

## Payments Modernization Bulletin

May 2019

### A Call to Action

Financial institutions have always dominated the payments business, and the shift to electronic payments didn't change this. Starting with wire transfer and moving into ACH, card products and electronic checks, banks have guided the development, implementation and adoption of each new electronic payment rail. Today, technology companies collectively called FinTechs, less regulated and inherently nimbler, are threatening to usurp this role by investing heavily in a way that slow-to-change banks and their service providers are hard-pressed to match.

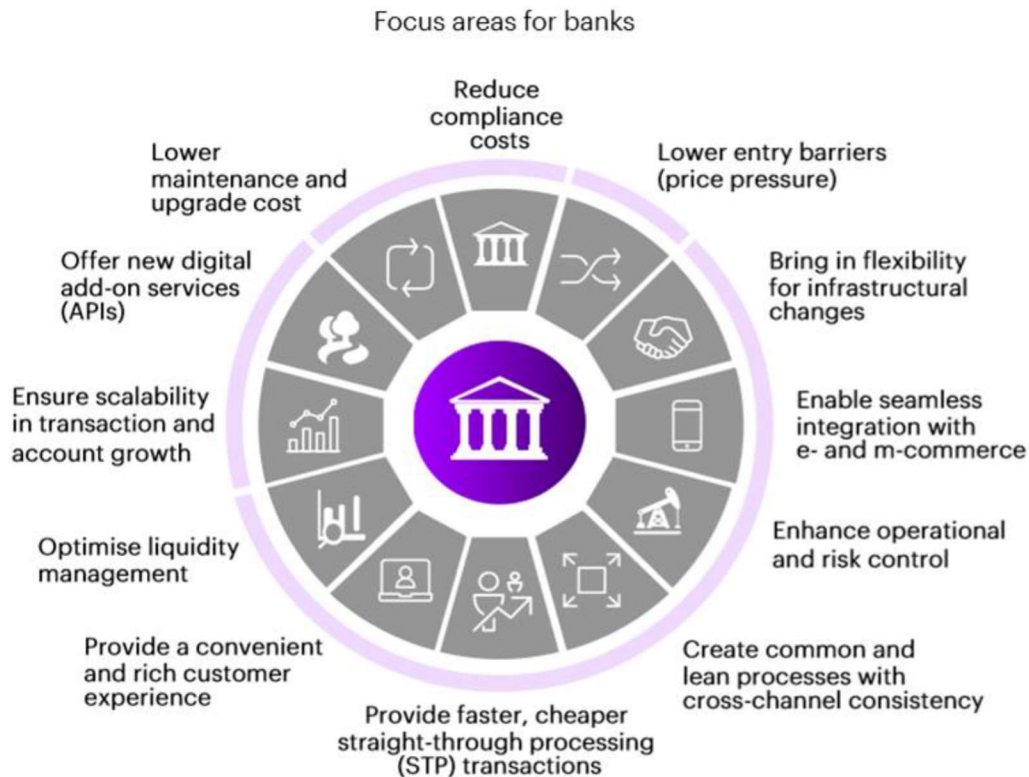
Without an aggressive response, banks are at risk of becoming irrelevant in the payments space we created. Faster, cheaper and more flexible payment technologies have set an expectation of innovation, convenience and access, and bank offerings must keep pace. As large banks create their own strategies, beating, buying or working with FinTechs, Bankers' Bank is moving proactively to ensure that community banks can take full advantage of the opportunities afforded in this fast-changing landscape.

Rather than delivering new innovations that banks and their customers crave, legacy vendors are looking to remain relevant by acquiring existing products and services that expand their portfolios into new areas of financial services. As emerging technologies grow more critical to everyday business, these legacy vendors, which banks have deep longstanding relationships with, likely won't be on the leading edge in every product or channel. Instead, financial institutions will need to seek out newer vendors that have deeper commitments and focus in cutting-edge technologies that will drive industry change.

**Paul Schaus**  
President & CEO, CCG Catalyst Consulting Group

A key driver of this innovation is the Faster Payments initiative shepherded by the Federal Reserve Bank since 2013. This effort has created the framework for a new payment rail that aspires to be fast, secure, ubiquitous, efficient and, eventually, available world-wide. As Bankers' Bank looks to meet the challenges of implementing solutions for its customer banks, we are moving strategically to participate in Faster Payments. We are committed to providing Faster Payments solutions to our customer banks, to the extent possible agnostic of providers – any or all – including Real Time Payments from The Clearing House, another privately developed solution or any future entry from The Fed. In doing so, the Bank will continue to be a payments subject matter expert, leveraging this expertise to make community banks masters of their own destinies. Ultimately, our strategy will expand to include all payment types, with an initial emphasis on the small businesses which are central to community banks' customer strategies.

However, we must act quickly. The Bankers' Bank Board of Directors approved our initial payments strategy in 2018 and reviewed our Call to Action document in March 2019. Our first priorities will be to implement the settlement of Faster Payments, starting with Real-Time Payments from The Clearing House by early 2020 and scoping a mobile application, currently in development, to serve as a customer-facing payments front end for our banks.



The ability to *send* Faster Payments by late 2020 and the ongoing development of a central platform, a “payments hub,” will follow. When completed, these initiatives will position Bankers' Bank to provide flexible, cost-effective payments solutions to community banks, with an emphasis on new technologies and the ability to deliver meaningful data analytics. The Bank will be the premium bank service provider in a marketplace crowded with non-bank and e-commerce competitors.

Our best ideas come from you, our customer banks. Expect to hear from us frequently with future versions of this bulletin, and as we reach out to solicit your guidance and feedback. If you would like to contact the Payments Strategy Workgroup at Bankers' Bank send an e-mail to [PaymentStrategy@BankersBank.com](mailto:PaymentStrategy@BankersBank.com).

Now is the time to respond to a shifting environment of transformational change with a strategy to move community banks' payments business forward. Legacy platforms and processes will no longer be enough. The payments business is fundamentally changing, from a utility function to a profitable, strategically positioned product. Recognizing this opportunity, Bankers' Bank will ensure that our community banks are ready for this revolution.