Rate)
Excess Analyzed (ECR) & Non-Analyzed NIB
Treasury Services Fees (Price x Volume)

Contract Tactics

- Term is important to most banks and some trade shorter term for premium pricing. Terms range in the 3-7 year range in financial services.
- Termination for Convenience ("Exit Fees") is often negotiated especially to the extent the FI is active in M&A.
- Some fees and expenses related to technology costs can be amortized over the life of the contract. Significant impact to the P&L in some cases noting the differences between upfront and ongoing fees.
- Some FI's will negotiate up-front cash payments in exchange for discounts on contract value. Negotiation depends on what is important to the vendor from a contract value vs. cash in the bank perspective.
- Most contracts in the space are based on asset ranges and scale up as the FI grows. Additional fee opportunities exist through the delivery of complimentary services (ranging from API Call fees to professional services fees.
- Other issues related to Security and Compliance, SLA's, Data Ownership, IP, Scalability, Liability and Indemnification and Audit should be discussed.

Bank Reporting

25+ different information sources!

Bank Client Reporting Requirements

Borrower Financial Information

1. Annual financial statements
2. Interim financial statements
3. IRS Tax Returns
4. Financial projections

Guarantor Financial Information

1. Personal financial statements
2. Brokerage statements
3. IRS Tax Returns

Collateral Information

1. AR agings
2. Inventory reports
3. Equipment listings
4. Rent Rolls

Customer Information

1. Top 10 Clients by Revenue
2. Pipelines

Insurance Information

1. General Liability policy
2. Director's and Officer's policy
3. Assignments

Corporate Information

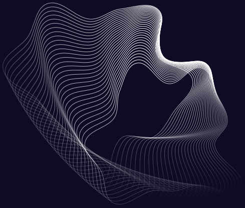
1. Board Minutes
2. Corporate Entity documents

Other Reports

1. Management Comments
2. Legal Entity Chart
3. Secretary of State documentation
4. Legal dispute documentation

Other Reports

1. Management Comments
2. Legal Entity Chart
3. Secretary of State documentation
4. Legal dispute documentation
5. "Off Balance Sheet" information



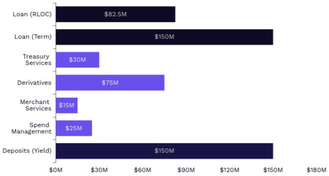
Commercial Banking 101

Key attributes of commercial banks and credit unions <$10b include:

- ✓ Need to "cross-sell" into relationships to drive additional non-interest revenue to the bank or credit union
- ✓ Tend to be commercial real estate heavy and need to diversify into "C&I" to drive compensating balances and fees

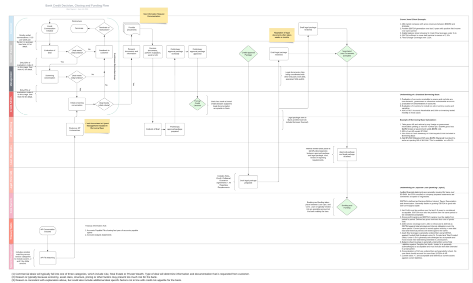
Economics of Business Banking

1. Gold standard relationship is one where bank can "cross-sell" relationship beyond just credit.
2. "Compensating balances" generally run in the 25% range for CRE and 55% for C&I relationships. Not highly interest rate sensitive.
3. Credit used to finance working capital, asset acquisition and equipment. RLOC's will be 55% funded and Term will be 100% funded.



Bank Commerical Underwriting

Complex SMB and middle market bank underwriting takes weeks if not months due to the time spent in the Continuous Negotiation Loop.


Bank Credit Decision, Closing and Funding Flow
See Information Request Documentation
Restructure
Credit Conversation Initiated
Terminate
Terminate or restructure?
Provide Documents
Evaluation of deal
Deal meets initial criteria?
Feedback to customer
Continuous Restructure Loop
Request documents and information
Receive documents, perform evaluation, send to U/W
Preliminary approval package reviewed
Preliminary approval package approved
Screening conversation
Initial screening conversation
Formal Credit Decision
Bank has made a formal credit decision subject to legal documentation acceptable to Bank
Customer AP Underwritten
Credit Associated w/ Spend Management included in Borrowing Base
Analysis of deal
Preliminary approval package prepared
Yes
No

Bank Personas

12 different personas influence outcomes!

Bank Personas (Market Level Deal Team)

Market Executive (1)

- Overall responsibility for the market (ex. Austin) and has Bankers, Loan Assistants and Portfolio Managers
- 10+ years of experience and likely started as an analyst or Banker. Strong accounting background
- Generally managing $500MM to $1b portfolio (loans and deposits) at the market level. Modest lending authority

Bankers or RM's (3-5)

- Main role is business development and overall responsibility for individual portfolio. Generally managing 20-30 relationships
- 5-20+ years of experience and likely started as an analyst or Banker. Strong accounting background
- Modest lending authority in collaboration with Executive

Portfolio Manager (1)

- Overall responsibility for analysis on market portfolio (ex. Covenant tracking). Detailed portfolio analysis responsibility for the market
- 5+ years of experience and likely started as an analyst or Banker. Strong accounting background

Loan Assistant (1-2)

- Primary point of contact from a relationship maintenance perspective
- 5-20+ years of experience
- Responsible for managing checklists provided to Borrower and follow up to receive information

Bank Personas (Bank Level Deal Team)

Executive Sponsor

- Generally a c-suite level individual with significant credit approval authority
- Specialized Industries executive could be healthcare, technology, equipment lending specialist

Credit Administration Executive

- Generally a c-suite level individual with significant credit approval authority
- Usually assigned a region to work with consistently
- Significant lending authority to be able to approve deals

Sr. Credit Analyst

- 2-3 years of experience in banking as an analyst
- Responsible for deal and relationship analysis in collaboration with Bankers

Chief Lending Officer

- Generally a c-suite level individual with significant credit approval authority
- Overall responsibility for lending function within the bank

Bank Personas (Diligence Team)

Audit Executive

- Generally a c-suite level individual with significant risk mitigation and/or fraud mitigation authority

Compliance or BSA Executive

- Generally a c-suite level individual with significant risk mitigation and/or fraud mitigation authority

Operations Executive

- Generally a c-suite level individual with significant risk mitigation and/or fraud mitigation authority

Risk Executive

- Generally a c-suite level individual with significant risk mitigation and/or fraud mitigation authority

Roadmap

Evaluate | **Develop Strategy** | **Understand Impact** | **Execute** | **Test and Feedback**

Evaluate Problems for Banks and CU's

1. Problems including profitability due to compressed Net Interest Margins ("NIM"). Caused by an abundance of highly interest rate sensitive consumer oriented deposits.
2. With respect to SMB Banking space it is hard to make money due to the cost of acquiring new clients and the portfolio maintenance that must take place. Understand target clients for banks and credit unions.

Evaluate | **Develop Strategy** | **Understand Impact** | **Execute** | **Test and Feedback**

Develop Strategy

1. Evaluate product oriented strategy that provides deep insights to FI's around the SMB's in their geography against the problems identified. Assists an FI in acquiring an SMB at a lower cost of acquisition.

Evaluate | **Develop Strategy** | **Understand Impact** | **Execute** | **Test and Feedback**

Understand Impact (P&L, Balance Sheet)

1. Impact must include significant balance sheet or P&L outcomes for banks and credit unions and generally include cost modeling and FTE deployment modeling. Cost modeling, to the extent technology is involved, include one-time and annual expense, implementation expense and internal and external resource assessments.

Evaluate | **Develop Strategy** | **Understand Impact** | **Execute** | **Test and Feedback**

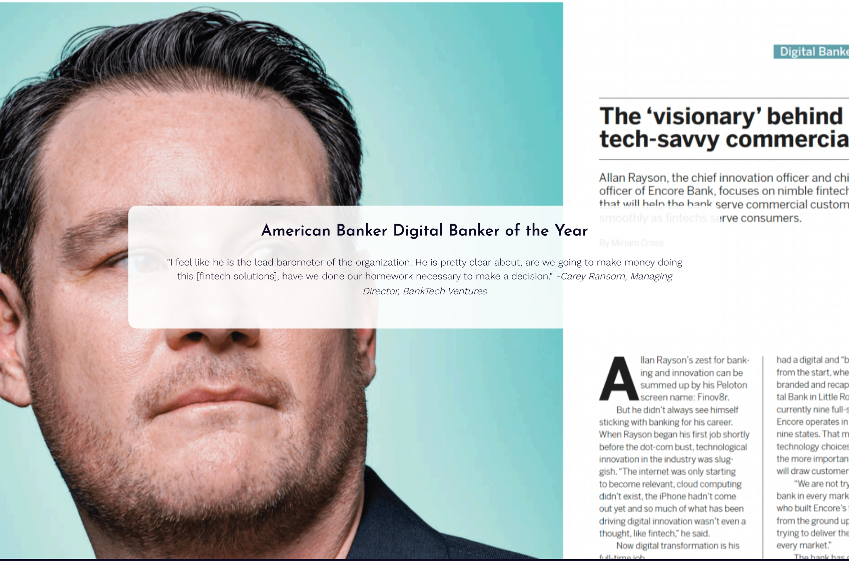
Execute

1. Execution involves activation of developed strategies and often require internal and external resources and data products. Data products include balance sheet management and asset pricing modeling. Execution timelines vary depending on strategies deployed.

Evaluate **Develop Strategy** **Understand Impact** **Execute** **Test and Feedback**

Test and Feedback

1. Depending on engagement, post-execution testing and feedback is a critical part of any strategy. Testing and feedback is generally data oriented and often involves internal and external interviews and research of other macro factors.



Digital Banke

The ‘visionary’ behind
tech-savvy commercia

Allan Rayson, the chief innovation officer and chi
officer of Encore Bank, focuses on nimble fintech
that will help the bank serve commercial custom
smoothly as fintechs serve consumers.

By Miriam Cross

Allan Rayson’s zest for banking and innovation can be summed up by his Peloton screen name: Finov8r.

But he didn’t always see himself sticking with banking for his career. When Rayson began his first job shortly before the dot-com bust, technological innovation in the industry was sluggish. “The internet was only starting to become relevant, cloud computing didn’t exist, the iPhone hadn’t come out yet and so much of what has been driving digital innovation wasn’t even a thought, like fintech,” he said.

Now digital transformation is his full-time job.

had a digital and “b
from the start, whe
branded and recap
tal Bank in Little Ro
currently nine full-s
Encore operates in
nine states. That m
technology choices
the more importan
will draw customer

“We are not try
bank in every mark
who built Encore’s
from the ground up
trying to deliver the
every market.”

American Banker Digital Banker of the Year

"I feel like he is the lead barometer of the organization. He is pretty clear about, are we going to make money doing this [fintech solutions], have we done our homework necessary to make a decision." *-Carey Ransom, Managing Director, BankTech Ventures*

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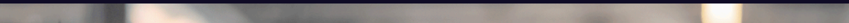

How Banks Can Supercharge Gro with Bold Tech Partners

The Financial Brand, Bold Tech Partnerships

"Allan Rayson knows about smart growth." -*Nathaniel Harley, Co-Founder and CEO, Mantl*

The head of innovation and technology at a fast-grow discusses his institution's remarkable success story, a high-performing culture and the essential role of tr partnerships in unlocking explosive growth at scale.

Allan Rayson
Chief Innovation and Technology Officer at **Encore Bank**

By Nathaniel Harley
Co-Founder and CEO of **MANTL**

Allan Rayson knows about smart growth.

First of all,
Encore's inc
the past fe

Thank you! The te crystal-clear busi to realize. We're a billion to $7 billio achieve an efficie