



PODCAST TRANSCRIPTION SESSION NO. 180 / KEVIN TWEDDLE

Welcome to the Lend Academy Podcast, Episode No. 180. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of LendIt Fintech.

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Today's show is sponsored by LendIt Fintech USA 2019, the world's leading event in financial services innovation. It's coming up on April 8th and 9th, 2019, at Moscone West in San Francisco. We've recently opened registration as well as speaker applications. You can find out more by going to lendit.com/usa

Peter Renton: Today on the show, we are talking about community banking. I'm delighted to welcome Kevin Tweddle, he is the Group EVP, Executive Vice-President, for Innovation and Financial Technology at the ICBA, the Independent Community Bankers of America. So I wanted to get Kevin on the show because you're seeing more and more community banks doing interesting things in fintech that certainly.... the challenges they face in really integrating with fintech.

So I wanted to talk about these challenges and we also talk about a lot about the different partnerships that are happening today, particularly in the marketplace lending space. We talk about the attitude of community banks and how it's changed when it comes to fintech and we talk about the changes needed for CRA, we talk about the fintech charter, really interesting that they've started a fintech accelerator so we talk about that and much more. It was a fascinating interview, hope you enjoy the show.

Welcome to the podcast, Kevin!

Kevin Tweddle: Thanks, Peter, happy to be with you today.

Peter: Okay, so I'd like get this thing started by giving the listeners a little bit of context and some background about yourself, so why don't you describe what you've done, particularly before you started at ICBA.

Kevin: Sure, it's always interesting to start with folks that are involved in innovation so my story is a little bit different than most. I'm a CPA so I started as a CPA, I worked in public accounting for about a decade starting out doing a variety of companies, but mostly, certainly, as you see banks and did M&A work, audit work primarily so started there.

After public accounting, went on to become the CFO of the largest correspondent bank in the US at that time, was called the Bankers Bank, and really got a nice opportunity. Two of those years, I was the CIO so really de facto COO for that institution for about five years. After that, went to a fintech startup called Bank Intelligence, so they provided pure analysis and market



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analytics primarily for community banks. We were extremely successful for a few years and we were acquired by Fiserv in 2007 and stayed on at Fiserv for about another decade and kind of worked in the analytics division within their banking group there for about a dozen years. Did a short stint with a company called Novantas in New York City and then joined ICBA in June of 2016.

Peter: Okay, so you've been at ICBA for a little while now, you have an interesting role there, but before we get into that, I want to just talk about the Independent Community Bankers Association, so obviously you're focused on community banks, but what does ICBA do exactly and what's your mandate?

Kevin: Yeah, so ICBA really.....it stands for the Independent Community Bankers of America so really our mission is we're the nation's voice for community banks, we're 100% laser focused on community banks, really our mission is just to create and promote an environment where community banks flourish.

We do this really in a three-pronged approach; we do this through advocacy so on behalf of our community banks, education - providing education for all things for community banks and certainly in my role on the innovation side, you know, really bringing together those educational aspects, the partnerships necessary to help those community banks flourish.

Peter: Okay, so then how many members do you have, how many community banks are part of your organization?

Kevin: So really we represent certainly the interest of over 5,000, but about two thirds of all the banks in the US are members of the ICBA.

Peter: That's a pretty good strike right there.

Kevin: It's fully geographic really across the US, you know, pretty widespread.

Peter: Right, right, okay, So then you joined, it sounds like the ICBA with the idea of kind of bringing together a vision around fintech and helping community banks....you know, with the very fast changing world that we live in today, so maybe tell us a little bit then about what your role is, particularly how you view what you're doing in the context of obviously what's going on in fintech.

Kevin: Absolutely, you know, as I said, the focus for me is a new role, as you mentioned, for the ICBA. Really, we're focusing on three areas, naturally, education, particularly for the community banking sector and really educating them in terms of innovation, what are the possibilities regarding fintech partnerships or things of that nature.

So doing that with (inaudible) media and publications and just interacting within the industry as well; industry conferences, working with the regulatory bodies really on that focus of education, certainly communication so really getting feedback from our community bankers, understanding



their needs and their challenges, where they need the most help so to better frame where the opportunities lie and then certainly, partnerships.

So we have at ICBA corporate member programs, preferred providers, but really want to laser focus in on the fintech side, you know, what are the best fintech opportunities for our community banks. You know, Peter, that's actually just kind of a dual thing, it's not just for the community banks, it's also for fintechs and really educating fintechs on why working in the community banking industry could be very fruitful for them and very fulfilling for them.

So educating not just the banks, but also some of the fintechs, particularly the earlier stage fintechs that may not know much about the community banking industry or used to going after the largest of banks. We've had a lot of successful fintechs within our corporate membership group and preferred providers that have been very successful working with community banks.

Peter: So I'm curious to know, what's the attitude of your members.... I imagine if you're interfacing they're going to be more open to innovation, but I'm just curious about just the rank and file members. They know that technology is changing ever more rapidly, how do they feel about these changes and is there much more openness like today than there was maybe two or three years ago, what is the attitude?

Kevin: Absolutely, Peter, I think it's changed really dramatically over say the last five years. If you asked community bankers five years ago what they thought of fintech, that would be viewed as an industry that was competing with them and they look at it was competitors. Five years later, it's really the complete opposite. I think community banks are becoming now more eager to partner with fintechs. Now, think again, that's a two-way street as well. I think fintechs are, you know, much more eager to partner with community banks. It's just a natural partnership given the strengths and weaknesses of each.

I think from a banking perspective, they're just....you know, innovation is not necessarily a core competence element, things of that nature, running a development shop. It's obviously something that a fintech does extremely well, but on the fintech side they are great on the development innovation side, but they don't know much about banking or really the regulatory system.....

Peter: Right.

Kevin:particularly in the US. So really given those strengths and weaknesses, it's just really built for a natural partnership and I really see the beginnings of that. I think it's really going to be flourishing several years here, for both fintechs and community banks as we look forward.

Peter: Sure. I was toying around on your website and saw that you released a fintech strategy roadmap earlier year so I'm curious about....maybe you can just tell the listeners what sort of ...encapsulate sort of the some of the strategy pieces in that and what are the biggest opportunities for community banks.



Kevin: Yeah, so we wanted to start....you know, obviously it's part of our educational process, is to really put a white paper out there and, you know, what is the road map. So many of our community banks were going, Kevin, where do we start? So we felt that the white paper was going to give an overview of what the role of the community bank is, what the role of the fintech is, talk about a lot of the considerations.

You know, as a community bank, how should they kind of organize for this innovation, how should the board be involved, what are some of the risk considerations. Particularly, we spent a lot of time on the white paper on kind of the risk analysis, really a nice guideline for them....you know, if they're just starting this process to say, alright, this needs to be how we need to go about it and get the management team together at the bank and start putting the framework together so they can start looking to partner with some of these fintech companies.

Peter: Right, right, sure. So I want to talk about a specific kind of partnership just for a minute and that's the marketplace lending space. There was actually big news at the very, very first LendIt event in 2013. It was announced we had two community banks who were coming on to the Lending Club platform investing in loans. Since then, there's obviously been a variety of banks across many different platforms, including some community bank consortiums as well, so what is your view on marketplace lending? Obviously, there is a history already in this space, but is this one of the ways that you're talking to your members about partnering with fintechs?

Kevin: It is. As you kind of alluded to there, Peter, this is probably one of the most mature areas of fintech. It was probably...if we look back, probably the earliest and one of the first areas of focus in fintech overall. Really, in line with the comments I've said, you know, I think a lot of...particularly community banks are looking at marketplace lenders say today almost as part of a loan diversification strategy, as much as anything. That's one manner in which they want to look at it, also to create a more efficient loan platform for whatever type of lending that they may do in particular.

As you know, this whole marketplace lending area is not just about small business and commercial lending. There's a variety of different....you know, construction lending and a variety of different areas and we're seeing that expand exponentially there, but it's really about partnership. One thing, Peter, that's a little bit of a distinction if you look at just kind of the pure marketplace lender, kind of the non-bank folks, is they definitely will take more risk than your average community bank so you're saying, why aren't community banks really getting into this as much at this point. It's just really about risk tolerance as much as anything.

Peter: Right, and even the banks that are participating are participating at the lower risk end of the spectrum, there's actually none I know of that would go all the way down to the subprime.

Kevin: Exactly. In that sense, Peter, it's been really good for the marketplace because, you know, it's really serving a wider diversity of consumers, businesses out there where banks would typically not lend to someone that maybe a higher risk than they would have a tolerance



for. You know, the marketplace lenders or the non-bank lenders can step in and have opportunities for those who wouldn't qualify otherwise.

Peter: Right.

Kevin: So I think it's good for the overall consumer and business, but I think we'll see, you know, just as a matter of risk tolerance, but I think we're going to see more and more partnerships between community banks and marketplace lenders going forward. It's taking awhile, but I think we're starting to get there.

Peter: Right, right, that makes sense, I'd agree with that. So then what about other areas of fintech? What are some of the other areas where community banks are looking to partner with fintechs?

Kevin: Yeah, and I think just some of the biggest areas are.....you know, I was reading your graphic the other day, I think 72% of all of fintechs are in the payments and lending business. So, you know, obviously we talked about lending already being the more mature, I think payments, now that we're moving closer to real-time payments and faster payments, I think there's a lot of unique opportunities there and a lot of early stage fintechs really providing solutions in that area so I think that's going to be an interesting dynamic to watch in the whole P2P space, in particular.

So I think that's certainly an area.....you know, we talk about data and analytics a lot, but to me, there's not been a whole lot done there. So particularly at the community bank level, I don't think the solution set has been as robust. I expect that to improve dramatically over the next five years.

So I think we're going to see a lot more really better use cases in that area where ...you know, the community banks are looking just like any business report thing, how can they use these information like data and analytics to grow revenue, to become more efficient, to mitigate risk or really provide a better customer experience or better understanding of their customer base. So as long as fintech is meeting one or more of those four needs, I think the community banks are going to get more and more involved in it.

Peter: Okay, so I want to switch gears a little bit and talk about the Community Reinvestment Act. This has been somewhat of a hot topic this year and there's been a lot of talk about the need for modernizing acts written in the 70's....didn't contemplate a digital world where there's apps on phones and that's how many, many people interact with their bank. I'm curious from your perspective, from the community bankers, what do they want to see, how do they want to see the CRA modernized?

Kevin: Yeah, I think we certainly agree that it does need to be modernized and there's, you know, a number of things that are in consideration so we've been very active on the comments that we've been providing to the regulators, but just some of the key areas that we're looking at



relative to that, we think that the bank really needs to define the market area. I just don't know if that can be fully metric-based.

You know, I know they're looking at maybe is there a metric that we can judge CRA on, but I think that's an ongoing discussion that can be pretty difficult to do, but I just think the bank needs to be involved in defining its area and rather than the regulators defining it for them and again, trying to do it in a more systematic way. I think we're all trying to do that and just, you know, trying to find a way to prevent any inconsistencies or a gaming of the system, if you will.

I think that's the concern about having maybe a one metric approach is that there'll always be a way to get around that or game the system on that, but we just want to create something that's consistent, something that's driven by the institution into something that creates more consistency and more transparency to help the examination process. So I think we're marching forward in that direction with some of our comments and we're pretty confident that's not, you know, we'll get something, a much more modernized and useful version of CRA going forward. Certainly much needed.

Peter: Right, for sure. And then what about the fintech charter? The OCC has set a new...you know, the OCC is quite bullish on this and I hear it's going to be fairly soon where we're going to see the first application supposedly that they're going to come through, what's the official stance of the ICBA on that?

Kevin: You know, that one's pretty simple for us, I mean, it's really all about a level playing field. So, you know, our take is really...if there's a fintech that wants to be a bank then go ahead and get a banking charter.

Peter: Right.

Kevin: You know, there's no need for a special purpose charter or very much like the ILC... you can just go ahead and get an OCC charter. I think that's the way to do it. We're not against fintechs getting in the space, we just want to make sure whether it's a fintech or whoever it is, it's just a level playing field just like any other financial institution has to or any other bank has to go through.

Peter: Okay, fair enough. So it's obvious that banking has moved away from a branch-centric model where, particularly in urban areas, where it's a lot more of a digital experience. You know, people are interacting on their phone more often than they're going to their branch. But I'm curious because community banks are obviously...there's a wide variety of bank CEOs and different types of banks and I read about them in American Banker and elsewhere that there are some that are just doing a phenomenal job in innovating with this sort of in mind. Maybe you can give a couple of examples of community banks that are really preparing themselves for the next decade and really making a big push in the digital experience.

Kevin: Yeah, in just one base, I would say on the digital experience, I would say, community banking is really about relationship banking and even....you may want to take that as far as



niche banking. So the most successful community banks out there have done that well and I view that as we becomenew innovations come out, we've got more digital solutions out there...I think, community banking will remain kind of that, I guess high tech/high touch banking out there. I think using technology to help deepen already strong relationships and enhance the types of relationships that are within their niche and their communities and the relationships that they've built with their community banks. So I think that's kind of where that's headed.

Just some good examples relative to the digital side. There's a bank up at Wisconsin called River Valley Bank and several years ago now, they actually formed a separately branded, I guess you'd call it their own challenger bank, if you will, kind of an online digital bank, and they separately branded it. It's just an interesting example, and they've been very successful with that in just having their own community bank brand at River Valley and then having, you know, an incredible bank as their online bank, kind of a more national deposit-taking entity primarily.

So I just think that's a sign of a bank doing something innovative, not an easy thing to do, but I'm hearing more and more banks kind of looking at that type of approach and trying to figure out a way to do that. So I just think, you know, the local community can still have that local community feel, but there may be some things, whether it's deposit-taking or lending niches out there that you can maybe take on a broader scale outside of your initial communities and something that you can replicate and do well, I guess, in a larger geographic area.

Peter: Right, yeah, I see it from my perspective, I mean, community banks, their strength is their connection to the local communities, but it also can be their weakness if, you know, something happens, where there's one major employer that is at a town. I feel like these towns don't want to lose their bank and they can certainly broaden and diversify nationwide. I mean, there are other examples I know of as well, of community banks that have some kind of national online presence and to me it makes a lot of sense and I think.....

Kevin: You look at, Peter, to someone like a Live Oak bank where they are very local in the Wilmington, North Carolina area, but, they have national niche lending markets for doctors and dentists, for pharmacies, things of that nature. They just choose niches and take that nationwide, but they're still very active in their local community in Wilmington.

Peter: Right.

Kevin: So there's another example, but a little different, that they're kind of taking the lending on the national side and doing more from that perspective.

Peter: Right, they also spun out a technology company out of that bank, if I'm not mistaken.

Kevin: They have, they spun out nCino which I would argue is probably one of the most successful bank technology or solutions spin-offs in history. It's not just a spin-off, it's a very successful one and it just shows...you know, I think that's another thing relative to fintech. We're seeing a lot more banks maybe looking to do something like that. You've got an NBKC bank in



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Kansas City, just kind of forming accelerators and, you know, it's really taken on the persona of the institution.

They want a bank... technology companies and the principles of technology companies and make that their niche and their marketplace. So it's really....there are several other banks across the country that are starting to look at that and I think it's just an interesting new development out there and I think we'll be seeing more and more of that.

Peter: Right, right, sure. So speaking of accelerators, you recently started your own accelerator. I was reading the news fairly recently and you've decided to set up in Arkansas which wasn't the first place I thought of when I was thinking about a fintech accelerator, so why don't you tell us a little bit about the thinking, firstly, on the whole idea of starting a fintech accelerator and then secondly, why Arkansas?

Kevin: Sure, sure, absolutely. So we looked at...one of the things we're talking with our community banks is how can we, an association that serves community banks, how can we help our community bank membership. Many of our community banks don't have the resources to do what they would like to from an innovation perspective and obviously, there's a lot of incubators, innovations labs and these accelerators. We kind of studied that marketplace and said, you know what, if we were involved in an accelerator we can take maybe some of these earlier stage fintechs and get community banks more involved directly.

You know, many of them are involved today, with their core processors which is, again, good relationship, they're working with their core processors, but just beyond that maybe there are some options that community banks can look at going back to relationships and solve their very specific needs. We looked at the accelerator as way to do that and there's a lot of accelerators already out there, but we spend (garbled) as an association to make sure it's an accelerator and focused on community banks' specific needs. So we're talking with our membership in real-time, here's some solutions that, you know, problems that we would like to solve and then start looking for folks that will develop those tech solutions for them. So that's a unique thing that we can do and also, again, as an association the folks that we have involved in our accelerator can be quite unique as well.

We've got very strong relationships with the regulatory authorities, we've got, you know, strong relationships with the core processors that we'd love to have them involved in this process so we can bring in a unique group of folks. If I were a fintech starting all over again, I'd want to go through our process because you look at the kind of folks that we can bring to the table as an association and also, you know, you have two thirds of the banks in the US that.....potential go-to-market partners that we're going to be involved with.

Obviously, we'll be investing in these companies as well so we'll have input and certainly want them to be successful if they come through our program with the venture center. So that's kind of why we did the accelerators, you know, how in the world did you end up in Little Rock, Arkansas. Well, as we study folks....again, we don't have the folks that could run an accelerator



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here internally so we're looking to partner with someone to help run our accelerator program. That's how we ended up in Little Rock.

We're partnering with The Venture Center in Little Rock because we felt they were the most experienced out there as it comes to accelerators. They work very closely with one of the core processors, with FIS and they've been doing this now for four years so I think their experience was a big part of that.

Another big part is they really understood community banking and understood community bank needs which is really important to us as part of that process. Again, they just have tremendous expertise, I think their leadership is excellent, their team is excellent. We got very comfortable with them and I think some of those factors...really that's how we landed there in Little Rock.

Peter: Okay, so then have you sort of selected your first cohort yet? I know this is fairly recent, I'm just thinking about...if there's someone listening who runs a fintech and this might be attractive to them, what's the process for applying and are you looking for.....obviously, looking for companies working with community banks, but is there other things specifically you're looking for?

Kevin: Yeah, it's a great question. So really, we're in process...we announced this on October 31st, on Halloween, (Peter laughs), I don't know if that's a good or bad omen, but that's how it turned out. We've received, Peter, in our first....a little over a month, we received just under 200 applications, so we're real excited about that and really our first year, that was well beyond our expectation so that's exciting. We're trying to narrow that down, we'd like to ideally end up with about 10 candidates.

Our accelerator process would start on January 7th and will run through the end of March and at the end of that program the candidates will actually get an opportunity to present their wares at our annual conference, where we'll likely have probably 1,200/1,300 bankers there to present.

So it's a wonderful opportunity and as you mentioned...I mentioned some of the unique traits, about what makes this unique. I think as an association doing this, we just, again, have that broad outreach and we can really bring in some, you know, really good subject matter expertise for the fintechs.

The other unique thing that we offer, even post accelerator, is just a go to market opportunity. You know, we've got banks involved in the selection, we have a selection committee made up of community bankers that are going to help ensure that the fintechs that we're selecting are community bank-focused and solving problems that they have. But also, once we run through the accelerator, we want to bring in a number of our banks throughout that process so they can listen to it, identify, see if this is something they would want and potential subsequent users of these solutions after the accelerator.

It's kind of unique if you come out of the program as a fintech in our accelerator program. It's really truly what is meant to be as an accelerator, it really accelerates the growth of that fintech,



not just by honing their solution with the subject matter expertise, and identifying partnerships really within from other entities, maybe core processors or others, getting in front of the regulators so they're aware of what they're doing and then just have that go-to-market, building their brand in a short period of time. The hardest part of a fintech is really getting started, getting those first 10, 15, 20 clients and then things grow dramatically from there. We'll give them the best chance in our program.

Peter: Right, right, okay. So we're just about out of time, I'm afraid, but before I let you go, one last question here. Obviously, you're bullish, I'm sure, on the future for community banks. I mean, not everybody is, so what do you think it's going to look like in five or ten years time? What will be different in the future when it comes to community banking?

Kevin: You know, I think it's going to be this high....community bank is really becoming this high tech, high touch experience. I think the relationships were made very strong for these community banks, whether it be their niche, their communities in surrounding markets there. You know, I think the way the technological advances and the digital movement is really just going to help them enhance those relationships, so I think that's going to continue as well.

You've seen the way these things have evolved, the community bank versus the larger bank or non-bank, you know, that competition's been around for centuries and the same advantages are there, I think the community banks have the ability of being nimble and more creative and innovative in a faster way than some of the larger entities have been able to do it. They don't have like B of A, a \$12 billion technology budget, which is probably more than all the community banks combined, frankly, but just the ability of being nimble. I don't see there's anything earth shattering in the industry that changes the advantage one way or the other, I mean, banking is still going to be banking.

There will still be a need for deposits, a need for loans, things of that nature and that will continue. I'm bullish on the community banks because I think the strength of their relationships is going to help them as the consumers and businesses go through the changes, the rapid pace of change in this digital transformation.

So, you know, one of the things I've talked about Peter before is...can you fully digitize trust? It's an interesting debate in question. I argue it with my kids all the time just to get their perspective which is quite different from me. But I just think everybody's on a different spectrum from zero to 100, right; maybe there's someone who is fully comfortable with a full digital experience without talking to a human being or anything, others on the opposite end, but most of them are going to fall somewhere in between.

So I think that's going to be the interesting thing to watch as this digital transformation continues and the rapid pace of change continues. I think the dynamics of banking are going to remain the same, in terms of making loans, taking in deposits, generating fee income revenue streams that are beneficial to consumers and businesses. I just like the strength of the community bank



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relationship and their ability to be nimble. That's going to really translate to their success in the future.

Peter: Okay, that is quite likely. I think it's a fascinating space and one that I'll be watching closely. I really appreciate you coming on the show today, Kevin.

Kevin: Great, I appreciate your time, Peter. Happy to talk to you about community banking. I can do it anytime.

Peter: Okay, see you later.

You know, it's an interesting thing that Kevin talked about trust there. That really is the, I think, one of the core benefits or the core offerings of community banks and the fact that they're part of their community, people can actually sit down and talk with someone face to face. Now, not everyone wants to do that so it's important that they have digital offerings as well, but having that kind of nexus in the community where they are trusted, they are visible.

I think, community banks are going to be around for a long, long time, decades, centuries. If the banking system keeps chugging along the way it is, I think you're going to see community banks just remain a very important part of this, but it's going to look different, as Kevin said, and I think those companies, those banks that are forward thinking I think will be rewarded in the long run.

Anyway on that note, I will sign off, but before I do, I want to wish everybody all the very best this holiday season. This is our last recording of 2018, we will be back with you next year with some great guests. I very much appreciate you listening, not just to this episode, but throughout the year and I wish you all the best for the holiday season and for 2019. I'll catch you next time. Bye.

Today's show was sponsored by LendIt Fintech USA 2019, the world's leading event in financial services innovation. It's coming up on April 8th thru 9th, 2019, at Moscone West in San Francisco. Registration is now open and we're also taking speaker applications. You can find out more by going to lendit.com/usa

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