2024 strategy benchmark

AI Brings Data Strategy Front and Center

jack henry™

table of contents

study methodology

Between January and February of 2024, Jack Henry™ conducted an online survey of our core clients. Responses were received from 127 bank and credit union CEOs, representing a diverse sample of Jack Henry clients across the U.S., with assets ranging from under $500 million to more than $10 billion.

executive summary

Voice of the CEO

Welcome to the sixth annual Jack Henry Strategy Benchmark, which aims to identify the top strategic priorities for bank and credit union CEOs in 2024 and 2025.

This survey provides peer benchmarks and actionable insights for your strategic planning and enables Jack Henry to better align with your long-term direction, pinpoint emerging areas of opportunity, and expedite timely innovation in areas that matter most.

In addition to gathering high-level insights, we've focused on key competencies across your technology infrastructure and major business lines (core, open banking, digital, lending, payments, and risk, fraud, and security) to help you compete more effectively and differentiate strategically.

Respondents include: 123 CEOs, one COO, and three Presidents. Relative to Jack Henry's base of core clients, the Strategy Benchmark carries a 5% margin of error at a 95% confidence level and is therefore statistically representative of Jack Henry's core client population of 1,622 financial institutions.

Below Are Key Takeaways From the Study:

- **Growing deposits is the top strategic priority for all financial institutions in 2024 and 2025.** This year, 72% of bank CEOs and 44% of credit union CEOs say growing deposits is paramount.
- With expenses putting downward pressure on net income, **banks and credit unions rolled into 2024 with greater urgency around improving operational efficiency** – the second and third top priorities respectively.

This survey provides peer benchmarks and actionable insights for your strategic planning and enables Jack Henry to better align with your long-term direction, pinpoint emerging areas of opportunity, and expedite timely innovation in areas that matter most.

jh

- **80% of all financial institutions plan to increase technology spend over the next two years, but credit unions are more bullish on budgets.** 37% of credit unions plan to increase technology investments between 6% and 10%, while only 30% of banks are targeting that investment level. Most banks (37%) plan to increase their investments between 1% and 5%.
- **Fraud detection and mitigation, digital banking, and data analytics are the top three technology investments planned over the next two years.** Relative to banks, credit unions give outsized priority to investments in artificial intelligence (AI). Consistent with past years, credit unions are also allocating more of their budgets to data analytics and automation relative to banks.
- **Net interest margin (NIM) compression and deposit attrition/displacement are the top two concerns for banks and credit unions.** Banks remain somewhat concerned about talent acquisition/retention while credit unions worry more about price compression on financial services and rising loan delinquencies/write-offs. Both bank and credit union CEOs are less concerned about an economic slowdown this year versus last year.
- **For banks, NIM is the key performance metric for 2024 and 2025, while credit unions are more focused on return on assets (ROA).** This comes as no surprise, given the ROA for credit unions fell to .68% in 2023, as higher operating and provision expenses offset their improving NIM.
- **92% of financial institutions plan to embed fintech into their digital banking experiences, with the majority planning to embed payments fintechs.** Credit unions are also looking to embed consumer financial health and digital marketing fintechs while banks are looking to fintechs for help with small and medium-sized business (SMB) services and treasury management.
- Plans for launching Banking-as-a-Service (BaaS) business lines (to embed banking into third-party, non-bank brands) have been significantly tempered by increased regulatory scrutiny and related compliance costs introduced in 2023. Last year, over half (52%) of respondents had BaaS on their strategic radar. This year, **only 30% of financial institutions cite BaaS plans, while nearly 70% have no plans to offer BaaS in 2024 and 2025.**
- **90% of financial institutions plan to serve a niche market over the next two years.** In fact, both banks (86%) and credit unions (59%) are targeting businesses, with 78% of all respondents reporting plans to expand services for SMBs – including payments, business credit/lending, and merchant services.

92% of financial institutions plan to embed fintech into their digital banking experiences over the next two years.

- **96% of financial institutions plan to add payment services within the next two years, with FedNow® Service being the top priority for both banks and credit unions.** The percentage of bank CEOs planning to add real-time payments from The Clearing House doubled this year, while credit union CEOs expressed greater interest in adding a P2P alternative to Zelle®. Digital card issuance, contactless cards, and same-day ACH round out the top priorities in payments for 2024 and 2025.
- While **97% of all financial institutions plan to enhance their lending capabilities**, priorities diverge sharply and predictably between banks and credit unions, with banks focusing on automated workflow and custom/automated financial spreading, and credit unions focusing on underwriting using AI and automated prequalification campaigns.
- Fraud is the leading technology investment planned for 2024 and 2025, **all financial institutions agree check fraud is the biggest fraud threat**, followed by romance/investment scams and account takeovers.
- **Both banks and credit unions cite social engineering of employees and data breaches as their top two cyber threats this year and next.** Relative to banks, credit unions are maintaining significant vigilance around ransomware.

97% of **all financial institutions** plan to enhance their lending capabilities.

96% of financial institutions plan to add payment services within the next two years, with FedNow Service being the top priority for both banks and credit unions.

AI brings data strategy front and center

GenAI, Open Banking, and Rampant Fraud Demand a Modern Data Regime

While deposit outflows defined 2023, the resulting pressure on net interest income (NII) and NIM introduced an intense focus on efficiency rolling into 2024.

Enter the uncanny ability of Generative AI (GenAI) to perform a wide range of tasks faster, better, and cheaper than ever before – both in the back office and inside the digital accountholder experience.

GenAI is not just an inflection point. It's a step change that will fundamentally improve the unit economics of running your financial institution.

In fact, 44% of U.S. CEOs expect GenAI to boost profits this year, primarily through significant improvements in product innovation and employee efficiency,[1] with GenAI's biggest workforce impact over the next decade predicted to affect jobs in the financial services sector and the banking industry at large.[2]

Until banks and credit unions receive clear regulatory guidance, **most GenAI use cases will be confined to the back office or assistive to staff delivering instant personal service in the digital context** – a boon for credit unions and community banks doubling down on relationship banking in the digital era.

With GenAI assistance in real-time, a single full-time employee (FTE) can efficiently support a larger number of accountholders in less time, leading to faster, more cost-effective, and higher quality service delivery.

Will GenAI Level the Playing Field or Widen the Divide Between Large and Small Financial Institutions?

GenAI's value and utility is a function of:

- The quantity and quality of data on which its models are trained or tuned.
- The brute compute (processing power) applied to detect patterns inside, among, and across that data.

Initially, GenAI appeared to benefit the largest financial institutions with the most data and biggest budgets for cloud computing, leading some analysts to predict a "large mover advantage" for megabanks.

However, this narrative is shifting as technology advances and fierce competition between cloud providers expands access to AI-as-a-Service (AIaaS) and powerful language models for financial institutions of all sizes.

Cloud competition is steadily reducing the cost of compute and data storage.

GenAI is not just an inflection point. It's a step change that will fundamentally improve the unit economics of running your financial institution.

Additionally, **advancements in Transfer Learning (TL) and Reinforcement Learning with Human Feedback (RLHF) are enabling average banks and credit unions to train existing models with very little data – yielding profound results.**

Given large language models (LLMs) are expected to run out of public, non-proprietary data on which to train by 2026, the relative value of financial data is skyrocketing.

Together, these developments and innovations are leveling the playing field in financial services, inaugurating a new era of AI-assisted relationship banking and enabling new orders of efficiency for banks and credit unions.

Small Language Models?

Despite their size, small language models (88X smaller than ChatGPT 3.5) are beginning to perform on par with LLMs.[3] Two of the top-six performing language models are small (based on Stanford's HELM evaluation framework), and smaller models are faster to train and cheaper to run.[4]

This bodes well for average banks and credit unions.

Sectors with sensitive data (such as financial data) are expected to choose small models not only for their performance and cost-efficiency but also for the control they give financial institutions over their data.

Unlike LLMs which must be hosted by model providers due to their sheer size, **smaller models can remain inside your cloud instance and train on your data without ever leaving your cloud ecosystem.[5]**

You Only Have Between 10% and 20% of Your Accountholders' Data

While you don't need "big data" to leverage the power of GenAI, you do need the full complement of your accountholders' financial data, which most banks and credit unions don't have.

Today, the average accountholder has 14 financial apps on their smartphone and 15 to 20 relationships spanning the financial services spectrum.[6]

Their money and financial data are spread across disparate card issuers, brokers, payments apps, neobanks, digital wallets, HSAs, and 401(k)s. This fragmentation makes it difficult for accountholders to understand where they stand with their money, much less what to do next or how to improve their financial health.[7]

Without a preponderance of your accountholders' financial data, the value of GenAI applications is limited.

Open Banking Gives You the Data You're Missing to Maximize GenAI

The Consumer Financial Protection Bureau (CFPB) is set to finalize its proposed rule on *Personal Financial Data Rights* in 2024, with it becoming effective in 2025.

The rule establishes requirements concerning the exchange of financial data, including a gradual phase out of screen-scraping in favor of more secure and standardized API-based, open banking rails. This shift will empower consumers with improved visibility, security, and control over the financial data they share with third parties.

While some financial institutions fear the new rule will open their core data to outside competitors, embracing **open-banking rails is the best way to aggregate your accountholders' third-party financial data** back to your financial institution.

This consolidation gives your accountholders a comprehensive, holistic view of their finances and it gives your financial institution definitive, competitive intelligence to inform new product and service innovations.

With that fuller set of API-aggregated data, you can train models to provide better personal service, present hyper-relevant product recommendations, and offer more effective, real-time fraud detection, interception, and mitigation.

Fraud is a Fever Dream Only Real-Time Data and Analytics Can Break

AI is a two-edged sword.

While it's the only way to fight fraud in real-time, it's also the reason we must fight fraud in real-time … as bad actors now leverage AI to make major data breaches and ransomware attacks (including phishing, vishing, and smishing scams) much faster, more effective, and more damaging.

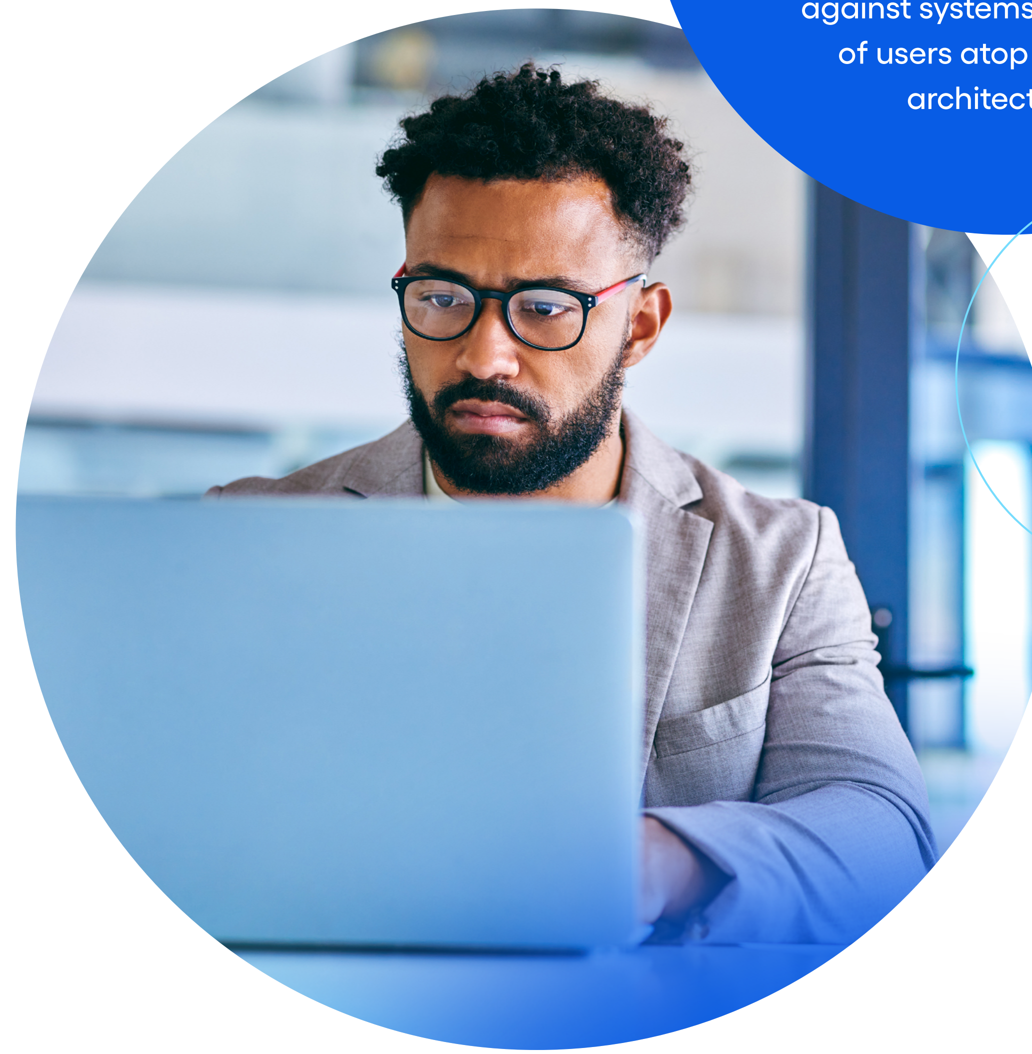
GenAI-created deepfakes are raising the stakes on business email compromise (BEC) and fraudulent transaction authorizations while growing use of faster and real-time payment rails up the ante even further.

Using AI to combat the threat of AI-augmented fraud and zero-day threats requires a 360-degree view of transactions and behaviors across all channels. It also demands the right systems with the right data communicating in real-time by way of streaming APIs.

In short, **modern, real-time fraud requires a modern, real-time data regime.**

This regime should feed the defense AI agents that identify, intercept, and halt intrusions seeking to illicitly obtain your private data or your accountholder funds, all within milliseconds before a transaction ever processes. In order to get there, you need a modern infrastructure and world-class fraud, security, and privacy algorithms battle-hardened against systems with billions of users atop zero-trust architectures.

You need a modern infrastructure and world-class fraud, security, and privacy algorithms battle-hardened against systems with billions of users atop zero-trust architectures.



The Bottom Line

What if you could solve financial fragmentation and achieve first-app status with your accountholders? What if you could monitor events (like deposit outflows) in real time? What if you could run your entire financial institution from one unified back office? What if that unified back office had a ChatGPT-like interface that allowed you to ask any question of all your systems in natural language? What if AI took care of mundane tasks so you could focus on the meaningful, creative, and innovative aspects of the service you deliver?

It all begins (and ends) with data.

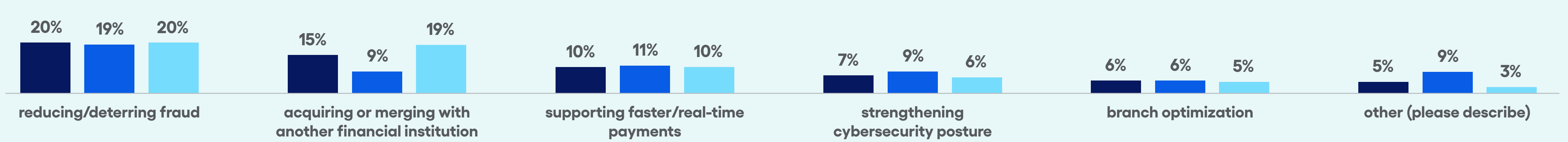
key findings

Study Results

Growing deposits is the top strategic priority for all financial institutions in 2024 and 2025. This year, 72% of bank CEOs and 44% of credit union CEOs say growing deposits is paramount. With expenses putting downward pressure on net income, banks and credit unions rolled into 2024 with greater urgency around improving operational efficiency – their second and third top priorities respectively. Credit unions are much more focused on improving accountholder acquisition and accountholder experience relative to banks.

Over the next two years, what are your top three strategic priorities?

Top Three Strategic Priorities



Under 3% of responses were received for "fintech partnerships" in the survey.

Key Insights

In addition to being the most important strategic priority over the next two years, **growing deposits is also considered the most difficult priority to achieve**, followed by accountholder acquisition and increasing operational efficiency.

The **top three performance metrics cited across all financial institutions for the second year in a row** are NIM, ROA, and efficiency ratios. For banks, NIM is the key performance metric for 2024 and 2025, while credit unions plan to focus on ROA. This comes as no surprise, given the ROA for credit unions fell to .68% in 2023 due to higher operating and provision expenses offsetting their improving NIM.

38%*

of credit unions say accountholder acquisition is a top priority.

**Statistically significant*

Study Results: Top Concerns

NIM compression and deposit attrition/displacement are the top two concerns for banks and credit unions. Although talent acquisition/retention is no longer the biggest concern, it remains a top-three concern for banks, with credit unions more concerned about price compression on financial services and rising loan delinquencies/write-offs. Both bank and credit union CEOs are much less concerned about an economic slowdown this year versus last year.

Key Insights

Banks show a much higher concern for NIM (61%*) and talent acquisition/retention (41%) while **credit unions report concerns** about price compression of financial services (31%*) and loan delinquencies and write-offs (25%*).

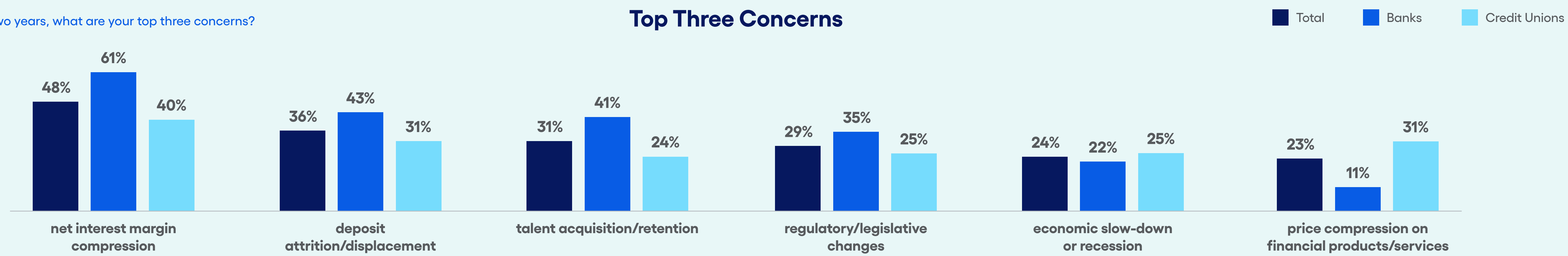
**Statistically significant*

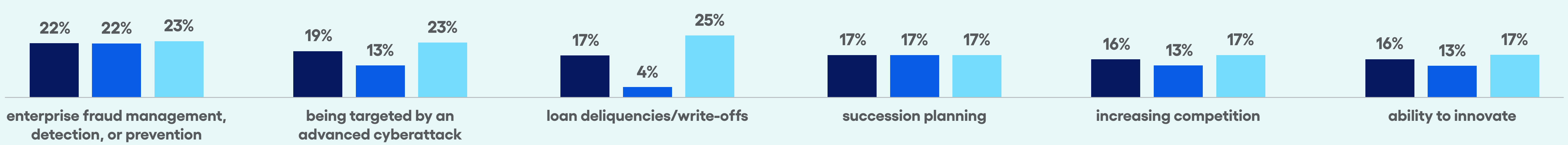
After six straight quarters of bank deposit attrition and rising cost of funds, **NIM compression remains the top concern** for banks year-over-year. Last year, share and deposit growth dropped to its lowest rate (1.7%) for credit unions in 20 years.

This reality combined with the rise in cost of funds and cost of deposits drove a **14-point uptick** in the concern of credit union CEOs regarding NIM compression this year.

Over the next two years, what are your top three concerns?

Top Three Concerns





Under 3% of responses were received for "other (please describe)" and "remote/hybrid workforce management" in the survey.

Study Results:

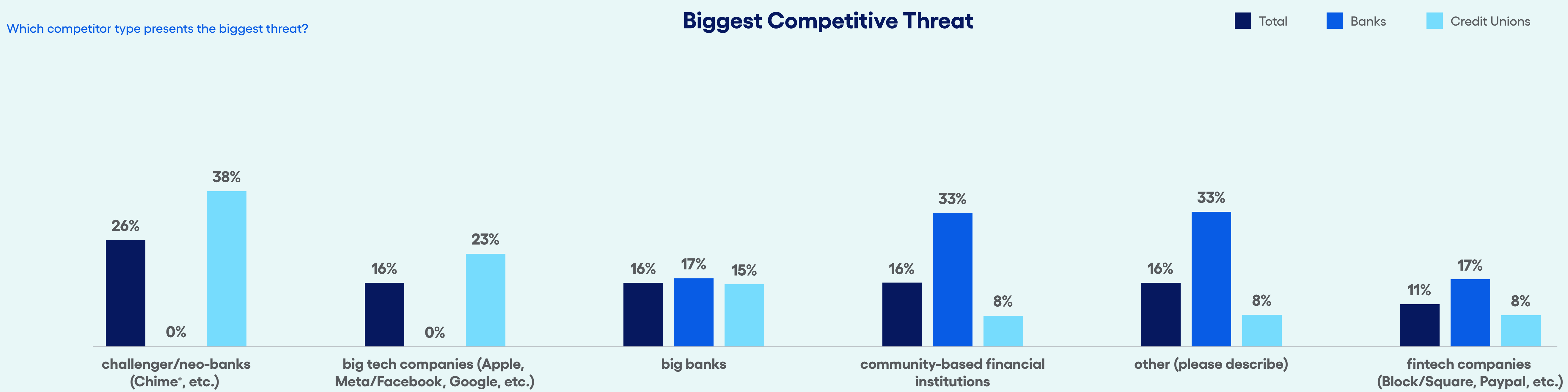
Biggest Competitive Threat

Banks and credit unions disagree on competitive threats in 2024 and 2025.

For the first time, credit unions report challenger/neo banks as their largest threats (38%) while banks report other community financial institutions (33%) and credit unions (33%) as their top competitive threats.

Key Insights

While fintechs have remained a top competitive threat for three years in a row, fear of fintechs has diminished significantly since 2021 and **did not even make the top three this year**.



No responses were received for "regional banks" in the survey.

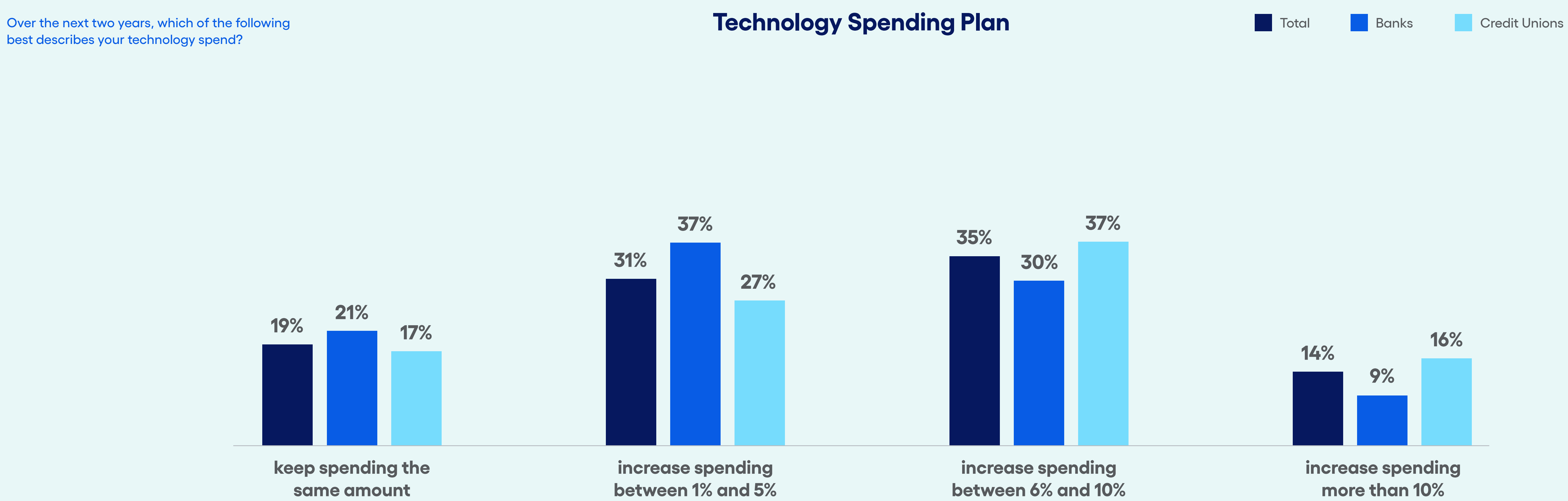
Study Results:

Technology Spending Plan

The vast majority (80%) of banks and credit unions plan to increase technology spend over the next two years. Of those planning to increase their technology spend, the biggest segment (35%) plan to increase investments between 6% and 10%.

Key Insights

Credit unions are more bullish on tech budgets, with 37% planning to increase tech investments between 6% and 10% whereas 37% of **banks** plan to increase their tech investments between 1% and 5%.



Under 3% of responses were received for "decrease spending more than 10%," "decrease spending between 1% and 5%," and "decreased spending between 6% and 10%" in the survey.

Study Results: Technology Investment Priority

Fraud detection and mitigation, digital banking, and data analytics are the top three technologies in which CEOs plan to invest in throughout 2024 and 2025.

Key Insights

Fraud detection and mitigation - both of equal importance for banks and credit unions alike - made the top technology investment for the first time in the past three years.

Similar to last year, credit unions place a much **higher investment priority** on AI (32%*) and rewards and loyalty programs (13%*).

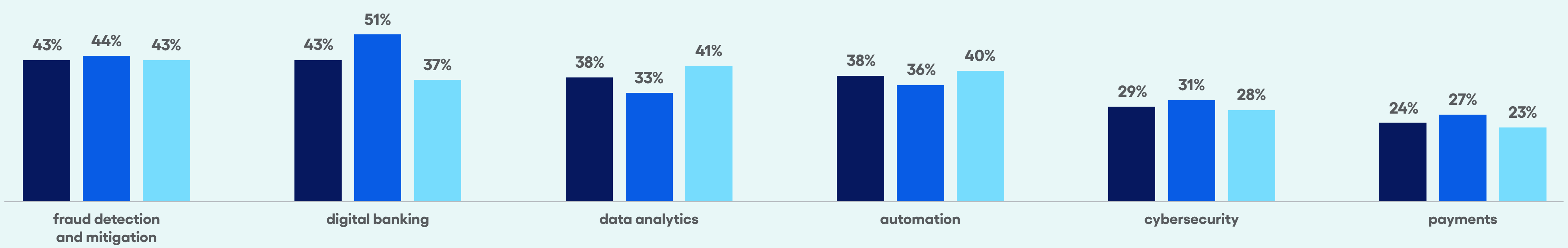
**Statistically significant*

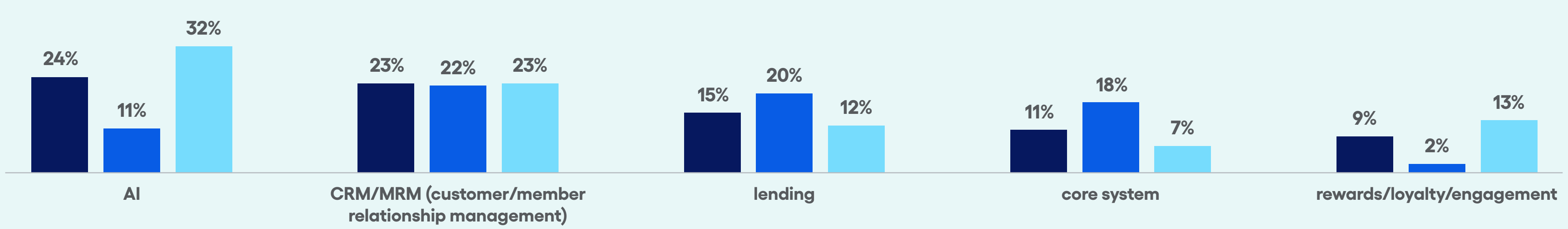
For those CEOs reporting automation as a top tech investment, **back-office automation** is the highest priority for 2024 and 2025.

Select the top three technologies you plan to invest in over the next two years:

Technology Investment Priority

Total | Banks | Credit Unions





Under 2% of responses were received for "other (please describe)" in the survey.

Study Results:

Niche Plans

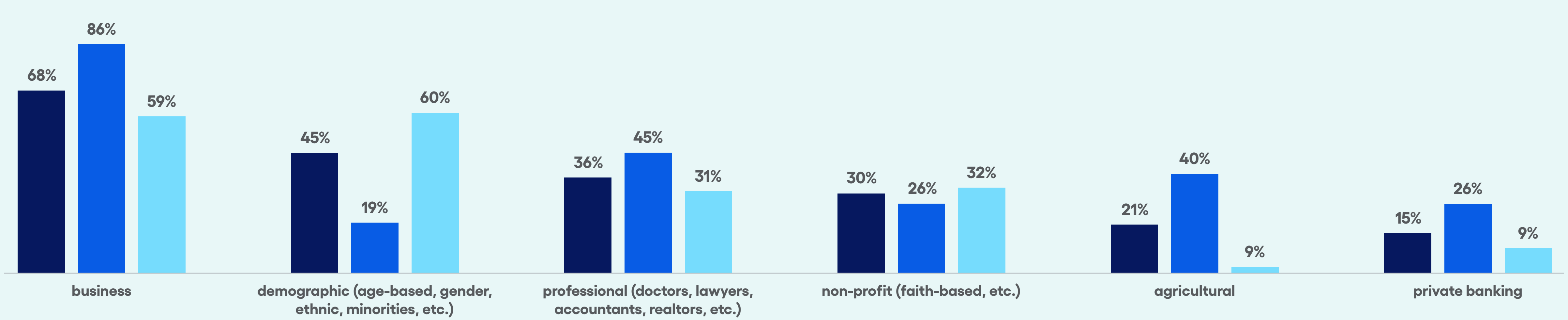
Banks and credit unions continue to pursue niche segments, targeting business, demographic, and professional niches over the next two years.

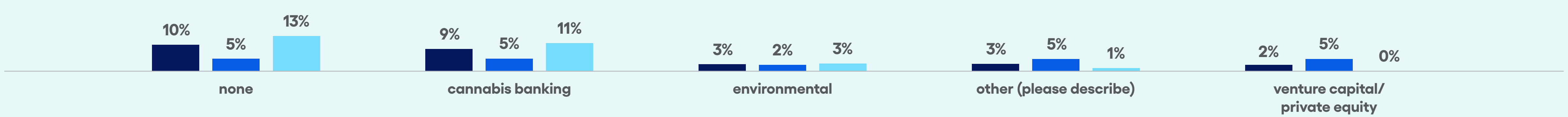
Key Insights

90% of financial institutions plan to serve a niche market in 2024 and 2025, with business, demographic, and professional niches making up the top three types. Banks are more likely to pursue business (86%), agricultural (40%*), and private banking (26%*) niches while credit unions lean more toward demographic niches (60%*). **Statistically significant*

Non-profit or cause-based banking is of **increased interest** this year and next.

Select all the niche market segments you plan to pursue over the next two years:

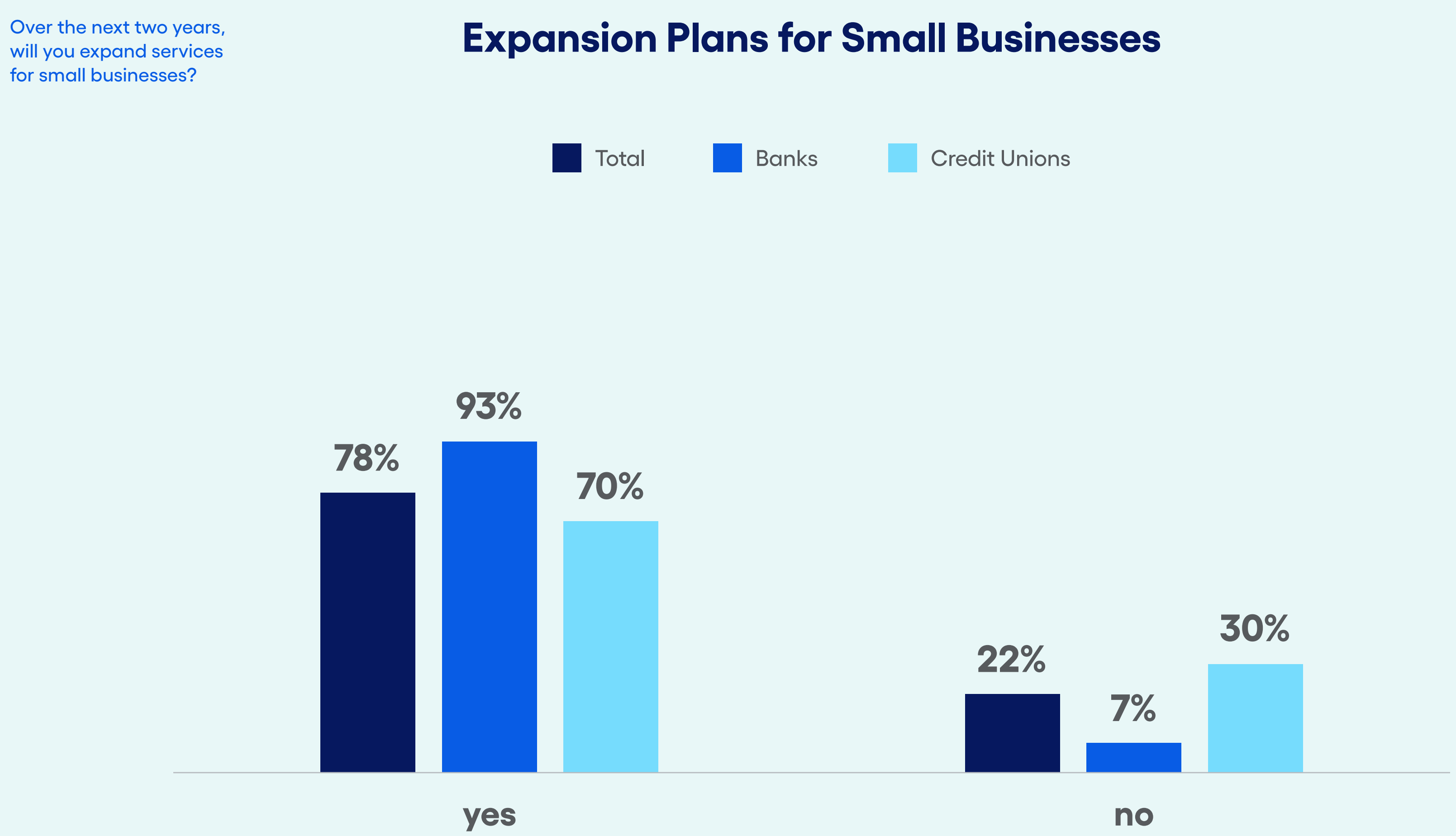




Study Results:

Expansion Plans for Small Businesses

Given banks and credit unions are focused on pursuing business niches, we asked participants about their plans to expand services for small businesses.



Key Insights

78% of financial institutions plan to expand SMB services within the next two years - up from 65% in 2023.

Payments (69%), business credit or lending (56%), and merchant services (52%) are the **top three types of SMB services** banks and credit unions plan to add.

core

The Cost of Modernization is Quickly Being Surpassed by the Cost of Standing Still

By: Carlos Lopez, Lead Analyst, Digital Banking

The Big Picture

Many financial institutions that have yet to embark on the journey to core modernization will soon find themselves at a crossroads.

While adopting a new core system is no trivial task, **the rapid advancement of cloud-native technologies opens new incremental migration paths that not only make the transition easier but also extend and expand the capabilities of legacy systems in the process.**

Financial institutions delaying action will see peers and competitors take the plunge – reaping the full benefits and efficiencies of AI, open banking, and other data-driven trends – all while their legacy maintenance costs slowly rise.

What's Next

Luckily, modern architecture and infrastructure make the pain and risk of wholesale conversions unnecessary.

Cloud-native cores built upon the concept of composability make their modules available via a microservices architecture, allowing you to gradually modernize your technology stack over time. This new approach mitigates the risks associated with a rip-and-replace conversion and enables the deployment of the most important business applications first.

Cloud-native development tools built into these cores allow for continuous development – reducing the cost and time associated with producing and deploying iterative innovations while widening the gap between modern and legacy core platforms.

Gradually, then suddenly, **the technological and cost advantages of these cloud-native core platforms will accumulate and provide the adopting banks and credit unions structural advantages** over their laggard peers in the competition for consumer and commercial clients.

What To Do

At the very least, you need to define your core strategy going forward.

By understanding which business applications are of the highest importance, you can take advantage of the flexibility microservice architecture provides and build a roadmap that brings you closer to your desired end state, module by module.

Public clouds are essential for modernization efforts, as they provide the needed balance of real-time scalability, operational resiliency, and cost-effectiveness to manage the surge in transaction processing required for open banking and other digital banking advancements.

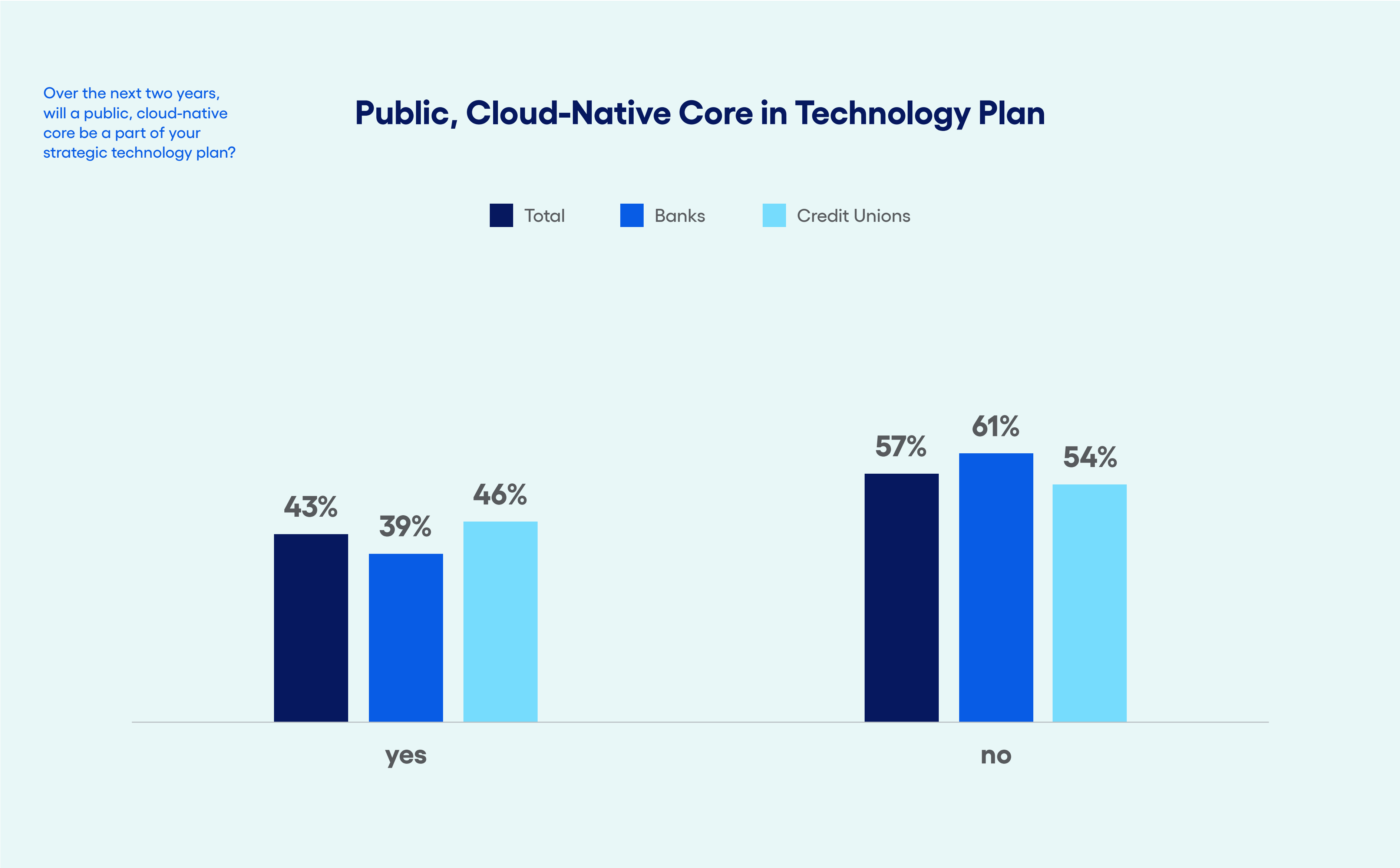
Public, cloud-native platforms will also be critical in handling the demands associated with real-time data analytics and data management en masse.

Deploying and enhancing your cloud infrastructure effectively requires skills and expertise vastly different from those needed for legacy systems. As you strive to develop a modern technology stack, acquiring talent proficient in managing cloud-native solutions and data cannot be overlooked.

Study Results:

Public, Cloud-Native Core in Technology Plan

Banks and credit unions are embracing the public cloud – with 43% (up from 33% in 2023) of financial institutions planning to include a public, cloud-native core in their strategic plans within the next two years.



Key Insights

As banks and credit unions learn more about cloud technologies, they value the unique cost-efficiencies, AI tools, zero-trust architecture, and world-class security algorithms public cloud providers offer. Financial institutions are also warming up to the incremental, de-risked migration paths cloud-native components and architectures make possible.

digital banking

As SMB and Commercial Enterprise Competition Heats Up, Unprepared Financial Institutions Risk Falling Behind

By: Carlos Lopez, Lead Analyst, Digital Banking

The Big Picture

In 2023, banks and credit unions sought to reverse the progressive decline in their share of primary banking relationships with SMBs.

Early in 2024, the game plan looks to be very similar.

Unfortunately, for community and regional financial institutions, the rest of the **market players also see the $370 billion opportunity associated with the SMB market** and are actively working to defend and expand their share of the pie.

Fintechs and SMB-focused neobanks are no longer on the operational and financial backfoot we saw them on throughout 2022 and 2023 – with the top 25 U.S. banks continuing to stubbornly hold on to more than 80% of the current market.

Suffice it to say, the competitive environment will only continue to heat up for the foreseeable future.

What's Next

Digital banking vendors have worked quickly to meet the needs of banks and credit unions, releasing a slew of banking, payments, and lending solutions to better equip them in their quest to serve commercial clients.

With the availability of these new tools, you should **design and pursue a digital-first technology stack that aligns with your chosen SMB strategy.**

However, these solutions represent only the second-best resources available in the fight for SMBs' attention.

Unlike nationally-focused big banks and fintechs, you can direct all your efforts to the local markets you serve – as you better understand the unique pain points of your clients, their operating environments, and what tools can best help them.

Additionally, you're best positioned to provide both the personal and personalized service and support all growing SMBs crave.

While the adoption of new marketplace tools will be key to empowering SMB client operations, it will be relationship-based banking in digital contexts that give them staying power.

What To Do

Cash management and visualization tools continue to top the list of client needs.

Understanding their cash flow and being able to preemptively identify shortages/surpluses will give SMBs the time they need to take appropriate actions – like leveraging accounts receivable (AR) tools and working capital loans in the lean times and putting extra cash to work in savings/sweep accounts during the good times.

Real-time payment rails continue to grow in importance for SMBs, giving them more flexibility and control over all payment-related tasks (invoice collections, supplier payments, payroll, etc.), which will help shield them from any macroeconomic volatility.

Consumers will also benefit from many of these cash management tools for similar reasons.

When combined with other solutions like early pay, automated savings/investing, and goal-based savings accounts, you can **create personalized hubs that meet the disparate financial needs of consumers while simultaneously combating financial fragmentation and creating stickier deposits.**

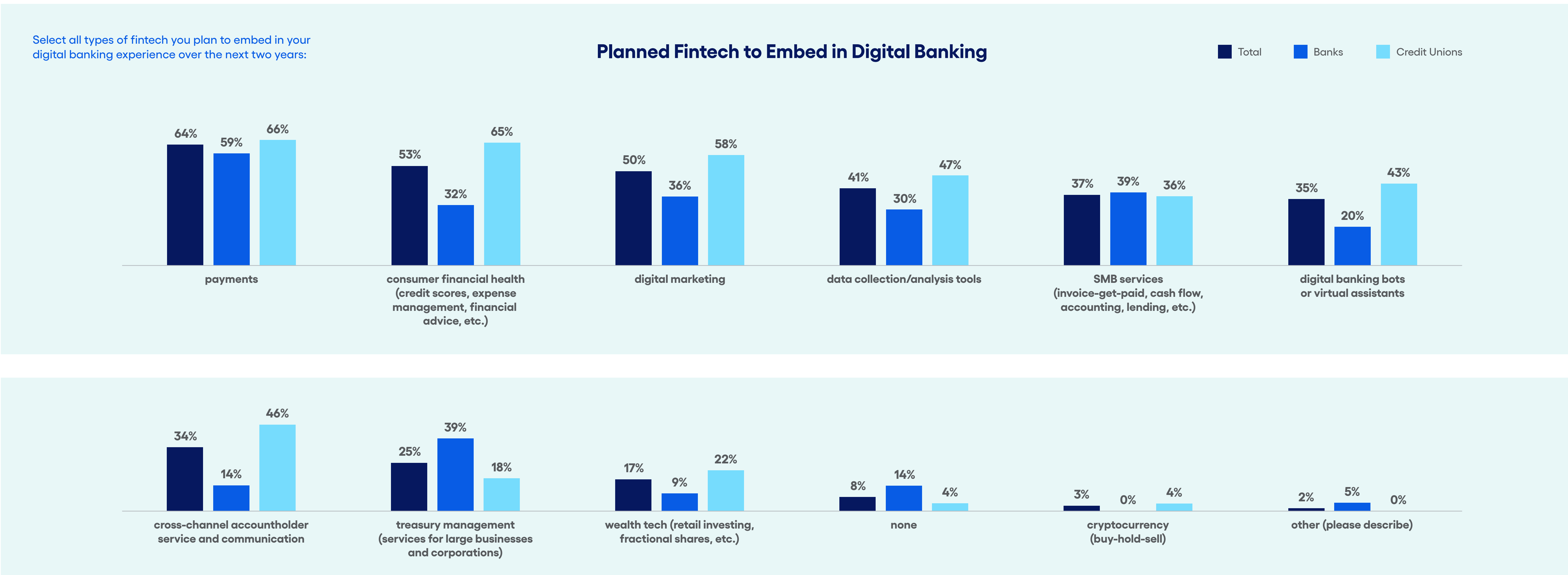
Study Results:

Embedded Fintech Plans

Almost all financial institutions (92%) plan to embed fintech into their digital banking experiences with the majority planning to embed payments fintechs. Credit unions are also looking to embed consumer financial health and digital marketing fintechs while banks are looking to fintechs for help with SMB services and treasury management.

Key Insights

92% of financial institutions plan to embed fintech into their digital banking solutions, but there are significant differences between banks and credit unions regarding the types of fintechs they plan to embed.



open banking

Fighting Fraud in Real-Time Requires Overcoming Doubts and Leveraging Open Banking

By: Carlos Lopez, Lead Analyst, Digital Banking

The Big Picture

When it comes to open banking, many financial institutions still feel the risks associated with adoption outweigh the potential benefits. In fact, many financial institutions sharing this sentiment often point to the risk of increased fraud as an ongoing hurdle to their adoption.

In sharp contrast, the majority of banks and credit unions feel confident in their ability to secure real-time payments, with a slight decrease in this confidence among smaller institutions.

Although faster payments offer the distinct challenge of faster fraud, financial institutions seem much less concerned about adopting real-time payments versus open banking tools.

What's Next

The disconnect between the confidence of many banks and credit unions in combating real-time payments fraud and their confidence in embracing open banking highlights a strategic gap and significant blindspot.

To effectively fight real-time fraud, financial institutions have to bring as much data to bear as possible.

The adoption of open banking provides a much broader set of data that can be used to train and tune the machine learning (ML) and AI solutions required to fight fraud successfully. This is especially true for smaller financial institutions with much less proprietary payments and meta-behavioral data to leverage than their larger counterparts.

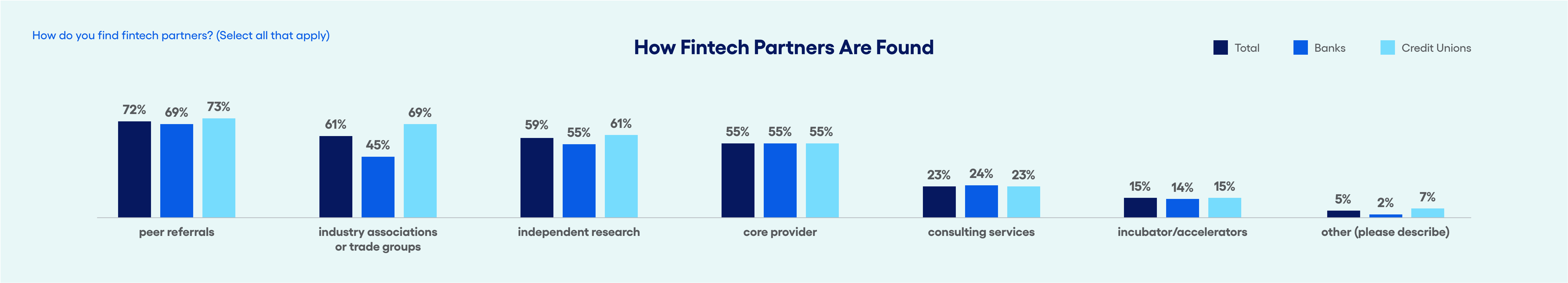
What to Do

In short, banks and credit unions that adopt real-time payments and avoid open banking will simultaneously limit the broader data open banking makes available to better identify and mitigate real-time fraud consistently.

The adoption of open banking provides a much broader set of data that can be used to train and tune the ML and AI solutions required to fight fraud successfully.

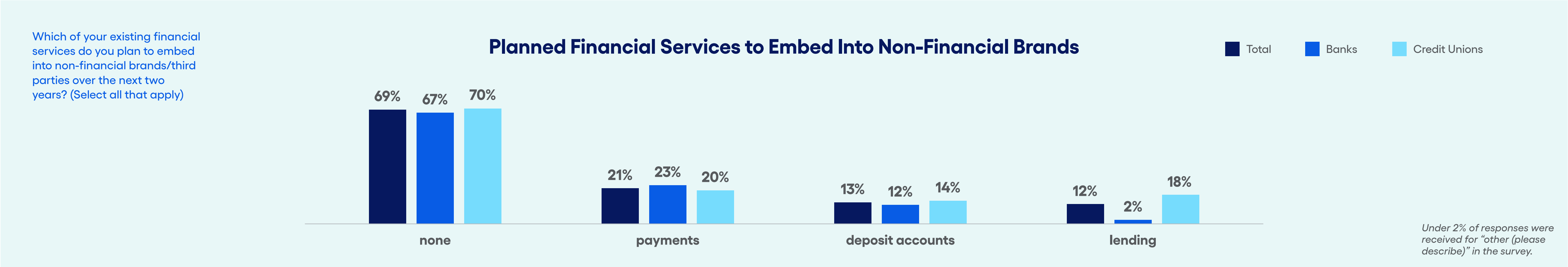
Study Results: How to Find Fintech Partners

Bank and credit union CEOs rely on a mix of resources when scouting fintech providers, such as peer referrals, industry associations, independent research, and core providers.



Study Results: Plans to Embed Banking Into Third Parties

69% of financial institutions have no plans to embed their services into third parties in 2024 and 2025. Compliance concerns, staffing requirements, and regulatory overhangs present challenges that make launching a Banking-as-a-Service business line much harder to execute.



Key Insights

Regulatory scrutiny and enforcement actions on BaaS providers have had a chilling impact on banks and credit unions planning to embed their chartered services into third-party, non-financial brands. Last year, **50% of CEOs had BaaS plans; this year, 70% of CEOs have no BaaS plans.**

payments

Curating Payment Options for Peak Performance Combats Disintermediation

By: Jennifer Geis, Primary Research Lead, Senior Analyst, Payments

The Big Picture

Payments remain a critical driver for success and longevity as ways to pay and get paid become progressively faster and increasingly digital.

Both consumers and businesses demand flexible payment options while fintech firms and neobanks are infiltrating the market with low rates and attractive features. At the same time, banks and credit unions face challenges on several fronts: dated infrastructure, compliance and regulatory uncertainty, and a fraud epidemic to name a few.

As economic uncertainty adds to the mix – forming the perfect storm of flux – pressure to gather deposits, increase revenue, remain relevant, and compete effectively continue to be top priorities.

On the bright side, **payments create ample opportunities for financial institutions to differentiate themselves, serve a broader client base, gain deposits, enhance revenue, and create stickiness that forms loyal, lifelong relationships.**

Following the launch of RTP®, the first new payment rail in 40 years, comes FedNow – designed to further elevate the realm of faster payments, providing enhanced opportunities and options through real-time transactions. Moreover, person-to person (P2P), digital wallets, and account-to-account (A2A) – once considered alternative payment methods – have now become commonplace alongside traditional cash, debit, and credit card payments.

These new rails and competitors further contribute to the trend of payment fragmentation and complexity – causing end-user loyalty to stretch even thinner.

As we move into the coming year and beyond, **it's crucial to recognize that payment fragmentation is driving disintermediation and giving third-party competitors a segue to lending and other financial services.** This shift underscores the importance of integrating payments into your strategic planning.

What's Next

As global consumers and businesses seek more cost-effective, rapid, and convenient payment methods, there is a growing trend toward embedding payments to meet the needs of modern users who desire hyper-connected, frictionless, and personalized payment experiences.

While flexibility, optionality, and speed are on the minds of both consumers and businesses alike, businesses are more concerned with cost, complexity, and volume.

Serving both sides of your client base will be critical to your near- and long-term success.

Faster payments gain traction. As the momentum behind faster payments continues to accelerate, the launch of FedNow may serve as a catalyst that elevates all other instant payment methods. In fact, many experts believe FedNow will be the real-time payment method of choice for both fintechs and community financial institutions alike, as they join forces to move toward faster payment ubiquity and gain market share. By 2027, real-time payments are anticipated to account for 28% of all electronic payments globally.[8]

Pay-by-bank or A2A payments accelerate in 2024. In the coming year, A2A payments are expected to post a direct challenge to card payments.[9] The increasing adoption of open banking, which enables permissioned third parties access to bank accounts, has made it easier to facilitate A2A payments. This A2A disruption is reshaping payment value chains by attracting merchants with lower costs and immediate availability of funds.

Small businesses confirm interest in faster payments. 92% of businesses anticipate making significant investments in payment enhancements over the next 12 to 36 months.[10] To address this demand, businesses will focus their investments on faster payments solutions to improve cash flow, secure working capital on-demand, and manage payment timing effectively. This represents an incredible market opportunity for financial services providers to assist businesses in enhancing their payments processes and automation.

Analytics take center stage in assessing and forecasting payment flows. In 2024, the integration of GenAI is expected to revolutionize back-office and customer service applications for payments – offering personalized services that manage payment choices, transaction flows, and more. This advancement will usher in more sophisticated payments analytics through smartbots, offering features like payment status and details, routing requests based on time and cost, and diagnosis of causes behind payment failures and exceptions.

What to Do

Refine your payments strategy. As new payment options come to fruition, understanding which methods and use cases are meaningful to your clients is imperative to your short- and long-term success. It's also important to connect the role payments play in gathering deposits, as your payments strategy will directly affect your deposit and lending strategies.

Develop a solid foundation for business payments. Community banks rely on SMBs for over 60% of their revenue[11], yet many of those businesses are still being served by consumer solutions. As businesses seek electronic invoice presentment and payment capabilities – especially on the B2B side – you have a unique opportunity to bridge this gap by offering real-time capabilities.[12] In fact, almost 50% of businesses globally have changed or will change financial service providers to access real-time payments.[13]

Embrace non-credit payment methods. Consumers are grappling with mounting credit card debt and seeking alternative payment methods. This year, we witnessed a sharp increase in consumer credit card debt paired with soaring interest rates that made it harder to pay down. Furthermore, credit card losses surged to their highest levels in almost 30 years – surpassing the $1 trillion mark (excluding the Great Recession).[14] At the same time, merchants are pressing to lower card interchange fees and decrease their cost of doing business digitally. With recent shifts in the payments landscape, merchants can offer diverse, lower-cost alternatives such as real-time, P2P, and A2A payment methods – challenging the dominance of the card schemes.

Ensure you have a strong digital wallet strategy. Digital wallets are the fastest-growing and most widely-used payment method globally in both e-commerce and point-of-sale transactions. In 2022, 46.9% of adults used their mobile wallets while nearly 25% of accountholders used their digital wallets weekly. Analysts predict 72% of smartphone users will adopt digital wallets by 2027.[15]

Use payments to differentiate your user experience. The race to achieve real-time payments ubiquity in the U.S. will be a marathon – not a sprint – and you cannot afford to stand on the sidelines. With the introduction of new features from FedNow and RTP, more use cases will emerge to meet the growing demand for instant payments – which can play a vital role in financial health. Early wage access can facilitate more flexible paydays and deliver earned wages in advance for emergency purchases or critical past-due accounts. In addition, real-time payments give consumers and businesses greater control over incoming and outgoing payments – offering clear insights into their financial positions on-demand.

Study Results:
Plans for New Payment Services

96% of financial institutions plan to add payment services over the next two years, with FedNow being the top priority for both banks and credit unions. The percentage of bank CEOs planning to add RTP via The Clearing House doubled this year, while credit union CEOs expressed greater interest in adding a P2P alternative to Zelle. Digital card issuance, contactless cards, and same-day ACH round out the top payment priorities for 2024 and 2025.

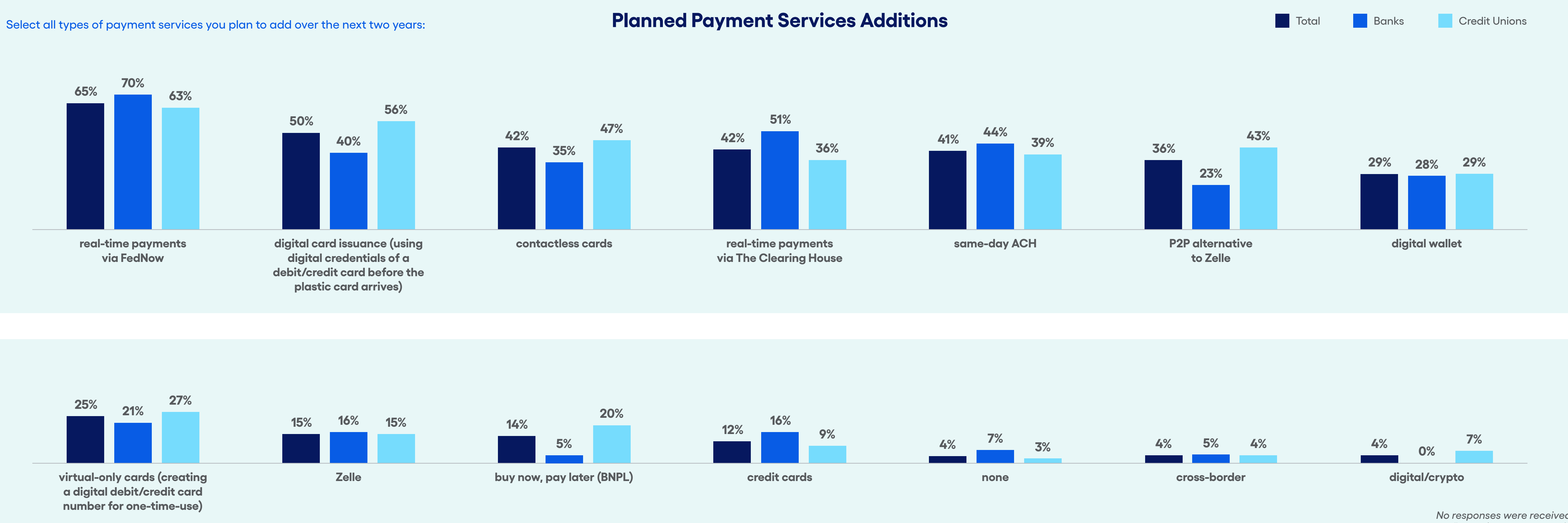
Key Insights

96% of financial institutions plan to add payment services in 2024 and 2025 – up from 90% in 2023.

Faster and more convenient payment methods top the list for 2024 and 2025, as real-time rails coincide with an emphasis on contactless and digital technologies.

Select all types of payment services you plan to add over the next two years:

Planned Payment Services Additions



No responses were received for "other (please describe)" in the survey.

lending

How to Navigate Lending with Agility

By: Beth Ericson, Senior Analyst, Lending

Big Picture

If lending during the pandemic taught us anything, it's that lending should embrace change.

After the COVID-19 pandemic, the market underwent a dramatic shift, transitioning from a period of originating new loans to one characterized by higher interest rates, reduced tolerance for risk, heightened delinquency rates, tightened lending standards, and elevated provision for loan losses.

Since the second quarter of 2022, credit unions have experienced a 31% decrease in lending,[16] while banks have seen an 11% decrease.[17]

Due to economic uncertainties and potential credit challenges, you need to focus on managing your risk, recognizing evolving consumer expectations and technology advancements, and modernizing your lending platform to create a better customer journey – all while keeping "time to money" top of mind to remain competitive.

What's Next

The lending outlook for the first half of 2024 is expected to be sluggish. Use this time to reposition yourself for a more favorable lending market.

Three ways you can differentiate from your competitors:

- Embrace digitalization
- Leverage automation to streamline a loan origination system
- Combine open banking, alternative data, and data analytics to create an integrated approach to lending

These strategies can speed up your loan approval process, drive personalization and data insights, reduce risk, improve credit quality, and expand addressable markets (including SMB lending).

What to Do

Now is the time to optimize.

Consider **moving to the increasingly open financial ecosystem**, where 75% of financial institutions have already developed a strategy, with 43% of banks and credit unions intending to leverage open banking for lending purposes.[18]

Open banking can revolutionize your lending process by **unlocking real-time customer data and insights, fostering a customer-centric lending experience** enhanced by financial inclusion and a faster approval process. Consider leveraging these capabilities to automate working capital SMB loans of less than $100k to help capture relationships that lead to greater relationship primacy and the opportunity to gather more deposits.

Discover the potential of integrating GenAI internally. For lending teams, GenAI offers a world of possibilities. From analyzing the vast amount of data (especially with complex deals) to providing compliance guidance and personalized offers, assisting with fraud detection, and identifying anomalies – as GenAI evolves, it will further enhance the decision-making process, improve lending efficiencies, and allow your team to focus on growing accountholder relationships.

Take the time to optimize and automate. Leverage open banking, data, and AI to streamline your lending process, mitigate risk, and win and retain accountholders. Stay agile and continue to adapt strategies to evolve with the industry changes, regulatory shifts, and emerging technologies.

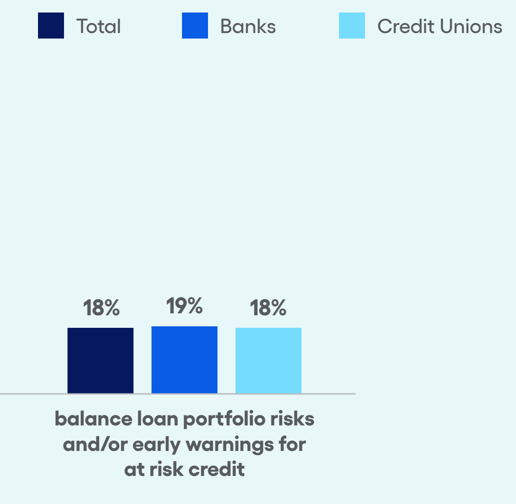
Study Results:

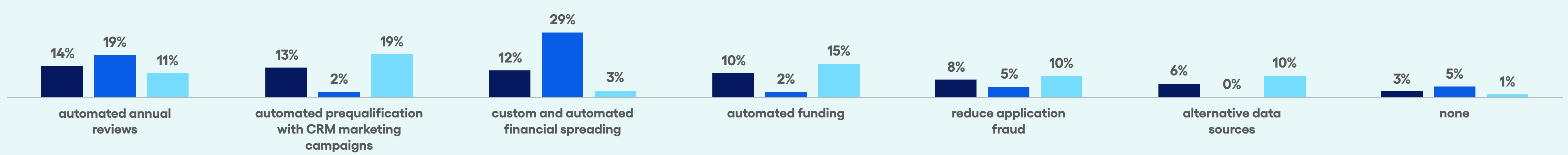
Lending Priorities

Almost all financial institutions plan to enhance lending solutions within the next two years. The top three priorities for lending are automated workflows, data analytic dashboards, and intelligent document processing and management. Credit unions place a higher emphasis on underwriting using AI (32%).

Select your top three strategic priorities for lending over the next two years:

Lending Strategic Priorities





Under 3% of responses were received for "embedded lending at point of sale" and "other (please describe)" in the survey.

Study Results:

Types of Lending

While 97% of all financial institutions plan to enhance their lending capabilities over the next two years, priorities differ widely on the types of lending in which banks and credit unions plan to invest in.

Key Insights

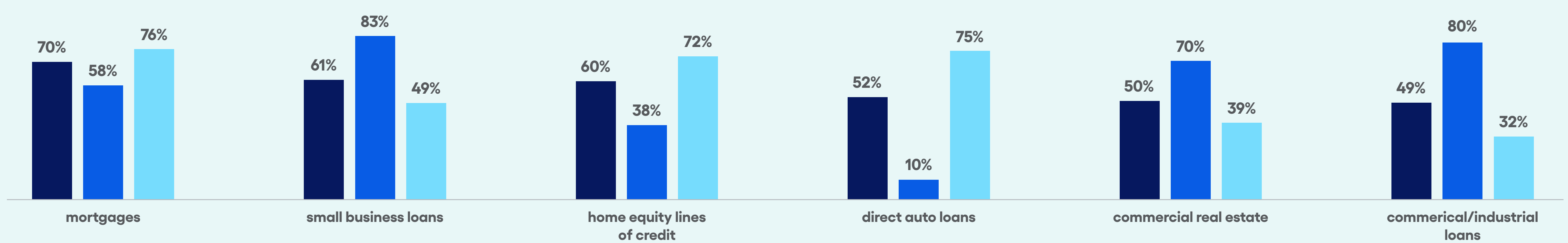
97% of financial institutions plan to enhance lending solutions within the next two years.

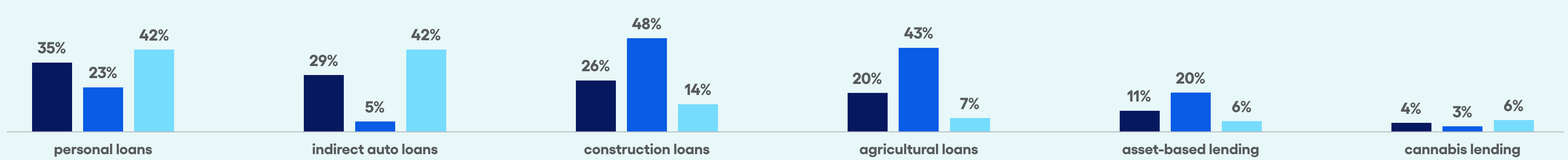
70% of financial institutions rank mortgages as their number one lending priority. Credit unions continue to focus primarily on retail lending, mortgages, and direct auto loans. While banks are more focused on small business and commercial/industrial loans. As the economy shifts, the possibility of rate cuts will mean borrowers will have access to affordable financing and providing consumers and businesses with more cash flow.

What types of lending do you plan to prioritize over the next two years? (Select all that apply)

Types of Lending Priorities

Total Banks Credit Unions





No responses were received for "other (please describe)" in the survey.

risk, fraud, and security

Burgeoning Scams Force You to Address Identity and Authentication Gaps

By: Sam Truitt, Senior Analyst, Financial Crimes

The Big Picture

Fraudsters and cybercriminals continue to fortify their arsenal, leveraging new tools like GenAI, deepfakes, and a wealth of stolen Personal Identifiable Information (PII) from numerous data breaches to defraud both consumers and financial institutions at an accelerated rate.

As consumers increasingly fall victim to fraud – and in some cases, become unwitting or complicit pawns in the grand scheme of fraud attacks – financial institutions find themselves in a position where the consumer they're trying to protect has now become an opponent in the fight against fraud.

Legacy technology systems are not inherently modeled to identify these sophisticated fraud attacks.

As a result, detection attempts are rendered inadequate – allowing scams to thrive and leaving financial institutions to suffer the consequences, including increasing fraud losses and decreasing reputational trust.

What's Next

In 2024, the trajectory of scams is set to continue its upward trend, yielding increased profits for fraudsters on both domestic and international fronts.

As criminal entities recognize the lucrative potential of consumer-targeted scams, **the use of additional social platforms and new methods to deceive consumers will increase**, resulting in new complex schemes that consumers are unfamiliar with. These challenges will put even more pressure on financial institutions to assume responsibility for consumer-initiated transactions.

In response, **you should proactively seek control points within your current systems** before considering the integration of new technologies.

These scams involve transferring funds through money mule accounts, often using various forms of identity theft (like synthetic identities) to slip through your due-diligence efforts – prompting a meticulous review of accounts that previously cleared Know Your Customer (KYC) checks during consumer onboarding processes.

This renewed scrutiny will not only validate consumer identities but also assess their intentions.

Simultaneously, **you should continue to prioritize the ongoing battle against data breaches.**

In 2024, the trajectory of scams is set to continue its upward trend, yielding increased profits for fraudsters on both domestic and international fronts.

For hackers, your data remains a valuable resource for perpetuating both traditional and modern fraud schemes – allowing cybercriminals to exploit vulnerabilities within systems lacking updated software versions and financial institutions relying on easily-compromised security measures, such as usernames and passwords.

Security frameworks not based on a zero-trust architecture and least-privilege access will be susceptible to exploitation by cybercriminals while traditional security methods' susceptibility to exploitation will come under scrutiny as financial institutions work to protect both consumers and staff from malicious actors.

What to Do

You must acknowledge the pivotal role identity plays in both scams and historically traditional fraud.

Strategic investments in advanced technology geared toward identity will become imperative for banks and credit unions looking to protect themselves and their accountholders.

Technologies, such as behavioral biometrics, offer crucial insights into unique digital behaviors that can't be recreated by fraudsters. Access to this data allows for anomalies in online behavior to be easily identified, malicious actors to be removed from online sessions, and fraudulent transactions to be intercepted before losses can occur.

Alongside consumer protection, identity and authentication will benefit organizations internally.

By replacing susceptible authentication methods, adopting a zero-trust framework, and employing least-privilege access, you're ensuring a layered approach to thwart the threat of cyberattacks – in turn, protecting both your financial institution and your accountholders.

By replacing susceptible authentication methods, adopting a zero-trust framework, and employing least-privilege access, you're ensuring a layered approach to thwart the threat of cyberattacks – in turn, protecting both your financial institution and your accountholders.

Study Results:

Top Three Fraud Threats

As digital fraud prevention and mitigation improve, check fraud is on the rise – becoming the top fraud concern for 75% of financial institutions in 2024 and 2025.

Key Insights

While it's no surprise check fraud is a major concern, **check fraud mitigation technology has not kept pace.**

In fact, **both print and digital technologies** have enabled fraudsters to print their own checks (that far surpass current security standards) in large volumes.

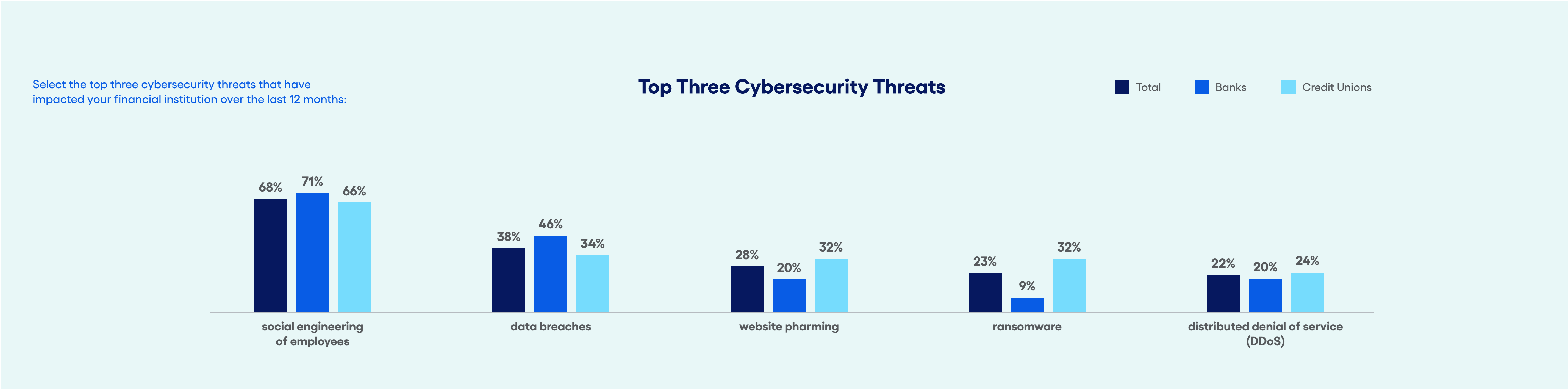
Select the top three fraud threats that have impacted your financial institution over the last 12 months:

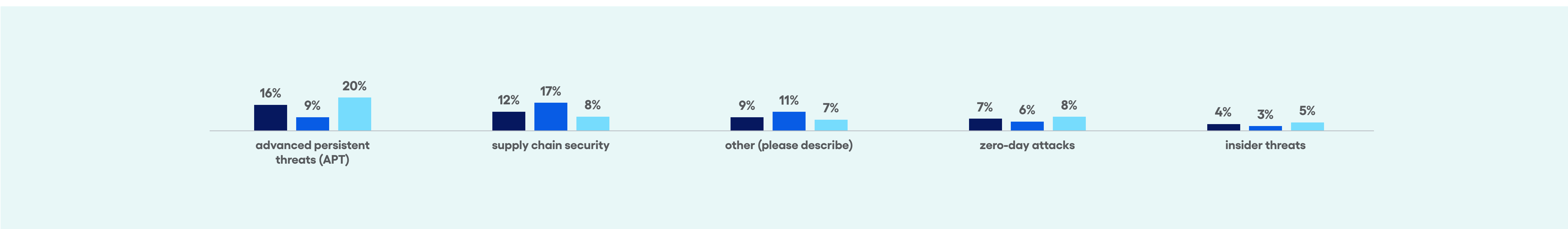
No responses were received for "insider fraud" in the survey.

Study Results:

Top Three Cybersecurity Threats

Social engineering is the top cybersecurity concern for 2024 and 2025, followed by data breaches and website pharming. There are differences, however, in how banks and credit unions are prioritizing these threat vectors.





recommendations

Get Serious About Data Strategy

Whether your top priority is growing deposits, improving efficiency, or preventing real-time fraud, all roads begin with data.

Achieving these priorities requires a coherent data strategy and a modern infrastructure necessary to execute that strategy.

Is your data accessible in real time? Do you have enough data to streamline digital account openings or do you need to tap open banking APIs and alternative data sources to fill gaps? Do you have the right data to automate the most inefficient back-office processes? Can your data train and tune a variety of GenAI language models that can dramatically improve service, loan decisioning, and fraud mitigation?

While credit unions have long prioritized data analytics, automation, and ML to cost-efficiently scale high volumes of lower-dollar consumer loans, historically, banks have not faced the same level of pressure.

The good news?

Advances in ML techniques and the performance of small language models bode well for smaller financial institutions looking to level the playing field with the largest financial institutions, neobanks, and fintechs.

However, without enough data or the right data in place to take advantage of these technologies, the value of recent AI and ML advances is moot and the risk of competitive obsolescence grows.

Whether your top priority is growing deposits, improving efficiency, or preventing real-time fraud, all roads begin with data. Achieving these priorities requires a coherent data strategy and a modern infrastructure necessary to execute that strategy.

Expand Digital Products to Counter Upstream Deposit Disintermediation

Last year, the collapse of Silicon Valley Bank (SVB) and other regional banks accelerated deposit churn and amplified knock-on effects from the Fed's aggressive rate hikes – **heightening the urgency for banks and credit unions to strengthen existing deposit relationships and grow deposits by acquiring new accountholders.**

Even before SVB's failure, banks and credit unions looking to shore up deposit gaps among Gen Y and Gen Z were offering early paycheck access and mobile-only account opening that doesn't force account funding upfront – standard fare among neobanks like Chime.

This year, banks and credit unions continue to struggle with deposit retention and acquisition in the face of financial fragmentation, with the average consumer using 15 to 20 financial service providers and the average smartphone containing 14 financial apps.

While open-banking rails offer financial institutions a means to solve financial fragmentation by aggregating accountholders' various financial data back to the bank or credit union – enabling them to attain first-app status – employer-sponsored financial companies (payroll services, workforce management software, 401(k) providers, FSA and HSA banks, etc.) are now engaging and diverting more of consumers money and mindshare upstream from direct deposits.

This upstream deposit disintermediation should prompt banks and credit unions to reevaluate their product offerings and consider expansion with embedded fintech (like wealth technology to empower accountholders with easy access to investing in long-term goals and financial security).

Bring Camouflaged SMB Deposits Back Home

Given downward pressure on net income, regulatory scrutiny of OD/NSF fees, and consumer reluctance to pay for generic digital financial services, **both banks and credit unions continue to leverage digital-first, relationship-based banking to expand and monetize their share of SMBs.**

High rates make it harder for SMBs to secure loans, meaning startups can't launch, early-stage companies struggle to grow, and fewer SMBs have access to working capital.

The problem is that up to one-third of retail checking accounts in the average bank or credit union are being used to run a small business. However, these retail accounts lack a convenient method for small business owners to collect payments – leading camouflaged SMBs to rely on third-party services for payment collection.

More important, only one out of every eight dollars collected using third parties ever makes its way back to your financial institution in the form of a deposit.

By identifying camouflaged SMBs and offering the payment acceptance and cash-flow financing they need in one place, you can bring SMB deposits back home and reclaim market share steadily lost to fintechs and neobanks over the last five years.

Consider BNPL as Pay-by-Bank Looms

While discussions of emerging payments trends continue to center on faster and real-time payments, BNPL volumes grew 14% last year and continue to steadily cannibalize card volumes.

Several large payment processors are also positioning themselves to enable pay-by-bank (also known as account-to-account) payments that bypass card networks and settle payments instantly and directly between the merchant and the consumer using faster or real-time payment rails.

Although pay-by-bank remains a few years away from adoption at scale, its impact on issuers and interchange income will be significant.

In the interim, you should consider white-label, BNPL providers that enable your financial institution to offer BNPL in concert with your existing debit cards. This not only protects and augments your card income but provides an alternative service that continues to grow in popularity.

Strengthen Your Defenses with Identity Verification that Exposes Intent

Banks and credit unions have shifted their focus from anticipated emerging technology threats to address the top fraud concerns plaguing financial institutions today: check fraud and romance/investment scams.

Surprisingly, these once-dismissed and overlooked threats have taken center stage – overwhelming the financial industry.

Cybersecurity efforts are also grappling with the same issues. In fact, the primary threat now arises from the social engineering of employees – highlighting the increasingly inadequate methods of prevention and mitigation – prompting a critical reassessment of conventional defenses.

To effectively counter these resilient threats, you must fortify your defenses with robust identity and authentication-based technology.

Every individual has a unique digital identity made up of various data attributes that distinguish them.

By leveraging behavioral biometrics, you can accurately identify accountholders and gain insight into user behavior intelligence to help you detect unusual activities indicative of potential fraud, coercion, and even scams.

Adopting a multi-layered approach to identity and authentication is crucial, not only for the safety of your accountholders but also for safeguarding your financial institution. By fortifying your defenses and adopting zero-trust architectures and principles for least privilege access, you can significantly diminish the potentially catastrophic effects of cyber intrusions within your environment.

Sources

1. *PwC's 27th Annual Global CEO Survey*, PWC, accessed March 4, 2024.
2. *Generative Artificial Intelligence And The Workforce*, SHRM, accessed March 4, 2024.
3. *CBINSIGHTS Generative AI predictions for 2024*; January 2024, accessed March 4, 2024.
4. *Center for Research on Foundation Models*, accessed March 15, 2024.
5. *CBINSIGHTS Generative AI predictions for 2024.*
6. Ron Shevlin. *Americans' Shadow Financial Lives: Why Banks Don't Know Jack (Or Jill)*, Forbes, accessed March 4, 2024.
7. *Mobile Banking One of Top Three Most Used Apps by Americans*, Citigroup, accessed March 4, 2024.
8. *Prime Time for Real-Time Global Payments Report*, ACI Worldwide, 2023, accessed March 4, 2024.
9. *Top Ten Fintech & Payment Trends for 2024*, Juniper Research, November 2023, accessed March 4, 2024.
10. *Top 10 Trends in Commercial Banking & Payments, 2024: Modernization Creates New Opportunities Across the Industry*, Datos Insights, January 2024, accessed April 5, 2024.
11. *FedNow Turns Instant Payments into a Must-Have for Banks and Credit Unions*, The Financial Brand, 2023, accessed March 4, 2024.
12. *FedNow Turns Instant Payments into a Must-Have for Banks and Credit Unions.*
13. *Real-Time Payments: Growth and Use Cases Looking into the Future*, Datos Insights, November 2023, accessed March 4, 2024.
14. *Insider Intelligence*, January 2024, accessed March 4, 2024.
15. *Global Payments Report*, Worldpay, accessed May 2023.
16. *Quarterly Data Summary Reports, Q2 2023*, National Credit Union Administration, accessed March 4, 2024.
17. *Federal Reserve Economic Research, Q3 2023*, St. Louis Fed accessed March 4, 2024.
18. *Top Tech Trends Previsory Retail Banking*, Celent, November 2023, accessed March 4, 2024.

next steps

Thank you to every CEO who participated in our 2024 survey. We appreciate your time!

All Jack Henry core clients are invited to participate in our annual study. Be on the lookout for an email from Jack Henry this December.

Survey participants will receive:

- A summary of your responses to compare against those of your peers.
- An exclusive invitation to an in-depth webinar where we'll review study results, strategic implications, and key takeaways.

Jack Henry Corporate Strategy Team

Jennifer Geis
Primary Research Lead,
Senior Analyst, Payments

Lee Wetherington
Primary Research Lead, Senior Director

Nicole Harper
Director

Carlos Lopez
Lead Analyst, Digital Banking

Beth Ericson
Senior Analyst, Lending

Sam Truitt
Senior Analyst, Financial Crimes

About Jack Henry

At Jack Henry, we believe the world is a better place with community and regional banks and credit unions. And we intend to keep it that way. For more than 45 years, we've put financial institutions at the center of our modernization. We're here to help you innovate faster, differentiate strategically, and compete successfully – all with one goal in mind: to improve the financial health of the people you serve.

For more information about Jack Henry, visit jackhenry.com.

jack henry™