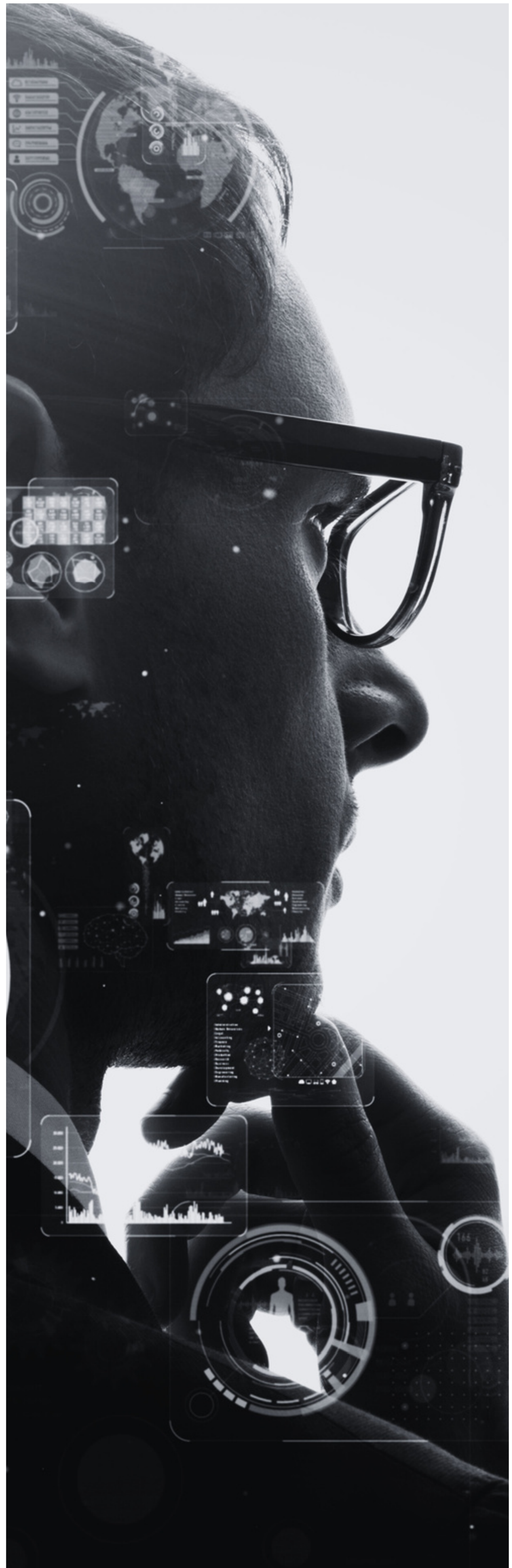
BANKING INVESTMENT 2025: SEEING THROUGH THE AI NOISE

Adam T. Hark
Managing Member | Wellesley Hills Financial



In an "AI is everything" environment, identifying strategically advantageous financial technology requires a discerning eye and thoughtful consideration. Financial institutions, as with all investor classes, need to flesh-out wants, needs and solutions through the common deliberation over buy versus build versus partner. Additionally, the value proposition of adding new fintech capabilities needs to be viewed through multiple prisms - cost savings, additional revenue streams, and better user experiences.

Addressing the 800lb Gorilla

AI's primary value add to all industries at the moment is cost savings through the process automation of basic, repetitive, human activities. AI is a general purpose technology that will be deployed in all aspects of our lives, regardless of sector. To the extent that it's being deployed for specific, high value use cases in banking, beyond automated onboarding, customer service and tech support, there's certainly an argument for enhanced AML capabilities. That being said, AI-capable fintech ought not to be an end unto itself, though it absolutely should be considered as a qualifying criterion.

At the other end of the tech spectrum for financial institutions are the generic digitalization providers, racing to improve user experience. I'm of the opinion that these banking UX companies pitching the modernization and digitalization of user experiences ought to be viewed skeptically.

It's not because they don't do what they say they're going to do. Rather, it's because in 2025, its value proposition is as a defensive strategy whose utility lies in convincing customers that their bank is just as modern as all others i.e. 'Keeping up with the Joneses'. Tactically it makes the customer base stickier, and thus, perhaps happier, but what does it do for banks' bottom line?

Most likely it's marginally adding revenue through mobile application integrations with consumer-oriented fintechs, and therefore, not top or bottom-line needle movers.

Finding Signal in the Noise

Removing generic UX digitalization and rudimentary AI-driven automation from the strategic fintech equation, financial institutions ought to be looking at additive technologies that open up new and meaningful revenue streams, create meaningful operational efficiencies, and allow for enhanced end-user experiences; experiences whose value is obvious and undeniable.

Thus, it's my opinion that financial institutions should be looking at fintech that leverages data and/or improves existing infrastructure capabilities, especially those whose value-added offerings are targeted toward SMEs and other fintechs that need bank sponsorship partners. It's SMEs and third party fintechs that have the potential to generate meaty revenue streams.

Infrastructure and Data

Take a new species of fintech that automates live, direct financial data delivery from SMEs to both auditors and banks. Companies like Codat, Crediwire, and Validis represent this new species whose market thesis rests on the well-informed prediction that in 10 years or so, ***all*** small and medium size businesses will be connected to their respective auditors and banks, with real time data feeds from whichever accounting software they're using. In effect, this technology's API connectivity creates a captive, three-sided platform comprising SMEs, accounting firms (and accounting software), and banks.

A data-centric breed of fintech, it also cleans and standardizes all input data, setting the stage for future value capture through advanced inferential AI capabilities. Both accountants and banks economically benefit from having this unique, autonomous, real-time visibility into their clients' finances (including payroll, payables, receivables, balance sheets and customer revenue contributions) through greater efficiencies, risk monitoring, and most importantly, new revenue generating product suggestions.

For banks especially, the enhanced visibility provides for automated loan qualification and underwriting, without succumbing to costly, traditionally time consuming, error prone manual processes. And for accountants, they benefit from being able to constantly monitor the financial health of SME clients, while providing alerts and insights to those same SMEs on a monthly schedule (instead of a yearly. The autonomous updating of P&Ls and balance sheets for performance reviews and tax purposes creates a major efficiency pick-up in time, cost and accuracy of information.

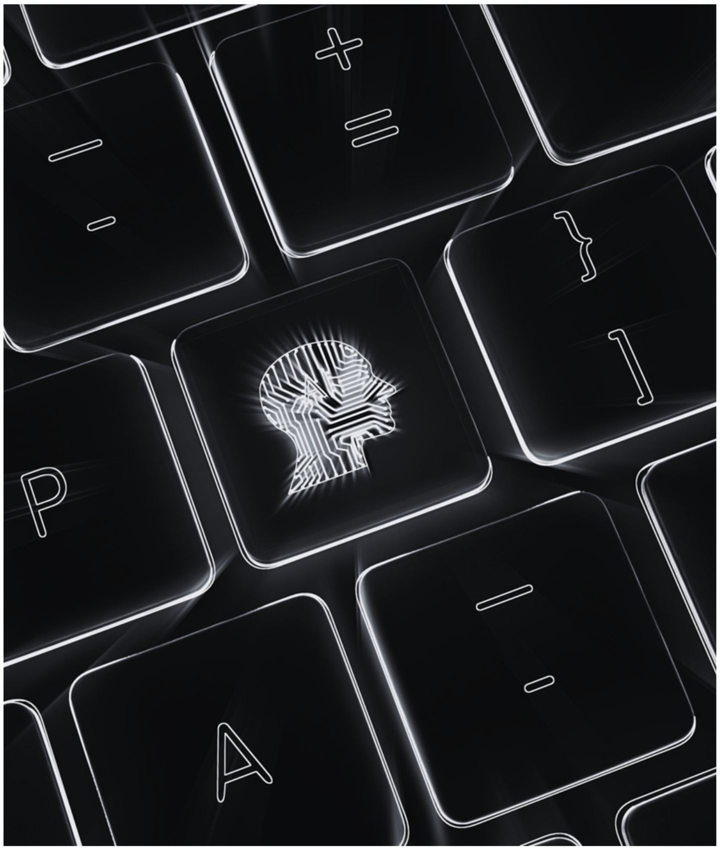
And, direct financial data delivery companies are not the only new species of fintech that's coming to market and worthy of exploration. There also now exists a bank infrastructure player that has the capability to solve one of the larger financial puzzles of the day - banking-as-a-service (BaaS).

It's only been 2-years since peak BaaS hype, and for many in the BaaS space, the Mercury, Evolve Bank, and Synapse catastrophe of last year is still front of mind, as it should be due to the subsequent regulatory fallout that slammed the brakes on the service and ecosystem participants. The primary egregious act was the inability of the fintech, neobank, and sponsor bank to provide accurate account balance records (ledger records) for the customers using the providers' services, which relied on the functionality of a pooled, for-the-benefit-of-owner (FBO) account.

This indictment was later confirmed by the proposed rule change from the FDIC seeking to require that all FBO accounts properly track this information. Well, there's now technology (software) that can sit atop any legacy core banking system that solves this issue.

Not only does it turn legacy bank cores into next generation cores with developer friendly connectivity, but more importantly, it can implement a shadow ledger for FBO accounts.

This technology offering has the potential to relaunch the entire BaaS space and banks would be wise to investigate it.



Takeaway

There's no denying that the bright and shiny object today is anything AI, but to the discerning eye, there's a lot more to see, and for the banking industry, there are other bleeding-edge technologies that are worth evaluating as part of their strategic roadmap.

Technologies which provide value to SMEs are particularly interesting because their revenue generation potential is substantial. From deposits to loans to rev shares on ancillary fintech products that help transition resource poor SMEs from manual processes to autonomous ones, there are some highly effective infrastructure and data-driven fintechs (bank techs) that need to be considered.

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Managing Member | Wellesley Hills Financial

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