


Competition and Scale in Technology

Staff presentation to the Community Bank and Credit Union Advisory Councils

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The bottom of the slide features a decorative graphic consisting of several overlapping, semi-transparent green shapes. These shapes are arranged in a way that creates a sense of depth and movement, with some shapes appearing to rise from the left and others from the right, meeting in the center. The colors range from a light, pale green to a vibrant, medium green.

Disclaimer

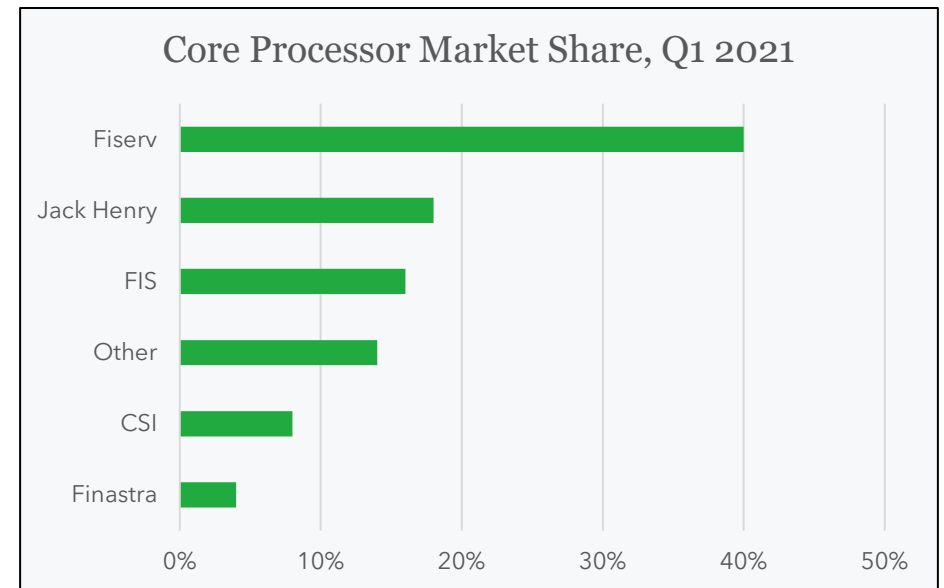
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Technology is driving change in the market

- Consumers have embraced tech-enabled banking
 - Change is most obvious for younger generations
 - COVID has accelerated transition
 - Acceptance lags among older population and more rural communities
- Local depositories face greater tech-enabled competition
 - Neobanks and BaaS providers
 - On-line/Mobile platforms of larger depositories
- Automation has shifted back-office processes toward a fixed cost model that rewards scale
 - Small depositories have sought to remain competitive by relying on core processors
 - While these partnerships help improve efficiency, they present challenges

Consolidation in the core processor market may have negative consequences

- Rapid consolidation, with the top three providers representing ~75% of the market in 2021
 - Depositories face long-term contracts, inflexible pricing structures, and high switching costs
- Loss of autonomy limits innovation and slows the offering of new products
- Operating costs may affect business strategy, including customer selection
 - This dynamic could affect the provision of services to lower income consumers



Data from FedFis, fedfis.com/data.html

Yet core processors simultaneously provide essential technology services

- Fiserv ⁽¹⁾
 - Processes more than 12,000 financial transactions per second
 - Digital banking solutions power processing for over 80 million consumers
- FIS ⁽²⁾
 - Specializes in services for larger banks; over 70 of its clients have assets over \$10bn
 - Deployed a modern banking platform offering a common access open API
- Jack Henry ⁽³⁾
 - Provides services to approx. 1,000 depository institutions with assets less than \$50bn
 - Supported 400 banks and credit unions during PPP

(1) Source: fiserv 2020 Annual Report

(2) Sources: Khaveen Investments, *Seeking Alpha*, "Fiserv Vs. Fidelity National Information Services: Better Fintech Stock In Banking And Payment Processing."

(3) Source: Jack Henry 2021 Annual Report and Jack Henry & Associates, *PR Newswire*, "Jack Henry Enhances Paycheck Protection Program Lending Solution, Helps Banks and Credit Unions Support Local Businesses."

The CFPB is taking action to investigate market dynamics

- The CFPB is focused on improving consumer outcomes by promoting competition
 - Director Chopra is on the FDIC Board and is focused on their pending review of bank merger policies
 - With respect to the core processors, the CFPB is fully willing to exercise its own oversight authority and would welcome input from Council members on whether any practices should be raised with the DOJ and FTC
 - We are looking at gaps in the regulatory framework and ensuring a level playing field for credit unions and community banks
- The CFPB remains highly focused on the needs of underserved (or unserved) populations
 - We are scrutinizing overdraft practices and would encourage the industry to offer products better-suited to the needs of families living paycheck-to-paycheck

Thank you!

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