

Difficult Choices:
 A Model For Making Strategic
 Innovation Decisions
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 David L. Peterson
 Chief Innovation Officer
 First National Bankers Bank

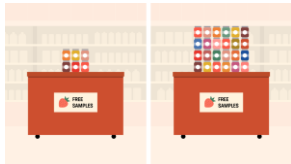
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Why is it so hard to make
 difficult decisions?

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Making Deciding Difficult

- Cognitive Biases
 - Status Quo Bias
 - Anchoring Bias
- Stress
- Volume of decisions (Decision Fatigue)
- Too many options (Choice Overload)



<https://edu.gcfglobal.org/en/problem-solving-and-decision-making/why-is-it-so-hard-to-make-decisions/2/>

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How Important is it for your institution to be **Innovative**?

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Why You Should Innovate

Innovation will bring new business potential energy ...

- New ideas, new services bring in new potential customers
- Differentiate from competitors
- Energizes staff
- Stimulates transformational growth



<http://www.entrepreneurshipinabox.com/8479/6-reasons-you-should-invest-in-innovation/>

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Why You Should Innovate

Innovation will create highly desired employees ...

- Future leaders more likely to come out of an innovative mindset
- Individual innovators lead to an overall innovation culture, which attracts better, more qualified applicants



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Why Should You Even Consider Implementing a Faster Payment Solution?

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Why Faster Payments?

- Enabling a faster payment options is required to acquire future customers ...
- Lots of options already ...
- ... and large FIs are advertising them!
- It will move from novel option to table stakes ... fast!
- Perhaps necessary for most profitable customers / prospects



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So ... Let's think *innovatively* about Faster Payments

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Some Definitions ...

- Faster Payment (FP) - means something faster than what currently exists (ie: faster than ACH or ICL)
- Pay Anyone – means pay (virtually) anyone that has a transaction account at a U.S. FI
- Auxiliary Account – an account that is used for FP that is not the recipients DDA (ie: Paypal, Venmo, Square, etc.)



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Also important ...

- How does an account get credited??
 - Directly post to transaction account
 - ACH
 - EFT/POS
 - Check
 - RTP
 - FedNow (2023)
 - Indirect posting
 - Paypal
 - Venmo
 - Square

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What about Zelle?

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What About Zelle?

- My Experience with Zelle is that unless both sending and receiving FIs are Zelle members, the chances of a successful transaction are uncertain
- Not sure if this is universally true ...



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What is the role of Your Core Provider related to providing a Faster Payment solution?

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Faster Payments and Cores

- FIS, FIServ and JHA have signed with The Clearing House to offer RTP
- Why shouldn't community banks just do RTP with their core?
 - Not all core options available
 - How will cores do settlement??
 - Need to pay for multiple payment channels (ie: Zelle, FedNow ...)
- High cost to FIs



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FedNow

- Fed in development of new payment rail
- Like RTP, will require core interface
- Fed actively executing pilot program
- Jury still out as to what impact FedNow will have on FIs ability to provide FP solutions



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How Fast Must Faster Payments Be?

- Is real-time posting to a deposit account required?
- RTP and FedNow are Core interface centric
- 44% of accounts not supported – these are the community FIs
- Recipient just needs to see a credit an account they can immediately access!



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Important Issues for FP Consideration

- Who will control my customer's data?
- Is there a danger of disintermediation?
- If I pick a vendor, what happens when they get bought by "_____ "?
- Can small FIs afford to play?



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Who Needs Faster Payments?

- One day I was at a garage sale ...
 - I found a guitar I wanted
 - The price \$750
 - I only had \$200
 - ATM limit is \$400
- What are my options to pay?
 - CC? Check? Paypal?
- How do I push a credit to this seller?



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Who Needs Faster Payments?

- One day a rancher went to the stockyard ...
 - Needed 100 head of cattle
 - Selects his cows
 - Loads into trailers
 - But has no account with Stockyard
- How will rancher pay so he can drive off with the calves?



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Who Needs Faster Payments?

- Two unknown parties that need to conduct a transaction
- Transaction must happen immediately
- Need to execute from anywhere (ie: mobile based at least on the senders end)
- Receiver can immediately verify funds in a transaction account
- Send mobile request for payment w remittance for product/service



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Are there any other use cases?

- A person or company wants to avoid a late fee
 - Could same day ACH can be used for this?
 - A person or company uses a wire transfer today for a transaction
 - There is a case to be made that RTP or FedNow would cannibalize wires
- Note: both the above examples require that the FP option be cheaper than the alternative!



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So, Your FI Can ...

- Let FP happen and focus on traditional banking services ...
- Develop the necessary interfaces to be funding agent
- Proactively offer a FP solution that gives your customer's the ability to push a real-time credit



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A Model for Making the Faster Payment Decision

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A Model for Decision Making

- Step 1 – Survey your customers
 - Separate survey for consumer and businesses
 - Ask for estimated incidents of use cases that would require FP
 - Ask if existing payment options are working
 - Ask for the timeframe that a FP option would be needed
 - You need to both send and receive #s
 - Can be electronic or as you encounter customer



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A Model for Decision Making

- Step 2 – Analyze FP options
 - Assign each Sr Executive to one FP vendor (ie: RTP, FedNow, etc.)
 - That person tracks all news and activity on that vendor
 - Quarterly reports to Sr Leadership
 - Acquire data on FP pricing, cost of interfacing and all other fees to play



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A Model for Decision Making

- Step 3 – Model adoption
 - Using the survey results, create a spreadsheet that models adoption
 - How many consumer trans?
 - How many corporate trans?
 - Separate Send and Recv #s
 - Model activity for the next 5 years
 - Create a pricing that would estimate revenue for FP transactions
 - Then add the cost to deploy FP (spread upfront costs across the 5 years)



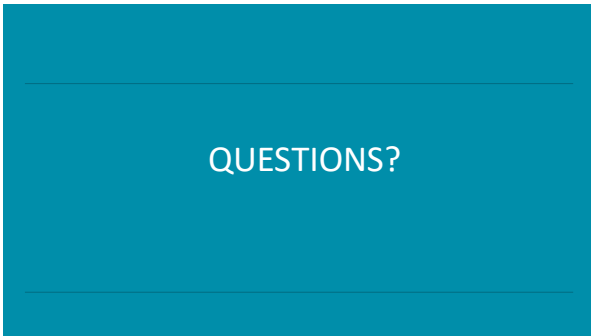
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A Model for Decision Making

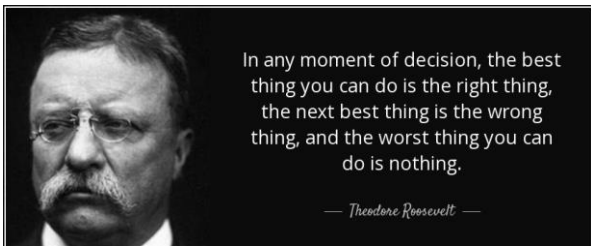
- Step 4 – Review data
 - Does the model show that within 5 years, that the cost of FP will be offset by customer adoption?
 - If yes, then it is just a matter of which vendor to choose
 - If no, what alternatives do you have?
 - Perhaps BB or CCU might offer FP as "pay as you go" model?



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David L. Peterson
Chief Innovation Officer
First National Bankers Bank
mobile: 225-247-6113
dpeterson@bankers-bank.com
