



Highlights from Bank Director's 2023 Tech Survey

🔗 technology industry update

Summary: Increased competition from neobanks for small businesses and Gen Z customers, rising tech budgets, and emerging opportunities are just a few of the themes highlighted in Bank Director's 2023 Technology Survey. We summarize some of the key findings and their relevance to CFIs.

During a triathlon, one competitor, Leigh Fazzina, took a wrong turn that ended with a bike crash. When she couldn't move after her crash and her cell didn't have enough signal for a call, she was luckily [able to post on Twitter](#) so rescue crews could find her. This is not the first account of a mobile phone saving somebody's life. Stories abound and seemingly involve devices of different brands. Of course, technology, though undoubtedly useful, may not always come to the rescue in such spectacular ways.

Now more than ever, technology is key to community financial institutions' (CFIs) ability to deliver on their strategic priorities, compete effectively in a rapidly evolving market, and meet increasingly sophisticated customer needs. In its yearly Technology Survey sponsored by Jack Henry, Bank Director highlights areas of concern, opportunity, and investment among 102 US financial institutions. Participating institutions have less than \$100B in assets, and almost half have assets between \$1B and \$10B. Here are the main findings.

- 1. Competition from neobanks is an increasing threat.** The competitive landscape continues to evolve and financial institutions (FIs) are feeling the heat. While traditional banks still generate the most concern — 61% of respondents cited local banks or credit unions and 56% superregional banks as major threats — 42% of respondents now rank neobanks in the top three concerns, [compared to 25% in 2022](#).
- 2. There are gaps in CFIs' small business digital offerings.** While mobile deposits and payments are offered widely (93% and 84% respectively), far fewer FIs provide deposit account opening (41%), loan applications (37%), or treasury management (36%) online. Digital payroll services (37%), accounts payable/receivable (19%), and cash flow monitoring (11%) are less common. One explanation could be that many small and micro businesses are using personal accounts rather than business accounts, making it difficult for FIs to identify them as business customers.
- 3. CFIs feel poorly equipped to serve Gen Z.** Only one in five of those interviewed believed they have the capabilities to serve the younger, more digitally savvy generation. Some FIs worry the battle for this segment has already been won by fintechs. Jennifer Geis, senior analyst, corporate strategy at Jack Henry recommends focusing on "mobile-only account opening that doesn't require funding upfront, early paycheck access and automated savings options" to attract Gen Z customers.
- 4. Technology budgets are increasing.** Four out of five respondents said they had increased their technology budget in 2023, with a median increase of 10%. A median 15% of that budget is dedicated to new initiatives. Respondents regard digitalization of key banking operations — account opening, lending, payments — as key to enhancing the customer experience. Indeed, 44% of respondents said that digital channels are more critical to them than branches, an increase from 33% in 2022. However, despite higher spending plans, over half of respondents (54%) thought that banks should invest more heavily in technology and innovation.
- 5. Key opportunities lie in AI and BaaS.** Artificial intelligence tops the areas considered for budget allocation, with 56% of respondents having discussed the opportunity it presents, primarily for customer

service and fraud detection and prevention purposes. [Banking as a Service](#) (47%) and Payment as a Service (42%) also featured in discussions among execs, while cryptocurrencies/digital assets and blockchain attracted less interest.

6. **Barriers to adoption remain.** While upgrading or implementing technology initiatives, most FIs (74%) are concerned about the challenges of integrating with their core infrastructure, followed by issues relating to adoption/acceptance by banking staff (53%), and customers (51%). Almost half of respondents also listed challenges around identifying the right technology solution, working with the provider, and acquiring the internal talent to support the implementation.
7. **CFIs are building board expertise.** Increasing recognition of the importance of technology has led to a drive to [bolster the board's competence in this area](#). Just over half of respondents now say they have at least one technology expert on the board, and 38% of those that don't are actively seeking to recruit one, compared to the same figures in 2022, 42% and 28% respectively.

With technology budgets on the upward trend, there are several areas that CFIs could invest in to give them a competitive edge and respond to some of the threats posed by fintechs and neobanks. From digital services for small businesses and mobile offerings for Gen Z to AI and BaaS, CFIs should carefully consider how best to align their investments with their strategic priorities.

NEW PODCAST EPISODE: STRATEGY FIRST

A strategy before structure approach for launching new services and strategic initiatives helps ensure competitive, customer-focused results. DocFox Co-Founder and CEO Ryan Canin shares tips on setting clear objectives for new initiatives and avoiding common pitfalls. [Listen now](#).

ECONOMY & RATES

Rates As Of: 10/24/2023 06:50AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.58	0.03	1.16
6M	5.56	0.03	0.80
1Y	5.43	-0.01	0.72
2Y	5.10	0.06	0.67
5Y	4.85	0.24	0.85
10Y	4.88	0.31	1.01
30Y	5.01	0.31	1.05
FF Market	FF Disc	IORR	
5.33	5.50	5.40	
SOFR	Prime	OBER	
5.30	8.50	5.32	

Copyright 2023 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.