

Tech Takeover

Fintech and Artificial Intelligence

Presented by:

Lali Pita Shaffer

Risk Analysis Unit, Fintech Initiatives

Supervision, Regulation and Credit



This presentation and my comments represent my personal views and do not necessarily reflect the views of the Federal Reserve Bank of Atlanta or the Federal Reserve System.

Agenda

Financial Technology “Fintech”



- Consumer View
- Community Bank View
- Federal Reserve
- Emerging Technology
- Fintech Resources



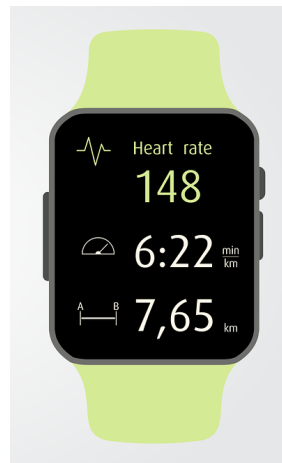
Ernst & Young Global Fintech Adoption Index

How are consumers using technology?

#1 Payments



#2 Insurance



#3 Savings & Investments



Ernst & Young Global Fintech Adoption Index

And consumers are willing to shop and share

- **68%** would consider a non-financial company for financial services, citing attractive rates and fees.
- **46%** are willing to share bank data.



- **89%** of small and medium enterprises are willing to share data with fintech firms.

Community Bank Concerns and Priorities National View



2019 Concerns

1. Growing deposits
2. Interest rate environment
3. Cybersecurity
4. Funding costs
5. Loan demand

2019 Priorities for Areas of Growth

1. Commercial loans
2. Commercial deposits
3. Consumer deposits
- 4. Digital presence**
5. Small business market share

Community Bank Priorities

National view – Fintech Initiatives



1. Digital account openings
2. Payments
3. Lending
4. Fraud/risk management
5. New products

Community Bank Concerns

Consumer loan balances are down, fintechs capturing market share



- Some community banks have tightened their underwriting standards in response to rising consumer delinquencies.
- Even if delinquencies stabilize, community banks may continue to lose consumer loans to fintech firms.
- According to TransUnion, **fintechs now have the largest market share of consumer loan balances.**



Community Bank Concerns

In the fight for Commercial & Industrial loans

- Despite slower growth in other portfolios, Commercial & Industrial and Construction & Development loans exhibited strong growth.
- On a national basis, 32 percent of small business applicants approached online lending companies in 2018, up from 19 percent in 2016.
- **In the Atlanta Fed District, the online markets were strongest in Florida and Georgia, where 40 percent of small business applicants sought funds.**



WHY DO WE CARE? WHY SHOULD YOU?



01

Atlanta is the fourth most important fintech hub in the U.S.
= Cambridge Judge Business School Fintech Index

02

Fintech proliferation = Companies, products, and services are growing. Consumers and businesses are shifting.

03

Banks must strategize = Buy, build, partner. Everyone needs to understand the risks and benefits.

04

Fintechs and their products and services touch all parts of a bank = We must educate ourselves.

TRANSACTION ALLEY

70 percent of the nation's payments from credit, debit, and prepaid transactions flow through Atlanta.

From Fed Statement to the Task Force on Financial Technology - U.S. House of Representatives

“We want to contribute to a sound environment conducive to responsible innovations that can benefit consumers and small businesses as well as banks in serving them.”

- We support responsible private sector innovation in the financial services industry.
- We are actively engaged in researching, monitoring, and assessing policy implications.



- Fintech may offer ways to increase access to banking underserved communities.
- Firms can leverage data and analysis to extend credit to more customers, but don't forget about compliance!

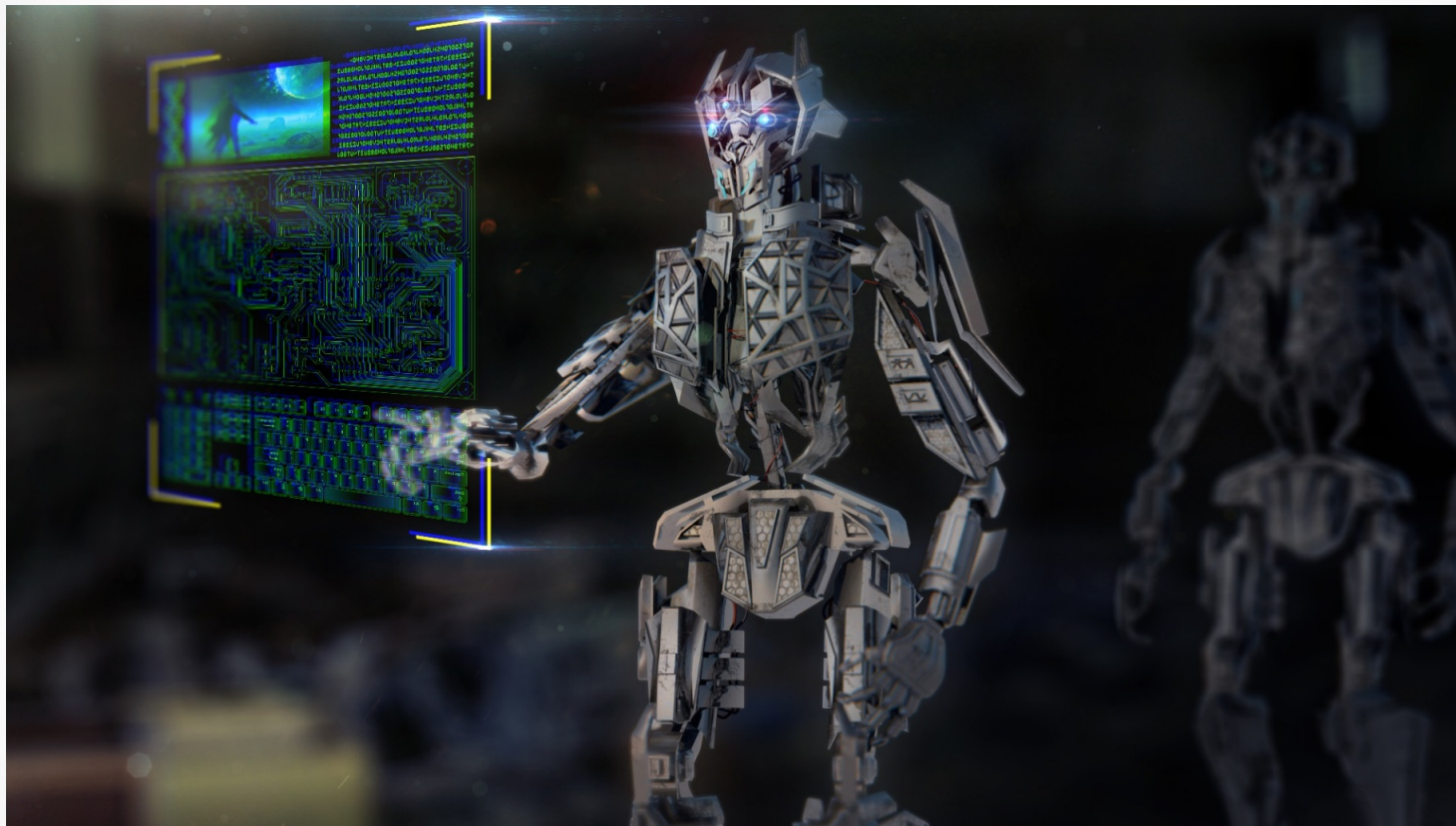


RESPONSIBLE AI

EXPLAINABLE AI

- Survey of >2k business leaders showed 47% have deployed at least one AI-based system and another 30% are piloting - McKinsey Global Institute Survey.
- Those ahead in adoption include financial services and telecom.
- Roadblocks to AI deployment:
 - Lack of strategy
 - Skills gap
 - Functional silos

Future Employee?



Emerging Tech and You

No more physical wallets

From this:

“It’s not just a wallet, it’s an organizer, a secretary, and a friend.”



To this:

Scan and go



Emerging Tech and You

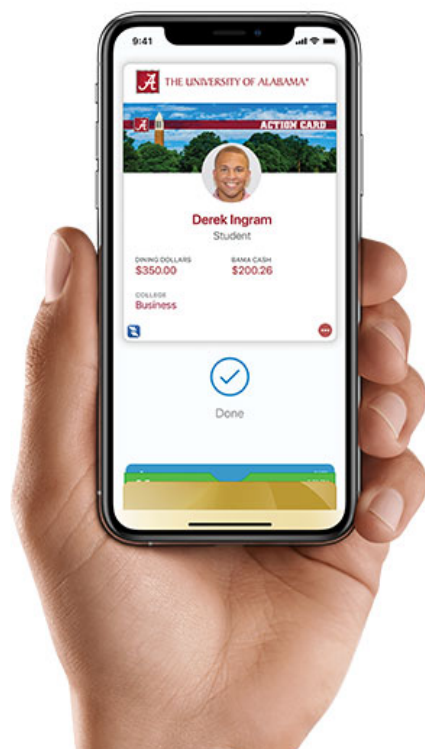
What about my license and train pass?



Digital drivers licenses are being piloted in many states, some are sponsored by the National Institute of Standards Technology (NIST).

Digital payment and ride passes for public transit are on the way. New York City plans to be all digital by 2023. Atlanta's MARTA is also piloting digital passes.





Your **ACT Card**. Now on iPhone and Apple Watch.



*Works with iPhone 6 and later, and Apple Watch Series 1 and Series 2 and later.

Emerging Tech and You

For the true digital banker, digital Monopoly

- Digital assistant to reduce cheaters and track transactions.
- Cashless, no more stealing from the bank.
- Economist Daniel Hamermesh says the game ***still teaches economic concepts like scarcity and how to make decisions about when to invest and when to hold off.***



“You can't just ask customers what they want and then try to give that to them. By the time you get it built, they'll want something new.”

-Steve Jobs, 1989

Entrepreneur of the Decade

Federal Reserve Bank of Atlanta

- Retail Payments Risk Forum
- Economy Matters
- Center for Financial Innovation & Stability

Federal Reserve System

- Board of Governors

International Organizations

- Financial Stability Board
- Bank for International Settlements

