



CORNERSTONE
ADVISORS

WHAT'S GOING ON IN BANKING 2020

Community-Based Financial Institutions'
Priorities, Fintech Plans and Future Forecasts

OUTLOOK FOR A NEW DECADE

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EXECUTIVE SUMMARY

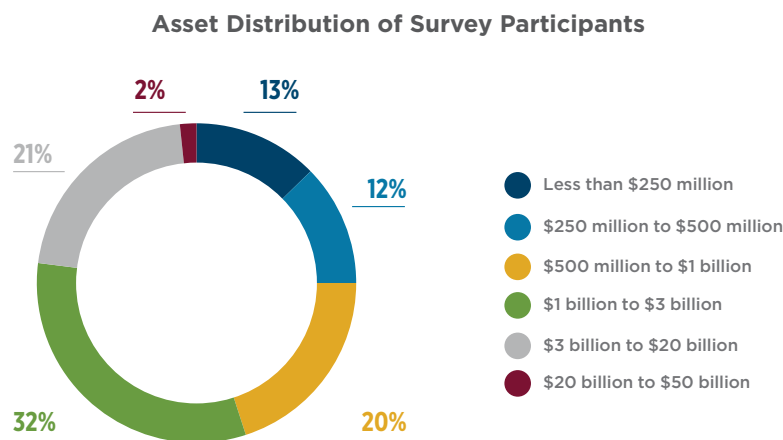
SO WHAT

- **It's beginning to look like a dance marathon.** CEO optimism going into 2019 was down from 2018 as bank and credit union executives anticipated a weakening economy and higher interest rates. That never materialized and banks had a strong year in 2019. So what does that mean for 2020? Although one in five execs surveyed for this study is more pessimistic about the new year—on solid rationale like recessionary fears and compressed margins due to falling interest rates—it's hard to believe that the Administration won't pull out all the stops to prevent a downturn in an election year. Keep on dancin'!
 - **Time to cut costs—again.** Going into 2017, more than half of banks and credit unions said efficiency, non-interest expenses and costs were top concerns for their institutions. That percentage dropped to one in five for banks and one in four for credit unions in 2019. Well, cost concerns are back in the spotlight, coming in as a top three concern for both banks and credit unions in 2020.
 - **Banks rediscover the retail market.** Over the past few years, it was really beginning to look like mid-size banks were ceding the retail market to megabanks and credit unions. It looks like 2020 might be the year that community banks try to reclaim consumers' banking business. The percentage of banks citing mortgages, consumer loans and consumer fee income as a priority is up significantly from 2019.
 - **The fintech partnership parade marches on.** Going into 2019, half of banks and 60% of credit unions said fintech partnerships would be important to their business strategies. Heading into 2020, those percentages have increased to 65% and 76%, respectively. While digital account opening is still a top fintech partnership priority, financial institutions are placing more emphasis on finding partnerships to offer new banking products.
 - **Can we make the invisible transparent?** 2019 will go down as a year when pundits called for more transparency in artificial intelligence and machine learning. But when you see that the percentage of banks and credit unions that have deployed these tools are in the single digits, you begin to realize that there's nothing to make transparent.
 - **What will the 2020s hold for banking?** Bank and credit union executives believe we'll see a significant decline in the number of branches, super apps like Alipay and WeChat come to the United States, and cryptocurrencies will continue to be mostly a speculative asset.
-

ABOUT THE DATA

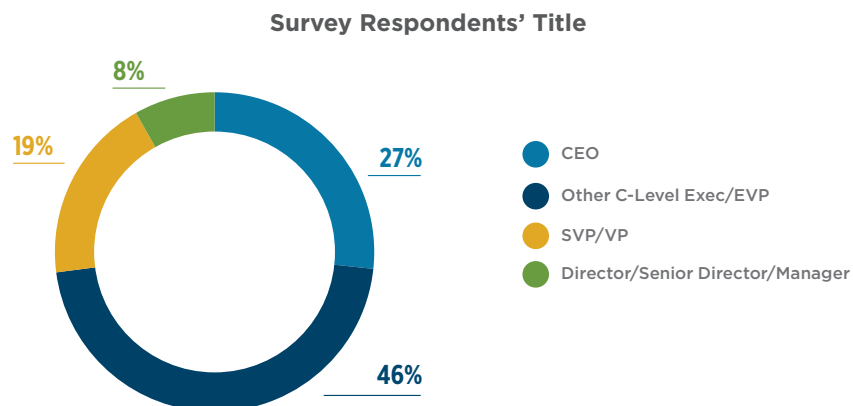
In December 2019, Cornerstone Advisors surveyed 300 senior executives at U.S.-based mid-size financial institutions (FIs), 52% from banks and 48% from credit unions. One in five respondents are with FIs with \$500 million to \$1 billion in assets, roughly a third are with FIs with \$1 billion to \$3 billion in assets, and 21% are from FIs with assets between \$3 billion and \$20 billion (Figure 1). A little more than one in four are CEOs, and nearly half are other C-level executives or executive vice presidents (Figure 2).

FIGURE 1: **Asset Distribution of Survey Participants**



Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

FIGURE 2: **Titles of Survey Participants**



Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

THE OUTLOOK FOR 2020

According to [The Wall Street Journal](#):

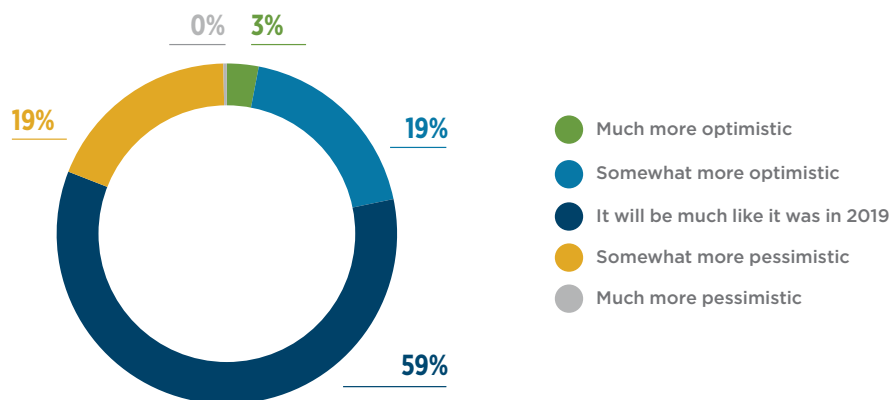
“Times are good for U.S. banks. The industry is highly profitable, lending is up and the number of problem institutions—those found to have deficiencies in their businesses—is the lowest since early 2007.”

Frederick Cannon, director of research at Keefe, Bruyette & Woods, [added](#): “2019 was a great year to be a banker. The profitability of the banking industry is very strong and it’s strong in a good way. The return on assets is near peak levels.”

So when nearly six in 10 senior bank and credit union executives say they think the industry in 2020 will be much like it was in 2019, it’s a good bet that many executives are optimistic about the new year. In addition to those six in 10, another 22% are even more optimistic about the coming year. About one in five executives are more pessimistic about 2020, however (Figure 3).

FIGURE 3: Outlook for 2020

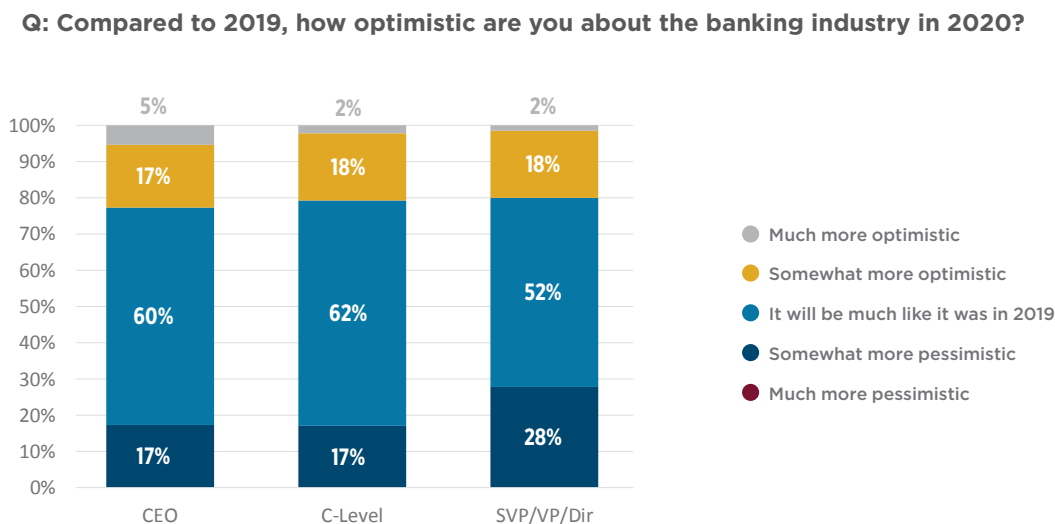
Q: Compared to 2019, how optimistic are you about the banking industry in 2020?



Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

Interestingly, more C-level executives express optimism about the new year than execs at the VP and director levels. Among the C-level execs, 17% are more pessimistic about the new year’s prospects, in contrast to 28% of the SVP/VP/director level respondents (Figure 4).

FIGURE 4: 2020 Outlook by Job Title



Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

Among our survey respondents, optimistic executives had this to say:

"New technologies will allow us to significantly improve our customized service to members. Products like CRM, Zelle and superfast new account opening will greatly enhance our member experience and engagement."

— **Doug Ferraro**, Chief Executive Officer, Bellco Credit Union,
Greenwood Village, Colo.

"The economy has been very resilient and employment is very good—both harbingers for continued growth."

— **Craig Rapier**, Chief Information Officer, Peoples National Bank,
St. Louis, Mo.

"Good economic indicators, election year, positive sentiment."

— **Matt Layer**, Chief Lending Officer, LCNB National Bank,
Lebanon, Ohio

"Economy seems to be somewhat stable, though the Fed continues to put pressure on rates. Consumers seem to be saving more versus overspending and extending credit."

— **Joe Gibbs**, Senior Vice President, Trustmark National Bank,
Jackson, Miss.

On the other side of the coin, execs explained their (somewhat) pessimistic position this way:

“Lower interest rates will significantly have a detrimental impact on margins.”

— **Peter Muise**, Chief Executive Officer, First Citizens Federal Credit Union,
Fairhaven, Mass.

“The weaker loan demand that has been seen in Q4 2019 doesn’t seem to have any real reason to improve based on macroeconomic factors. The need for talent and the lack of it in the banking arena is a challenge. This challenge is one that we continue to ‘kick down the road.’ At some point very soon, our organization will see the end of the paved road.”

— **Detra Clevon**, Johnson City President, Bank of Tennessee,
Kingsport, Tenn.

“The only reason why I’m somewhat more pessimistic is due to the potential recession. Historically speaking, when the yield curve inverts, a recession is soon to follow. That would slow some of the capital investment and credit in the market.”

— **Daniel Davidson**, Chief Operating Officer, Alliance Catholic Credit Union,
Troy, Mich.

“The relatively flat yield curve seen during the first half of 2019 will be the base case for most of 2020 and that will put margin under pressure. We are also seeing banks stretch on credit terms, trying to add assets, which seems to be a signal of credit issues to come.”

— **Tim Ryan**, Chief Financial Officer, Monona Bank,
Monona, Wis.

“With rate decreases in the past six months, we are seeing margins tighten as we’ve not been able to reduce dividend costs due to deposit competition. It will take some time through 2020 for loan and deposit pricing to be better positioned.”

— **Steve Stone**, Chief Executive Officer, 1st United Credit Union,
Pleasanton, Calif.

WHAT

According to Cornerstone Advisors Senior Director Sam Kilmer: “It’s optimism nationally, but economics are regional. This aligns with what we’re hearing in strategic planning sessions: Executives from markets with higher growth or fewer strong competitors are generally more optimistic.”

CONCERNS AND THREATS

Among bank respondents, the interest rate environment was the most-frequently cited concern for 2020. Despite the drop in the percentage of bank respondents citing growing deposits, it remains a top three concern for the second year in a row. Efficiency, non-interest expenses and costs—which were cited as a top three concern by only 19% of banks going into 2019—regained their position among the top concerns. One surprise: Cybersecurity, which was among the top three concerns for two straight years, was mentioned by fewer than a quarter of bank respondents (Table A).

TABLE A: Bank Execs' Top Concerns, 2017 to 2020

Q. What are your financial institution's top concerns for the coming year?

	2017	2018	2019	2020
Interest rate environment	31%	46%	41%	43%
Growing deposits	NA	NA	50%	37%
Efficiency, non-interest expenses or costs	61%	43%	19%	32%
Ability to attract qualified talent	NA	NA	NA	27%
New customer growth	NA	39%	24%	25%
Weak economy/loan demand	19%	21%	25%	24%
Cybersecurity	NA	46%	34%	23%
Regulatory burden	69%	29%	21%	22%
Cost of funds	14%	46%	29%	15%
Non-interest income	33%	14%	13%	11%
Credit quality/problem loans	17%	4%	8%	10%

Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

New membership growth was the most-frequently mentioned concern among credit union execs for 2020. Like the bank respondents, however, significantly fewer credit union respondents cited cybersecurity as a concern going into 2020 than they did heading into 2019 (Table B).

TABLE B: Credit Union Execs' Top Concerns, 2017 to 2020

Q. What are your financial institution's top concerns for the coming year?

	2017	2018	2019	2020
New membership growth	NA	45%	33%	43%
Efficiency, non-interest expenses or costs	52%	45%	24%	34%
Weak economy/loan demand	28%	25%	24%	34%
Interest rate environment	52%	32%	34%	32%
Growing deposits	NA	NA	54%	29%
Cybersecurity	NA	27%	37%	19%
Ability to attract qualified talent	NA	NA	NA	19%
Regulatory burden	51%	32%	20%	16%
Cost of funds	7%	39%	23%	13%
Non-interest income	35%	27%	14%	10%
Credit quality/problem loans	22%	16%	2%	9%

Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

GROWTH PRIORITIES

Commercial loans and deposits continue to be a top growth priority among banks in 2020. One big difference from previous years: Banks appear to be rediscovering the retail market. Although it's still a minority of banks overall, the percentage citing mortgages, consumer loans and consumer fee income as priorities increased significantly between 2018 and 2020 (Table C).

TABLE C: Banks' Growth Priorities, 2018-2020

Q. What are your financial institution's top growth priorities for the coming year?
(select up to three)

	2018	2019	2020
Grow commercial loans	86%	60%	56%
Grow commercial deposits	57%	56%	41%
Grow consumer deposits	39%	46%	40%
Expand digital presence	18%	37%	36%
Grow mortgage loans/originations	7%	15%	22%
Improve sales and marketing	36%	16%	18%
Improve small business market share	7%	18%	14%
Grow wealth management, trust, insurance	18%	14%	12%
Grow consumer loans	4%	5%	11%
Grow consumer fee income	0%	6%	10%
Grow payments-related income	7%	6%	8%
Grow other non-traditional lines of business	0%	3%	8%
Find good acquisition or merger targets/partners	11%	10%	8%
Expand branch presence	11%	3%	4%

Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

Although growing consumer deposits was cited as a top growth priority by fewer credit unions in 2020 than in 2019, it remains the most-frequently mentioned priority. The big changes among credit unions: 1) The percentage listing mortgages as a top growth priority grew from 20% in 2019 to 48% in 2020, and 2) The percentage citing mergers as a priority more than doubled from 7% to 16% (Table D).

TABLE D: Credit Unions' Growth Priorities, 2018-2020

Q. What are your financial institution's top growth priorities for the coming year?
(select up to three)

	2018	2019	2020
Grow consumer deposits	45%	64%	49%
Grow mortgage loans/originations	52%	20%	48%
Grow consumer loans	66%	40%	43%
Expand digital presence	30%	49%	36%
Improve sales and marketing	27%	28%	29%
Grow commercial (business) loans	23%	24%	22%
Find good acquisition or merger targets/partners	7%	7%	16%
Grow commercial deposits	2%	16%	10%
Grow payments-related income	7%	13%	10%
Grow other non-traditional lines of business	2%	2%	8%
Expand branch presence	16%	11%	8%
Improve small business market share	7%	5%	7%
Grow consumer fee income	7%	10%	5%
Grow wealth management, trust, insurance	5%	4%	1%

Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

LENDING PRIORITIES

It's no surprise that commercial real estate and commercial and industrial (C&I) loans are high lending priorities among banks in 2020. Reinforcing the renewed focus on the consumer market, the percentage of banks placing a high priority on consumer mortgages increased from 33% in 2019 to 56% in 2020. HELOCs, auto loans and consumer personal loans also increased in importance from the previous year (Table E).

TABLE E: Banks' Loan Priorities, 2018-2020

Q. To what extent are the following types of loans a priority for 2020?

	PRIORITY	2018	2019	2020
Commercial real estate loans	High	70%	65%	76%
	Moderate	26%	30%	18%
	Low	3%	4%	3%
	Not offered	1%	1%	3%
C&I loans	High	72%	77%	70%
	Moderate	19%	14%	17%
	Low	5%	6%	7%
	Not offered	4%	3%	5%
Small business loans	High	56%	68%	66%
	Moderate	32%	24%	23%
	Low	8%	7%	6%
	Not offered	3%	2%	5%
Consumer mortgages	High	35%	33%	56%
	Moderate	46%	49%	28%
	Low	16%	13%	11%
	Not offered	3%	5%	4%
Home equity loans/lines of credit	High	18%	22%	39%
	Moderate	47%	45%	42%
	Low	30%	27%	16%
	Not offered	4%	5%	3%
Consumer personal loans	High	5%	9%	15%
	Moderate	28%	26%	37%
	Low	59%	57%	42%
	Not offered	9%	9%	7%
Auto loans	High	5%	7%	13%
	Moderate	20%	19%	25%
	Low	60%	60%	51%
	Not offered	14%	14%	11%
Point-of-sale loans	High	3%	3%	3%
	Moderate	3%	5%	7%
	Low	25%	23%	43%
	Not offered	69%	69%	47%
Student loans	High	1%	2%	1%
	Moderate	3%	3%	7%
	Low	26%	22%	44%
	Not offered	70%	73%	48%

Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

Reinforcing the importance of mortgages to credit unions in 2020, the percentage citing mortgages as a “high” priority grew from 60% in 2018 to 70% in 2019 and up to 84% for 2020. More credit unions plan to focus on commercial loans in 2020 than they did in 2019, however (Table F).

TABLE F: Credit Unions’ Loan Priorities, 2018-2020

Q. To what extent are the following types of loans a priority for 2020?

	PRIORITY	2018	2019	2020
Consumer mortgages	High	60%	70%	84%
	Moderate	35%	26%	13%
	Low	5%	3%	2%
	Not offered	0%	1%	1%
Auto loans	High	63%	61%	69%
	Moderate	29%	31%	27%
	Low	7%	7%	4%
	Not offered	1%	1%	1%
Home equity loans/lines of credit	High	56%	60%	64%
	Moderate	37%	36%	29%
	Low	6%	4%	5%
	Not offered	1%	0%	2%
Commercial real estate loans	High	32%	34%	57%
	Moderate	29%	33%	20%
	Low	15%	11%	17%
	Not offered	24%	22%	6%
Consumer personal loans	High	47%	44%	43%
	Moderate	36%	41%	44%
	Low	17%	15%	12%
	Not offered	0%	0%	0%
Small business loans	High	22%	28%	33%
	Moderate	27%	28%	36%
	Low	22%	19%	9%
	Not offered	29%	25%	22%
C&I loans	High	14%	16%	21%
	Moderate	15%	17%	29%
	Low	26%	22%	20%
	Not offered	45%	46%	30%
Point-of-sale loans	High	7%	12%	12%
	Moderate	18%	16%	16%
	Low	26%	22%	32%
	Not offered	49%	50%	40%
Student loans	High	3%	6%	5%
	Moderate	16%	17%	18%
	Low	32%	32%	36%
	Not offered	49%	45%	42%

PAYMENTS PRIORITIES

With consumers' level of outstanding credit at a historical high, it might not be surprising to see that fewer banks are placing a high priority on growing their credit card portfolios in 2020 than they did in 2019. More surprising, however, is that fewer consider mobile payment tools to be a high priority (Table G).

TABLE G: **Banks' Payments Priorities, 2018-2020**

Q. To what extent are the following types of payments a priority for 2020?

	PRIORITY	2018	2019	2020
Debit cards	High	52%	62%	44%
	Moderate	32%	31%	43%
	Low	14%	5%	10%
	Not offered	2%	2%	3%
Mobile payment tools	High	18%	30%	17%
	Moderate	34%	42%	49%
	Low	31%	19%	28%
	Not offered	18%	10%	6%
Credit cards	High	20%	29%	19%
	Moderate	20%	26%	34%
	Low	41%	29%	31%
	Not offered	19%	17%	15%
Mobile wallets	High	9%	27%	18%
	Moderate	35%	34%	42%
	Low	33%	24%	32%
	Not offered	23%	15%	8%
Prepaid cards	High	1%	2%	4%
	Moderate	5%	6%	10%
	Low	38%	36%	44%
	Not offered	57%	57%	42%

Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

Overall, credit unions' payment priorities for 2020 aren't that much different than they were in 2019 (Table H).

TABLE H: Credit Unions' Payments Priorities, 2018-2020

Q. To what extent are the following types of payments a priority for 2020?

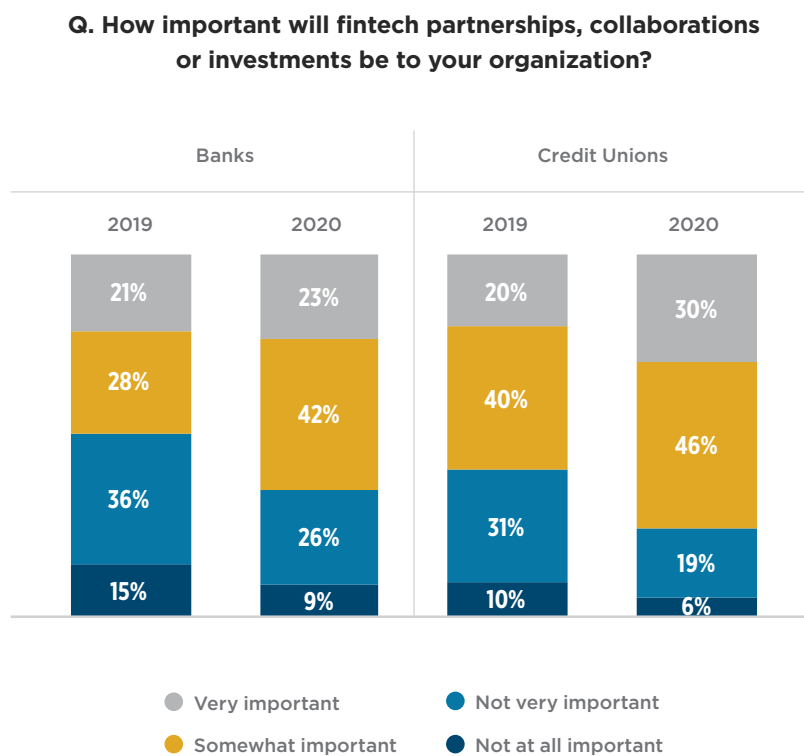
	PRIORITY	2018	2019	2020
Debit cards	High	61%	71%	68%
	Moderate	28%	25%	31%
	Low	12%	4%	1%
	Not offered	0%	0%	0%
Credit cards	High	56%	74%	67%
	Moderate	26%	17%	22%
	Low	15%	7%	6%
	Not offered	3%	3%	5%
Mobile payment tools	High	11%	20%	22%
	Moderate	37%	47%	46%
	Low	43%	27%	29%
	Not offered	8%	6%	3%
Mobile wallets	High	9%	17%	16%
	Moderate	30%	41%	46%
	Low	47%	37%	31%
	Not offered	15%	5%	7%
Prepaid cards	High	0%	2%	0%
	Moderate	2%	4%	9%
	Low	42%	42%	41%
	Not offered	56%	52%	50%

Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

FINTECH

Three-quarters of credit unions and nearly two-thirds of bank executives said fintech partnerships, collaboration or investments will be very or somewhat important to them in 2020.¹ Among credit unions, the percentage saying that fintech partnerships are “very important” rose from 20% in 2019 to 30% in 2020 (Figure 5).

FIGURE 5: Importance of Fintech Partnerships



Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

¹We instructed survey respondents to think of “fintech” as startups in the financial space—either B2C-focused like Chime, Digit, Lending Club, etc. or B2B-focused like Abe.AI, Personetics, etc.—and NOT established vendors like FIS, Fiserv, Jack Henry, etc.

Executives from roughly three in 10 banks say they already have fintech partnerships for digital account opening, with a similar percentage looking for partnerships in this area over the next two years. New banking products and payments will be the new hot areas for bank/fintech partnerships through 2021 (Table I).

TABLE I: Banks' Fintech Partnerships and Plans

	We already have fintech partnerships in this area	We have no fintech partnerships to date but plan to in the next 12 to 24 months	We have no fintech partnerships to date, and no plans to partner
Digital account opening	31%	31%	38%
Fraud/risk management	28%	19%	53%
Payments	20%	35%	44%
Lending and credit	26%	31%	43%
Personal financial management	24%	29%	47%
New banking products	16%	39%	45%
Investment management	9%	20%	72%
International remittances	0%	16%	84%

Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

Nearly four in 10 credit unions already have fintech partnerships for digital account opening, with 30% looking for partnerships in this area over the next two years. Like the banks, new banking products and payments will be the new hot areas for credit union/fintech partnerships through 2021 (Table J).

TABLE J: Credit Unions' Fintech Partnerships and Plans

	We already have fintech partnerships in this area	We have no fintech partnerships to date but plan to in the next 12 to 24 months	We have no fintech partnerships to date, and no plans to partner
Digital account opening	39%	30%	31%
Fraud/risk management	28%	31%	41%
Payments	25%	43%	33%
Lending and credit	29%	39%	32%
Personal financial management	22%	37%	40%
New banking products	11%	44%	45%
Investment management	7%	19%	74%
International remittances	5%	7%	88%

Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

Improving the customer experience continues to be the top business objective for banks and credit unions when pursuing fintech partnerships (Table K). One interesting shift from 2019: The increased percentage of credit unions looking to fintechs as a way to expand their geographic reach (Table L).

TABLE K: Banks' Fintech Objectives

Percentage of Respondents Rating Objective as a 'Very Important' Priority		
	2019	2020
Improve the customer experience	82%	77%
Create new capabilities or competencies	58%	51%
Strengthen existing core competencies/competitive positions	55%	48%
Reduce operating expenses	38%	44%
Reduce fraud	37%	37%
Expand product line	36%	36%
Reach new consumer segments	30%	29%
Expand geographic reach	17%	22%

Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

TABLE L: **Credit Unions' Fintech Objectives**

Percentage of Respondents Rating Objective as a 'Very Important' Priority

	2019	2020
Improve the member experience	90%	81%
Strengthen existing core competencies/competitive positions	51%	56%
Create new capabilities or competencies	52%	54%
Reduce operating expenses	46%	41%
Reach new consumer segments	34%	33%
Reduce fraud	39%	31%
Expand geographic reach	21%	31%
Expand product line	28%	23%

Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

WHAT

According to Cornerstone Advisors President and co-founder Steve Williams: “Banks and credit unions are acknowledging that fintechs often have better design capabilities than what exists at banks or their major industry vendors. They see partnering as very much a chance to ‘bolt in’ a better customer experience to their legacy back end in a time frame that can allow them to stay competitive.”

EMERGING TECHNOLOGIES

For the 2020 *What's Going On In Banking* survey, we expanded the set of emerging technologies to include cloud computing, artificial intelligence (AI), voice technologies, Internet of Things (IoT) and virtual reality. Among the banks, roughly a third have already deployed cloud computing and one in five have deployed application programming interfaces (APIs). Both of these technologies are at the top of the list of technologies that surveyed banks plan to deploy in 2020 (Table M).

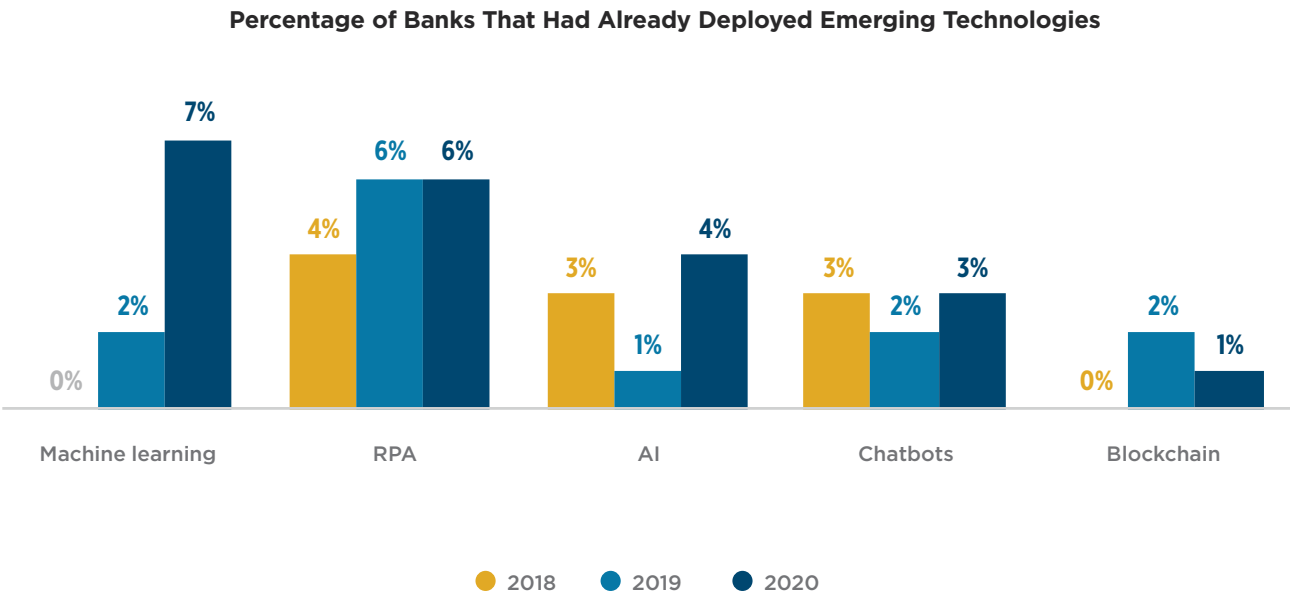
TABLE M: Banks' Emerging Technologies Plans for 2020

	Have already deployed	Planning to invest and/or implement in 2020	Have discussed at board or exec team level	Not on the radar
Cloud computing	32%	22%	37%	9%
APIs	21%	26%	33%	20%
Video collaboration/marketing	21%	21%	35%	23%
Machine learning	7%	13%	36%	45%
Robotic process automation (RPA)	6%	11%	24%	59%
Voice technologies (e.g., Alexa)	5%	10%	41%	44%
AI	4%	11%	44%	41%
IoT	4%	4%	43%	48%
Chatbots	3%	13%	43%	40%
Virtual (or augmented) reality	2%	1%	20%	77%
Blockchain	1%	2%	32%	66%

Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

For all the press and hype that artificial intelligence is receiving, it's surprising—if not distressing—to find that just 7% of banks have machine learning tools and just 6% have implemented robotic process automation (Figure 6).

FIGURE 6: **Deployment of Emerging Technologies at Banks**



Source: Cornerstone Advisors survey of community-based financial institution executives, 2017 to 2019

Compared to banks, credit unions are way in the lead in terms of deploying emerging technologies. A little more than half have already deployed APIs and nearly half have deployed cloud computing. The differences in plans to deploy emerging technologies is substantial, as well. A significantly larger percentage of credit unions plan to invest in or implement chatbots, machine learning, and voice technologies (Table N).

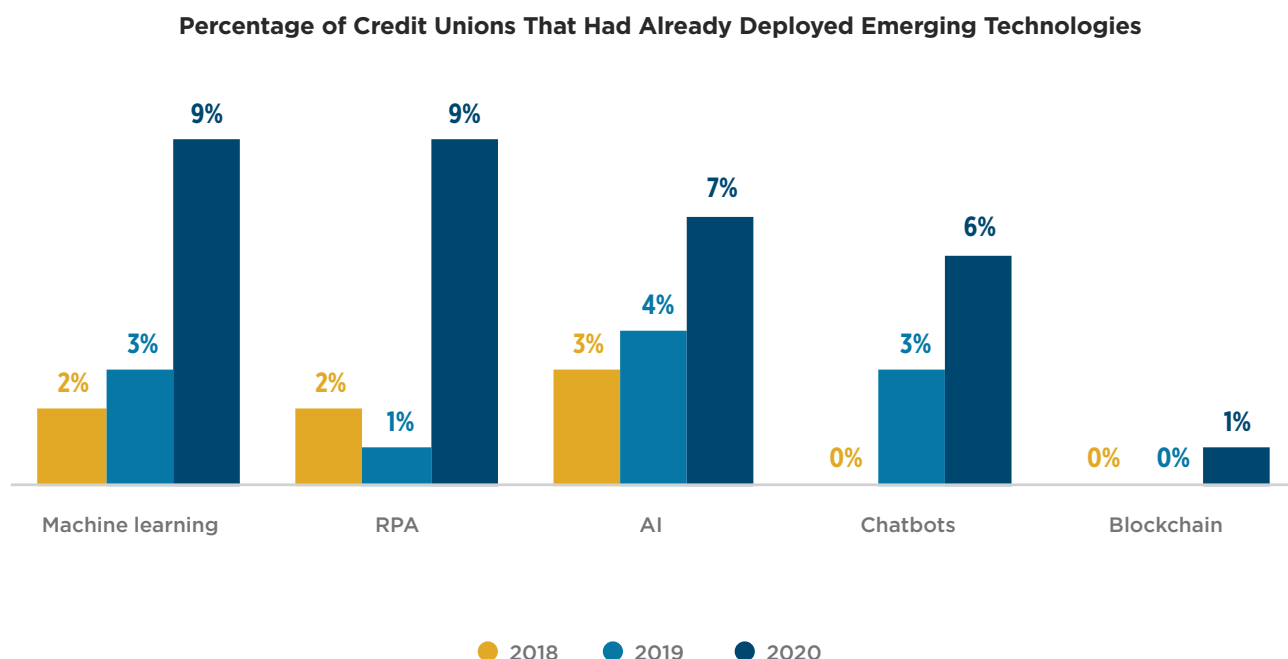
TABLE N: Credit Unions' Emerging Technologies Plans for 2020

	Have already deployed	Planning to invest and/or implement in 2020	Have discussed at board or exec team level	Not on the radar
APIs	53%	24%	14%	9%
Cloud computing	47%	29%	18%	6%
Video collaboration/marketing	20%	33%	35%	12%
Machine learning	9%	22%	47%	22%
Robotic process automation (RPA)	9%	19%	34%	39%
AI	7%	19%	54%	19%
Chatbots	6%	23%	54%	16%
Voice technologies (e.g., Alexa)	5%	24%	49%	22%
IoT	3%	13%	46%	37%
Blockchain	1%	7%	51%	41%
Virtual (or augmented) reality	1%	4%	34%	60%

Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

The percentage of credit unions that have already deployed machine learning and RPA tools took a big leap in 2019, up from 3% and 1%, respectively, to 9% heading into 2020 (Figure 7).

FIGURE 7: **Deployment of Emerging Technologies at Credit Unions**



Source: Cornerstone Advisors survey of community-based financial institution executives, 2017 to 2019

WHAT

Cornerstone Advisors Managing Director Brad Smith commented: “The increased focus on APIs is driven largely by the explosion of digital sales platforms and the need for larger sets of real-time data to and from core, know-your-customer (KYC) platforms, third party service providers, etc. Visa just paid \$5 billion for the elegantly simple Plaid, while the Big 3 core vendors play catch-up with their middleware platforms and evolving licensing models. Large banks have also accelerated their adoption of MuleSoft since the Salesforce acquisition, but mid-size banks and credit unions still rely heavily on their cores’ lumbering middleware tools. In addition, many regional banks have skunkwork projects with Appian or Pega to test various RPA use cases, while the line between RPA and workflow tools continues to blur with products like Jack Henry’s Enterprise Workflow and Alloy, which is quickly becoming the go-to tool for automating identity verification and other key pieces of digital onboarding.”

2020 TECHNOLOGY PLANS AND SPENDING

The percentage of banks planning “significantly higher” budget increases for IT falls from 26% in 2019 to 16% in 2020 as the percentage that will spend less triples from 3% to 9%. Changes in credit unions’ IT budgets for 2020 are mostly in line with the 2019 changes, but the percentage reducing their IT budgets increased from 2% in 2019 to 6% in 2020 (Table O).

TABLE O: **Banks’ and Credit Unions’ Technology Spending Change**

Q. How will your institution’s tech spending change in the upcoming year compared to the prior year?

	Banks			Credit Unions		
	2018	2019	2020	2018	2019	2020
Significantly higher (>10% higher)	22%	26%	16%	30%	25%	25%
Somewhat higher (1%-10% higher)	63%	59%	56%	54%	66%	63%
No change	9%	12%	19%	9%	7%	6%
Somewhat lower (1%-10% lower)	4%	2%	9%	6%	2%	5%
Significantly lower (>10% lower)	1%	1%	0%	0%	0%	1%

Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

Where will the money be going? We asked survey respondents about their plans to modify or improve, or add new or replacement systems for 44 technologies, covering nine areas of the organization (Table P):

- **Consumer digital.** Digital account opening continues to be a top focus for new and replacement systems in 2020.
- **Commercial digital.** Enhancing commercial online and mobile banking capabilities as well as treasury/cash management are planned by a growing percentage of institutions in 2020.
- **Lending.** Reflecting the growing importance of lending in 2020, the percentage of institutions planning to modify or improve lending systems is up across the board, and for the second year in a row, the commercial loan origination system (LOS) is among the top five technologies for addition/replacement.
- **Channels.** The anomaly of new account/teller systems in 2019 is turning into an increase in the percentage of institutions planning to enhance those systems in 2020.
- **IT.** Enhancing cloud applications is on the docket for more than four in 10 institutions in 2020, up from about one in four in 2019.
- **Marketing.** CRM continues its run as a top five technology for addition/replacement.
- **Analytics.** Underscoring the importance of analytics to banks and credit unions, of the five technologies in this category, three are among the top five for modifications or improvements in 2020.
- **Business functions.** Managing fraud continues to be a top priority for FIs, and half plan to enhance their fraud management systems in 2020.
- **Payments.** The percentage of FIs enhancing their payment-related systems increased across the board between 2019 and 2020.

WHAT

According to Cornerstone Advisors Partner Terence Roche: “There is clear recognition that future banking technology investments must have one major overweight: delivery. A great, consistent customer experience—buying decisions, servicing, money management—through any channel is no longer a vision. It’s table stakes, plain and simple.”

Cornerstone Managing Director Brad Smith added: “Nearly all of the tech plan priorities reflect deposit and loan growth priorities, but don’t overlook the 41% of respondents that recognize the importance of improving document imaging and workflow technologies to address stated efficiency and cost save priorities.”

TABLE P: **Banks' and Credit Unions' Technology Plans, 2018-2020**

		Modify/Improve			Add New or Replace		
		2018	2019	2020	2018	2019	2020
Consumer Digital	Digital account opening	43%	39%	46%	28%	36%	33%
	P2P payments	NA	25%	40%	NA	35%	29%
	Mobile banking	52%	46%	56%	15%	19%	17%
	Online banking	48%	48%	50%	15%	17%	18%
	PFM	19%	19%	22%	17%	14%	16%
	Digital bill payment	24%	29%	40%	15%	12%	11%
	Remote deposit capture	24%	27%	35%	11%	11%	11%
Commercial Digital	Commercial online banking	29%	25%	35%	17%	17%	16%
	Commercial mobile banking	25%	28%	31%	19%	16%	16%
	Treasury/cash management	18%	27%	34%	14%	11%	12%
	Commercial remote deposit capture	13%	21%	26%	14%	11%	12%
Lending	Commercial digital account opening	NA	NA	20%	NA	NA	16%
	Commercial LOS	34%	26%	28%	13%	23%	21%
	Online LOS	37%	38%	43%	19%	18%	24%
	Consumer LOS	29%	34%	39%	23%	17%	20%
	Mortgage LOS	45%	29%	42%	20%	15%	15%
Channels	New account/teller system	23%	14%	21%	13%	25%	11%
	Interactive teller system	23%	19%	18%	19%	17%	20%
	Call center system	38%	38%	44%	12%	10%	11%
	Teller capture	12%	19%	13%	15%	9%	11%
	Branch capture	19%	19%	19%	8%	4%	8%
IT	Cloud application deployment	NA	24%	41%	NA	16%	15%
	Core processing systems	23%	19%	23%	9%	9%	10%
	Network/server virtualization	45%	42%	45%	9%	8%	11%
	Telecom/datacom	26%	28%	32%	10%	8%	9%
	IT service management tools	NA	30%	38%	NA	8%	8%
	Vendor management	28%	26%	33%	5%	7%	4%
Marketing	CRM	40%	32%	32%	21%	25%	21%
	Marketing automation	40%	32%	38%	16%	16%	18%
	Profitability/pricing	27%	29%	33%	13%	9%	8%
Analytics	Reporting/dashboard	NA	52%	55%	NA	16%	21%
	Data warehouses	NA	39%	42%	NA	15%	17%
	Data analysis/business intelligence (BI)	NA	41%	51%	NA	15%	18%
	Predictive analytics modeling/decisioning	NA	35%	44%	NA	15%	17%
	Fraud/risk analysis	NA	50%	62%	NA	12%	12%
Business Functions	Document imaging/workflow	47%	36%	41%	11%	12%	10%
	Fraud management	41%	44%	50%	11%	10%	9%
	Enterprise risk management	31%	33%	32%	9%	10%	9%
	Asset liability management	14%	18%	23%	5%	6%	4%
Payments	Debit card processing	19%	18%	26%	12%	12%	8%
	Credit card processing	20%	13%	20%	8%	12%	9%
	Card self-service	NA	23%	33%	NA	11%	9%
	ATM processing	19%	22%	25%	9%	10%	8%
	Wire automation	23%	20%	24%	8%	6%	7%

Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

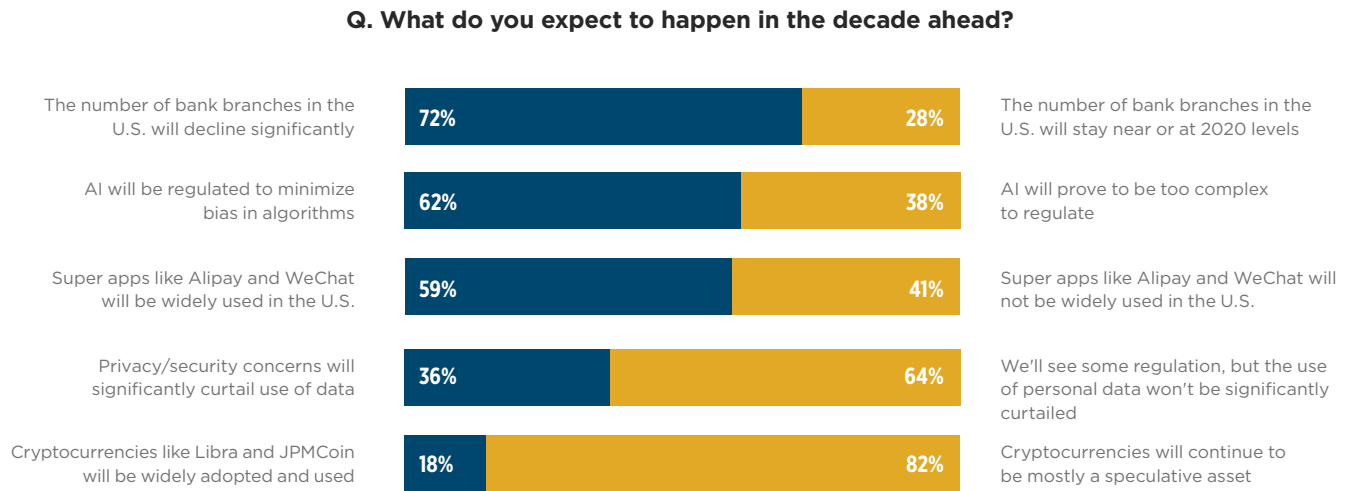
Top 5

THE DECADE AHEAD

As the new decade begins, we added some questions to the survey to get bank and credit union executives' perspectives on some big trends regarding the following (Figure 8, Figure 9):

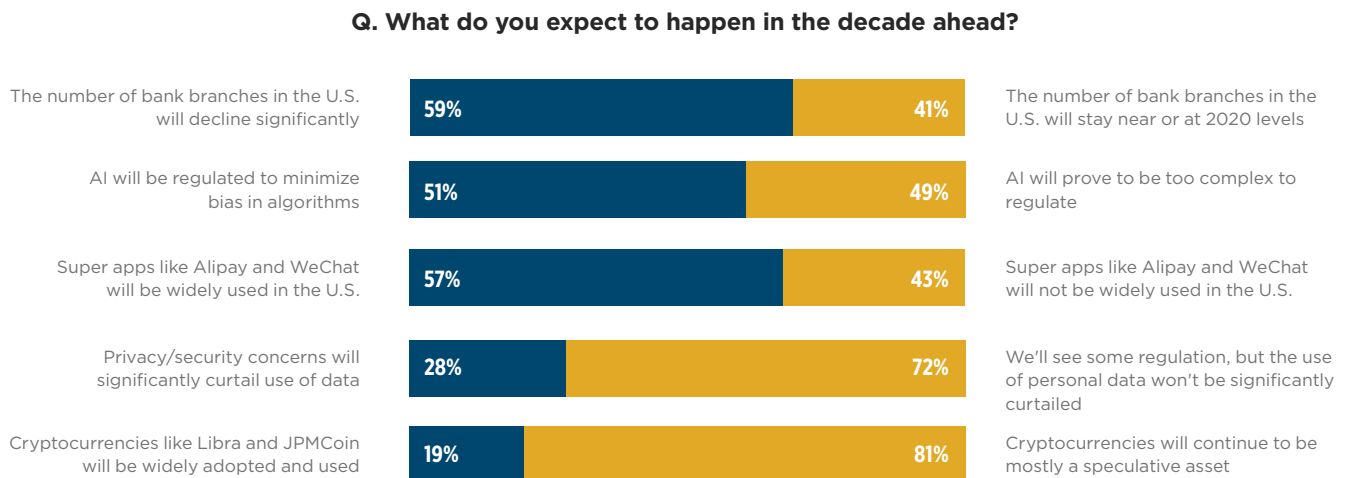
- **Bank branches.** Among bank respondents, 72% believe that the number of bank branches in the United States will decline significantly. Of the credit union respondents, however, just 59% shared that belief.
- **AI bias.** Roughly six in 10 bank respondents think that AI will be regulated to minimize bias in algorithms. Credit union executives were nearly evenly split on this, with 49% believing that AI will prove to be too complex to regulate.
- **Super apps.** Super apps like Alipay and WeChat have become widely adopted in China. Will they catch on in the United States during the new decade? Nearly six in 10 survey respondents—from both banks and credit unions—believe so.
- **Data privacy.** Data privacy concerns have become a prevalent issue among consumers. More than a third (36%) of bank executives think privacy and security concerns will curtail the use of data in banking. Credit union execs lean toward the view that the industry will see some regulation, but it won't significantly curtail the use of personal data.
- **Cryptocurrencies.** There was general consensus among both bank and credit union executives that cryptocurrencies like Libra and JPMorgan Chase's JPMCoin won't be widely adopted and that cryptocurrencies will continue to be mostly a speculative asset.

FIGURE 8: Banks' Look at the Decade Ahead



Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

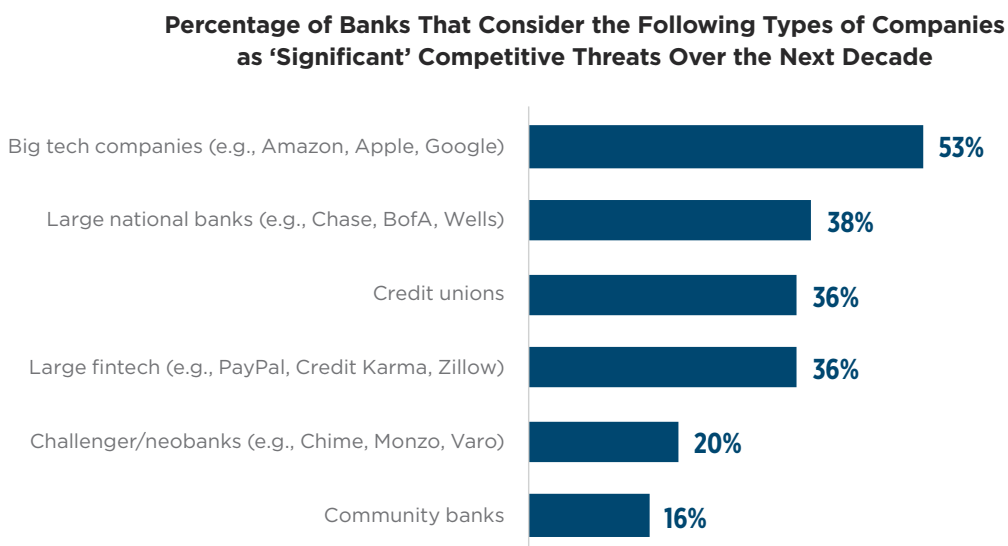
FIGURE 9: Credit Unions' Look at the Decade Ahead



Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

More than half (53%) of bank execs consider big tech firms like Amazon to be significant competitive threats over the next decade, in contrast to the 38% who think the megabanks will be significant threats. Only one in five see challenger banks like Chime as a significant threat (Figure 10).

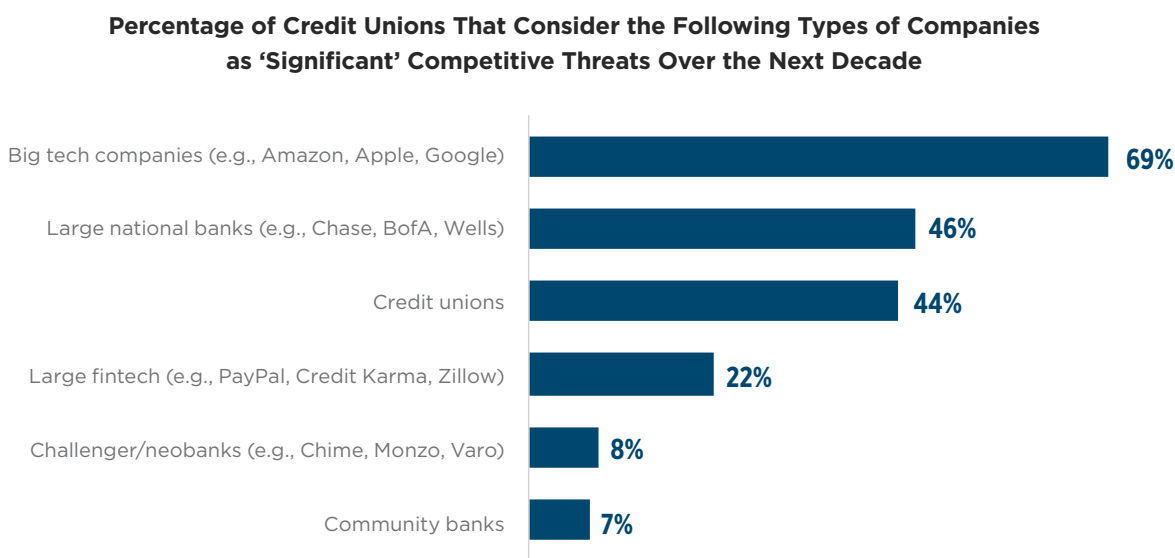
FIGURE 10: Banks' Competitive Threats



Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

In contrast to the banks, nearly seven in 10 credit unions consider the big tech firms to be significant competitive threats, and slightly less than half see the large national banks as significant threats. Few credit unions are concerned about challenger banks or community banks (Figure 11).

FIGURE 11: Credit Unions' Competitive Threats



Source: Cornerstone Advisors survey of 300 community-based financial institution executives, Q4 2019

Looking ahead to the coming decade, a number of debates will shape the banking industry:

- 1) Branches or no branches?** The branch debate is certainly not new. But it's far from resolved and will accelerate in the near future. Over the next few years, this debate will focus less on consumer behaviors and preferences and more on the potentially disparate economic impact of branch closings. The debate will continue to be politically infused with anti-bankers accusing banks of intentionally taking harmful actions against segments of the population. Conversely, digital banks (and other types of fintech providers) may be required to have a physical presence in economically disadvantaged areas, which will impede their cost advantages.
 - 2) Should AI be regulated?** Survey respondents are evenly split between those who believe AI will be regulated and those who believe that the technology is too complex to regulate. I side with the latter. Over the next decade, AI will be assimilated into existing bank (and other industry) applications and systems. In effect, it will be difficult—if not impossible—to determine what part of an application is AI and what part isn't.
 - 3) Will privacy and security concerns curtail the use of data?** Nearly three-quarters of the executives surveyed don't think so. They may be underestimating the growing privacy movement and political climate. The debate over the use of data will become highly complex in the 2020s. Enabling consumers to manage or even sell their data isn't a panacea. According to the Brookings Institution, "Consumers are unlikely to strike a good deal for their data since they lack information about its value, and the data collectors will be the market makers." Big tech firms are already in the spotlight for their use of data—that light will spread to the companies that partner with them.
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FINAL WORDS

In the Final Words section of the 2019 What's Going On In Banking report, I wrote:

"I hope I'm wrong about this, but 2019 is shaping up to be a challenging year for the banking industry. Despite a bunch of positive economic indicators—including unemployment and wages—the downward trends in the stock market are causing concern. Interest rates are poised to rise (finally), making liquidity difficult, and putting upward pressure on banks' cost of funds. Credit card default rates are increasing, in particular for mid-size issuers. I hope to tell you that I was wrong in next year's What's Going On in Banking 2020 report."

I was wrong!

Despite some pessimistic views from senior bank and credit union executives, 2020 is likely to be a good year for the banking industry. The current administration will pull out all the stops to ensure the economy is as strong as it can be going into the election.

And warnings about historically high credit levels ignore two facts: 1) The number of Millennial households—especially those led by consumers in their 30s—has increased dramatically over the past 10 years, and 2) As the economy improves and as these consumers enter a higher income growth stage of their lives, their demand for credit and debit products increases.



Ron Shevlin

Director of Research
Cornerstone Advisors




ABOUT

CORNERSTONE ADVISORS



AFTER NEARLY TWO DECADES IN THIS BUSINESS, Cornerstone Advisors knows the financial services industry inside and out. We know that when banks and credit unions improve their strategies, technologies and operations, improved financial performance naturally follows. We live by the philosophy that you can't improve what you don't measure. With laser-focus measurement, financial institutions can develop more meaningful business strategies, make smarter technology decisions, and strategically reengineer critical processes.

CONTINUE THE CONVERSATION

 www.crnrstone.com
 Cornerstone Advisors
 @CStoneAdvisors
 480.423.2030



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ADVISORS

Have questions
regarding this report?

CONTACT:

Ron Shevlin
Director of Research
Cornerstone Advisors

rshevlin@crnrstone.com
480.424.5849