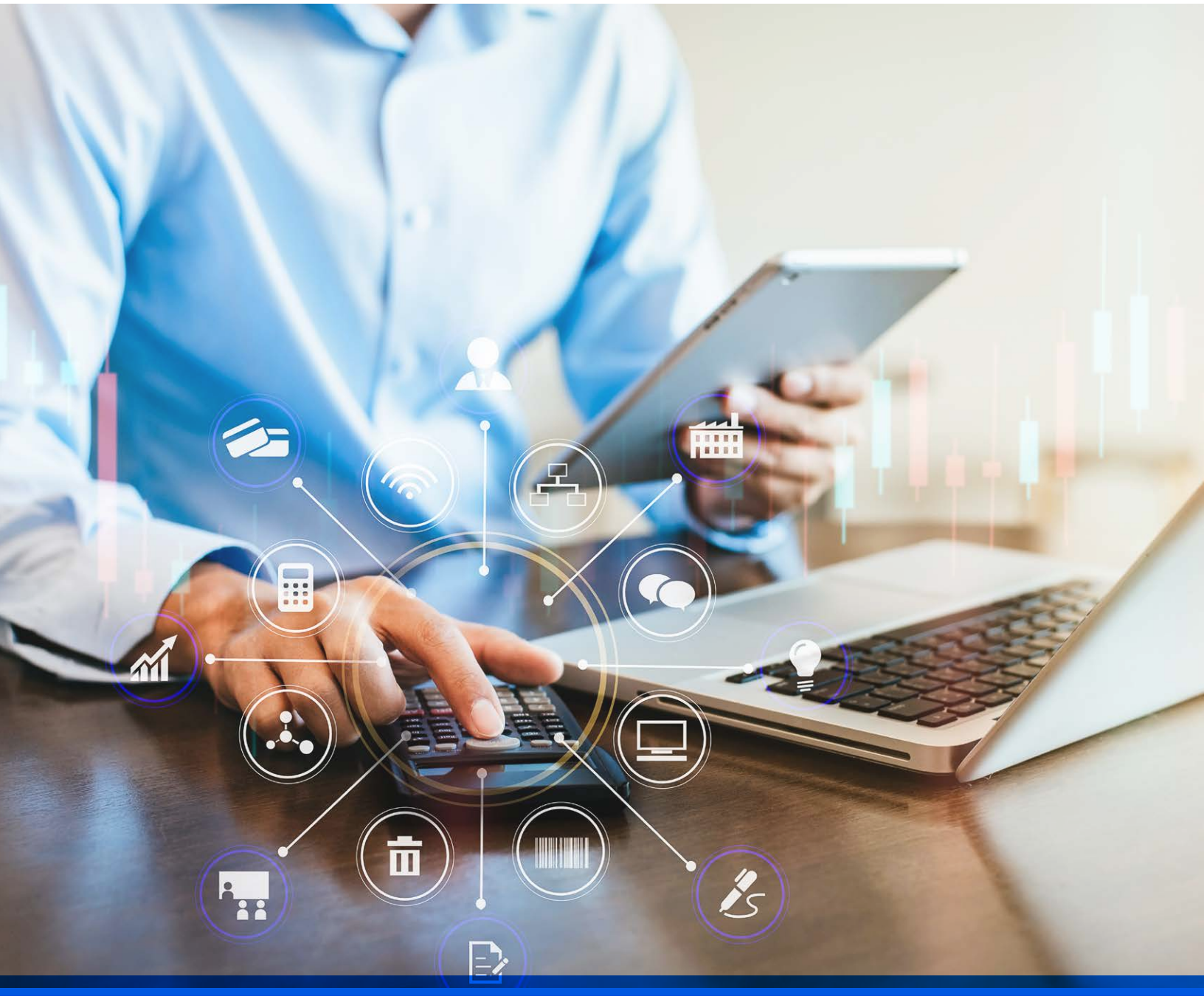
Unlock New Revenue Streams Through Next-Generation Financial Product Management



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The Fight for Share of Wallet is On

In today's dynamic industry landscape, financial institutions must shift toward a culture of innovation in a bid for new sources of revenue and growth. The traditional, tried-and-true business models that banks and credit unions have relied on for decades are showing cracks. And those cracks are becoming larger and more numerous.

"The majority of banks and insurance carriers acknowledge that innovation is fundamental to the success of their overall ventures, so understanding what can propel innovation initiatives can significantly improve overall performance," according to American Banker's Innovation Readiness 2023 report.[1] To find growth opportunities, banks are developing innovation strategies to improve customer experience, products, operations and business models.

Consider the following five headwinds making revenue more difficult to find:

1. **Margins are shrinking**. The FDIC reports that the banking industry's net income was $70.8 billion in the second quarter 2023, a $9 billion decrease from the previous quarter. Additionally, banks' net interest margin shrunk by three basis points due to cost of funds outpacing asset yields.[2]

2. **The economic and geopolitical landscape is shaky**. The Office of Financial Research (OFR) reports that financial stability risks in the U.S. have increased due to ongoing geopolitical risks.[3]

   Morgan Stanley's Chairman and CEO, James Gorman, recently told attendees at the Global Financial Leaders Investment Summit that geopolitics and politics could trigger the next global financial crisis.[4]

3. **Interest rates are changing**. During its latest meeting, the Federal Reserve left interest rates unchanged. U.S. Central Bank Chief Jerome Powell said that a discussion of cuts in borrowing cost is coming "into view."[5] Anticipate that lower interest rates will put pressure on yields.

[1] www.americanbanker.com/research-report/the-key-to-finance-innovation-moving-beyond-tech-to-tech-driven-culture
[2] www.americanbanker.com/news/paper-losses-dwindling-deposits-and-low-interest-margins-cloud-bank-financials
[3] www.financialresearch.gov/press-releases/2023/12/06/office-of-financial-research-report-2023/
[4] www.reuters.com/business/finance/ubs-chairman-says-regulators-are-misguided-more-scrutiny-capital-2023-11-07/
[5] www.reuters.com/markets/us/fed-likely-hold-rates-steady-signal-couple-cuts-2024-2023-12-13/



4. **Non-traditional competitors are siphoning off revenue**. The share of revenue of traditional banking products such as auto lending, consumer finance, and mortgages sold through non-banking channels will increase by 3% to 5% by 2025.[6]

   Mobile payment apps, like PayPal, Venmo, and CashApp, are in direct competition with banks and credit unions. Total payment volumes for PayPal reached $377 billion in a single quarter, an increase of 11% and, the number of transactions grew by 10% to 6.1 billion across more than 400 million active consumer accounts.[7]

5. **It's challenging to keep up with consumer expectations**. Consumers are a demanding and discerning audience. For example, just 34% of consumers score their bank's mobile app at least 9 out of 10 and only 30% give their customer service the same score. Only 23% of consumers rate their bank highly for its range of products and services and for the competency of its tailored financial advice.[8]

These factors add to the urgency for banks and credit unions to transform traditional banking into a more resilient model and recapture revenue and share of the wallet. "Establishing a tech-driven culture is not only imperative for survival but also offers opportunities for banks, credit unions and insurance companies to grow," according to *American Banker*.[9]

Emerging Business Models

Confronting changes in the industry and market, banks and credit unions are increasingly open to new ways of doing business and turning the traditional banking model on its head.

[6] www.accenture.com/content/dam/accenture/final/industry/banking/document/Accenture-Banking-Consumer-Study.pdf#zoom=40
[7] www.pymnts.com/earnings/2023/paypal-transactions-per-active-user-grow-to-54-7/
[8] www.accenture.com/content/dam/accenture/final/industry/banking/document/Accenture-Banking-Consumer-Study.pdf#zoom=40
[9] www.americanbanker.com/research-report/the-key-to-finance-innovation-moving-beyond-tech-to-tech-driven-culture

Consider the ubiquitousness of integrated payments into apps such as Uber or Instacart or additional purchase options such as Buy Now Pay Later (BNPL). Banks may find future revenue opportunities in new iterations of digital wallets. Interesting use cases on the horizon include identity wallets, crypto wallets, mobile payments for EV charging or parking. Gaming, the metaverse, and decentralized financial solutions also represent promising frontiers in the financial industry.[10]

Today, banks and credit unions generate a substantial percentage of revenue from non-banking channels. Accenture research shows that at least 30% of banking industry revenues relating to traditional products such as payments, personal loans, and credit cards are sourced through non-banking third parties.[11]

The good news for banks and credit unions is that many consumers are willing to purchase traditional banking products such as loans (43%) or bank accounts (31%) from non-financial services providers. Still, three-quarters of this group would do so only if the products were managed in collaboration with a bank or credit union. In fact, consumers are approximately 2.5 times more likely to purchase banking products embedded in non-bank channels if the product is managed in partnership with a bank.[12]

The evolution in banking practices – and how banks and credit unions generate revenue – will only accelerate. Here's a look at emerging business models that are gaining ground in the financial landscape:

- **Embedded finance**. Embedded finance enables banks and credit unions to reach consumers at the exact moment of need. Banks and credit unions get access to new distribution channels, such as retailers and e-commerce websites, supplementing their traditional business models by offering their services through non-financial channels.

  The volume of embedded finance transactions will explode in the next few years. E&Y estimates the global embedded finance market will grow from $264 billion in 2021 to $606 billion in 2025.[13] More than 70% of business leaders believe that over half of financial services will be offered via non-financial channels in the near future.[14]

- **Embedded fintech**. Embedded fintech refers to banks and credit unions bundling fintech products and services like budgeting and investment apps into their offerings to increase wallet share and offer new services and capabilities. Embedded fintech has been gaining momentum in the past few years, and almost all (93%) financial institutions plan to embed fintech services into their digital banking experiences.[15]

[10] www.americanbanker.com/payments/news/will-banks-win-or-lose-in-the-new-generation-of-digital-wallets
[11] www.accenture.com/content/dam/accenture/final/industry/banking/document/Accenture-Banking-Consumer-Study.pdf#zoom=40
[12] www.accenture.com/content/dam/accenture/final/industry/banking/document/Accenture-Banking-Consumer-Study.pdf#zoom=40
[13] www.ey.com/en_us/banking-capital-markets/fintech-ecosystems/how-banks-are-staking-a-claim-in-the-embedded-finance-ecosystem
[14] www.ey.com/en_us/banking-capital-markets/fintech-ecosystems/how-banks-are-staking-a-claim-in-the-embedded-finance-ecosystem
[15] www.jackhenry.com/hubfs/resources/reports/jh-report-strategic-priorities-benchmark-study-2023.pdf

- **Value-added offers**. Customers think in terms of life events rather than products, so financial institutions must organize their offerings accordingly. For instance, consumers aren't interested in the mortgage product itself, they only care about getting a new home. They don't want an auto loan—they're excited about buying their first Lexus.. Financial institutions have the opportunity to develop additional revenue sources by wrapping value-added offers around a product - such as bundling a mortgage with home insurance and moving services, or a laptop purchase with business insurance and accounting services. In doing so, they will be able to deepen relationships, tap into non-interest sources of revenue and weave themselves into the financial ecosystem that surrounds their customers.

- **Open banking**. Open banking is finally coming to the U.S. The CFPB recently proposed the Personal Financial Data Rights rule, which will set the stage for a shift toward open banking.[16] In a recent news release, Mastercard stated, "Mastercard is bringing the promise of open banking to more consumers and small businesses, enabling them to permit the sharing of their financial data between trusted parties."[17]

  Consumers and businesses increasingly expect to access financial data and conduct transactions via third-party platforms. Using a personal financial management tool that doesn't automatically access banking data can be frustrating. Banks and credit unions have an opportunity to earn additional revenue by charging merchants to use bank account data for their apps.

- **Banking as a Service (BaaS)**. BaaS is a business model in which banks and credit unions leverage their bank charter to allow non-financial service companies to white-label financial products. It's slowly gaining traction: 7% of bankers already provide BaaS services, and 4% more are in the process of developing a BaaS strategy. Another 13% are considering the possibility of launching BaaS services.[18]

New business models require banks and credit unions to leverage the entire financial services ecosystem, including data, distribution channels, and partner products. Today, a lender may ask a business to send them company financial information when underwriting a loan. What if financial institutions could significantly improve the borrower experience by connecting directly to their accounting system and pulling that data immediately?

[16] www.consumerfinance.gov/about-us/newsroom/cfpb-proposes-rule-to-jumpstart-competition-and-accelerate-shift-to-open-banking/
[17] www.mastercard.com/news/press/2023/october/advancing-global-open-banking-to-empower-choice-and-instill-trust/
[18] 166442.fs1.hubspotusercontent-na1.net/hubfs/166442/2023R3_Whats-Going-On-In-Banking_Cornerstone-Advisors.pdf

"Financial organizations that can innovate and offer smarter, better, faster financial products and services that are contextually relevant to both consumers and business customers will achieve greater differentiation and revenue growth. The ability to rapidly innovate and iterate is fast becoming a competitive differentiator."

– Datos Insights
(formerly Aite-Novarica)

A Modern Strategy for Navigating Product Innovation

Many banks and credit unions are experimenting with one or more of these new business models or at least considering them. But all of them require:

- Developing new products and offers
- Accessing new distribution channels
- Building partnerships and tapping into ecosystem products, services, and data

This new era of banking requires seamless integration between banks, credit unions, partners, products, services, and data providers. Banks and credit unions are not merely selling products but bundling them with partner products and services. They enrich data with third-party sources and may distribute products embedded into dozens or hundreds of e-commerce websites and points of sale.

Traditional core systems can't live up to the demand. Most financial institutions today recognize that legacy cores are holding them back, and mmodernization is critical for innovation. Yet, very few have completed the hugely complex tasks of core modernization or cloud migration, according to *American Banker*.[19] To meet the demands of today's market, a new strategy is needed for product management.

Core systems have undergone significant evolution since the by-gone era when banks acted as sole entities. Existing systems can't keep up with the new banking methods involving an interconnected, complex financial services ecosystem. Product innovation is expensive, and implementation on legacy systems is painfully slow. Embedded finance, open banking, and other new business models with complex integration and interoperability requirements are next to impossible.

However, core replacement is complex and costly. Many banks and credit unions don't want to take the risk—and rightfully so. It's a huge undertaking.

Without a new approach to financial product management and distribution, banks are confined to selling traditional products through traditional channels, limiting their ability to expand into emerging markets.

"Financial organizations that can innovate and offer smarter, better, faster financial products and services that are contextually relevant to both consumers and business customers will achieve greater differentiation and revenue growth. The ability to rapidly innovate and iterate is fast becoming a competitive differentiator."[20]

[19] www.americanbanker.com/research-report/the-key-to-finance-innovation-moving-beyond-tech-to-tech-driven-culture
[20] info.fintechos.com/hubfs/whitepapers/2023/The-Benefits-of-Fintech-Enablement-Whitepaper.pdf?hsLang=en

How to Unlock New Business Models with a Fintech Enablement Platform

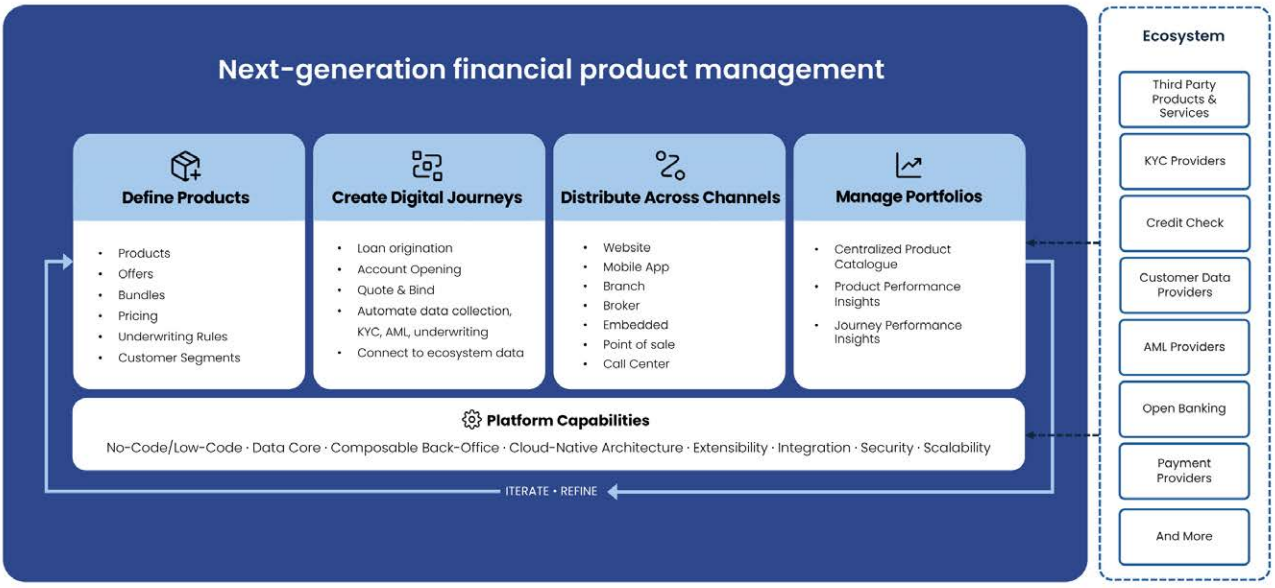
To adapt and grow in today's environment, banks must innovate at a pace that legacy core systems are not equipped to handle. Core systems were designed to be transactional, while the modern institution needs a technology platform that supports continuous product innovation in tight connection with emerging ecosystems. To succeed in such an environment, banks need to free financial product management from core systems. and invest in purpose-built platforms to build. launch and manage financial products at speed and scale.

Next generation financial product management

A fintech enablement platform is a new category in financial technology that allows banks and credit unions to change the way they do financial product management. The platform augments existing technology with flexible, next-generation financial product management capabilities that allow financial institutions to define products and customer journeys and to distribute those products across any channel at speed, whether via a mobile app, a broker, or an e-commerce site.

The platform is designed to reduce complexity and costs while speeding up the launch, servicing, and expansion of financial products and services. It enables financial institutions to connect to channel, product, and data partners in the ecosystem across all stages of the product life cycle, whether it's automating KYC and AML in origination journeys, bundling non-financial products into their offers, or distributing their financial products through non-financial channels.

Banks and credit unions often dedicate significant resources to launching new products and offers, only to find that they fail to generate the expected revenue. Alternatively, they may have ideas for new products, but the cost of customizing core systems to make them a reality is prohibitive, making the pursuit of such products financially unfeasible.



Fast Onramp to Embedded Finance for a Midwest Credit Union Pays Off

An international equipment manufacturer gave a Midwest credit union a great revenue opportunity: be the sole financing provider for its retail customers. With 50,000 members and over $1 billion in assets, the credit union needed to embed its loan products into the manufacturer's point of sale (POS) system to enable customers to apply for and receive funding while in the showroom. They needed the product up and running within six months.

Their existing loan origination system wasn't up to the task.

Instead, the credit union used the FintechOS platform to integrate with its legacy loan origination system (LOS) and enable non-technical teams to launch new products and create customer journeys that the equipment sales reps needed to guide customers through the loan process. The credit union automated its decisioning and integrated with DocuSign for customer signatures.

As a result, the credit union booked more than $500,000 in new loans in the first two weeks.

Because of the product's success, the credit union plans to develop partnerships with other equipment manufacturers and retailers in need of a point-of-sale lending solution.

A fintech enablement platform provides teams with easy-to-use tools to manage the entire financial product lifecycle without needing long development projects or costly core customizations. This includes defining products, pricing, offers, and bundles using a natural language interface, creating digital journeys for customers and distribution partners, and monitoring the performance of products, offers and journeys in real time. Business teams can make rate changes, pricing adjustments, run limited time campaigns or build new propositions from the ground up without needing IT involvement.

But successfully launching, underwriting, and managing financial products requires vast quantities of data. A fintech enablement platform should seamlessly collate data from disparate systems, such as core, customer relationship management (CRM), and digital banking, and enable data enrichment via third-party sources like government databases, open banking, or other third-party data providers. Financial institutions can leverage relevant customer information to price, underwrite, and package products better and increase likelihood to buy.

For instance, a bank may wish to make their existing auto loan product available through a new channel, such as high-end car dealership. In this scenario, the target market for the product consists of consumers with higher than average credit scores. By creating a new offer with improved rates based on credit score and potentially bundling it with partner products, like a valet service, this approach enables the bank to better appeal to the dealership's audience.

With a fintech enablement platform, all of this can be done without changing their core.

If a credit union wants to upgrade its offerings for members buying a first home, it can create a new bundle of value-added services for an existing mortgage product. For example, the credit union can incorporate partner offers, such as discounted home repair, moving, or interior design services, to make the mortgage product more attractive to potential members.

All without changing their core.

Or a bank wants to introduce a new product — like a digital wallet with capabilities for gaming — but its core system cannot support the servicing and billing requirements. They can use a fintech enablement platform to define and distribute the new product, deploy new loan administration and billing capabilities, seamlessly integrating with and addressing the gaps in their core systems to support the new offer.

All without changing their core.

Unlock new business models

By lowering the cost and risk of product innovation with a purpose-built financial product management platform, banks and credit unions can tap into new revenue streams, test new products and business models, and harness new distribution channels to reach customers.

Returning to the car dealership example, the bank must assess whether the loan volume aligns with the cost of making the loan available through the dealership. Determining the performance levels of various partnered dealerships becomes essential, distinguishing those thriving from those not.

Traditionally, data collection requires manual effort to sieve through multiple sources, collate, and analyze. This effort is time-consuming and potentially costly if the product is underperforming. Coupled with the time needed to change the product or digital journey to improve performance, financial institutions could be looking at months of underperformance – or worse – losses.

With a fintech enablement platform, financial institutions get real-time insights into products, offers, and channels, enabling faster decision-making on what to double-down on, change or retire. Financial institutions can use insights on the number of contracts booked and journey drop-offs to change the product, journey, or distribution channels quickly. If one product outperforms another, it's easy to implement changes to the underperforming product while leaving other products untouched.

Making changes to the product definition is easy. A fintech enablement platform leverages an AI-enabled natural language interface to allow business users across the institution to define the product intuitively using sentences or already created formulas, perhaps in Excel spreadsheets.

The Way Forward

Traditional banking models aren't delivering as well anymore due to a confluence of headwinds, including non-traditional competitors, shrinking margins, and continually evolving consumer expectations.

Banks and credit unions are open to experimenting with new business models such as embedded finance, BaaS, and open banking. However, legacy core systems are hobbling efforts to engage in the new financial ecosystem and leaving them at a disadvantage in a fast-moving marketplace.

So why use core systems to do something they are incapable of doing? A new approach to product innovation is the best way forward for institutions that want to stay ahead of the competition.

Investing in an agile, purpose-built financial product management platform will enable banks and credit unions to keep pace with changing customer expectations, new competitors, and the shifting industry and economic landscape. Financial institutions can unlock new revenue models, reduce costs and risk, expand their customer base, collaborate with providers, offer bundled products, optimize their product portfolio, and streamline operations - increasing profitability.

By positioning to be flexible, quick, and innovative, banks and credit unions will be able to adopt new business models and opportunities as they emerge in today's complex and interconnected financial ecosystem.



About FintechOS

FintechOS is a fintech enablement platform enabling financial institutions to create, distribute and manage life-centric banking and insurance products at speed and scale. FintechOS augments existing systems with next-generating financial product management capabilities giving product teams the ability to define financial products across any line of business, create value-added offers bundling financial and non-financial products and distribute them with modern digital journeys across owned and partner channels. More than 50 customers around the world, including Groupe Société Générale, Admiral Insurance Group, and Howden Group use FintechOS to modernize their traditional book of business and tap into new revenue streams with innovative financial products..

For more information about FintechOS, fintechos.com.