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## Background

- Engage, Collaborate, and Respond
- Financial technology (fintech) is being driven by a confluence of factors
- The pandemic has led to greater adoption of digital financial services
- Many fintechs work through partnerships with banks (both front-end and back-end), and reach across many different banking business-lines
- Community banks face unique challenges when innovating

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## Background

"The successful integration of financial technology into the community bank business model is proving to be enormously valuable to enable community banks to enhance the services they've already proven they can deliver effectively. Access to technology and services to meet customer needs is critical to ensuring community banks remain vibrant."<sup>1</sup>

- Michelle W. Bowman, Federal Reserve Board Member

- To address these challenges, Federal Reserve staff undertook two efforts:
  - **Community Bank Access to Innovation through Partnerships**
  - **Conducting Due Diligence on Fintech Companies: A Guide for Community Banks (Interagency)**

<sup>1</sup> Michelle W. Bowman, "Empowering Community Banks" (speech at the Conference for Community Bankers, Orlando, FL, February 10, 2020), <https://media.federalreserve.gov/newswatch/speech/Bowman20200210a.htm>

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## Community Bank Access to Innovation through Partnerships

September 2021

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## Project Objectives and Outreach

**Objective:** To develop a public paper serving as a resource for community banks (and possibly fintechs) as they embark on responsible innovation and enter partnerships

**Outreach:**

- The paper is derived from an outreach effort to better understand the landscape of fintech and community bank partnerships
- Based on conversations with representatives from community banks, fintechs, and other industry stakeholders
- The variation in composition and structure of participating institutions resulted in rich and insightful information on a wide range of experiences
- Outreach effort indicated that innovation is thriving in parts of the community bank sector

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## Partnership Types



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## Partnership Types

We heard about three common partnership types that align to specific strategic needs of community banks, and the benefits, risks and challenges of each type:

- **Operational Technology Partnerships** – enhance a bank’s processes, monitoring capabilities, or technical infrastructure. Common examples include technology that can enhance a bank’s ability to meet compliance requirements with things such as BSA/AML/KYC.
- **Customer-oriented Partnerships** – enhance various customer-facing aspects of a bank’s business. Common examples included digital banking solutions that enhance the customer experience.
- **Front-end Fintech Partnerships** – the fintech engages directly with the customer, leveraging a bank’s infrastructure. Common examples include partnerships that enable fintech deposits or lending.

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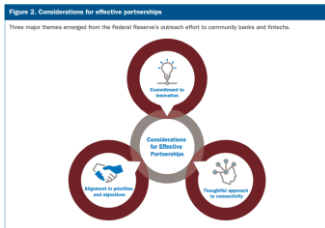
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## Key Partnership Considerations



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## Key Partnership Considerations

Outreach participants frequently shared a common set of lessons:

- The importance of boards and senior management **committed to innovation** and prepared to make meaningful investments of time and resources in technology.
- The **alignment of priorities and objectives** between the fintech and community bank as foundational for building and maintaining effective partnerships.
- The need to **carefully approach connectivity with fintechs** due to trade-offs across flexibility, cost, breadth of partnership selection, and staff resources. These thoughtful connections with fintechs (often through application programming interfaces, or APIs) have allowed for the efficient flow of data between banks and fintechs and eliminated siloed bank systems.

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## About Evolve Bank & Trust

Evolve Bank & Trust, a leading financial and technology institution and Banking-as-a-Service ("BaaS") provider, is a best-in-class financial services organization offering specialized services in Open Banking and Payments. Evolve is recognized as a global leader in the Payment Processing Industry delivering ACH, Debit/Credit Sponsorship, Card Issuance and unique technology strategies to clients around the world. Evolve has been voted a Top Workplace eight years in a row and has been named in Inc. Magazine's 5000 List of the fastest growing companies.



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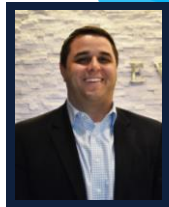
## Who am I?

Michael R. Fennel currently serves as Vice President, Business Development Officer for the Open Banking division at Evolve Bank & Trust ("Evolve"). Based in Memphis, TN, Evolve was recently named to Inc. 5000's list of America's Fastest Growing Companies and has been voted a Top Workplace eight years in a row.

Michael's primary responsibilities include sales, management and marketing of ACH, Remote Deposit Capture, Youth Services, Accepting, Issuance and other payment solutions nationwide. He serves as the relationship owner for numerous Evolve partners, including various Third Party Senders, ISOs and PFM's. Additionally, he collaborates with the Open Banking team to communicate and promote tech-forward solutions.

Michael's previous experience includes Treasury Sales and portfolio management at The Bank of Kentucky & Heritage Bank, where he assisted in developing and maintaining a risk management compliance program for Third Party ACH originators. He was appointed to the EPCOR Board of Directors in 2017 and continues to serve on the EPCOR Payments Committee. The Committee authoritatively promotes payment awareness, strategies and initiatives, and is comprised of seasoned senior executives actively engaged in payment and payment strategy.

Michael has a Bachelor of Arts from Union College in Barboursville, Kentucky. He resides in Fort Thomas, KY with his wife, Tiffany, and their four children.



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### Fintech Partnerships

#### Client

- Stripe
- Dave
- Branch
- Bond

#### Critical Providers

- Jack Henry
- Clearing House
- Alloy
- Hummingbird



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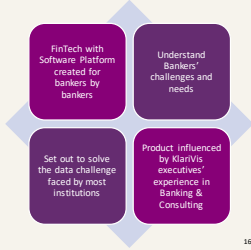
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### The KlariVis Story



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### Why FinTech?



Emerging Trends in FinTech – The Community Bank Perspective by Charles Potts, Executive Vice President, Chief Innovation Officer, Independent Community Bankers of America

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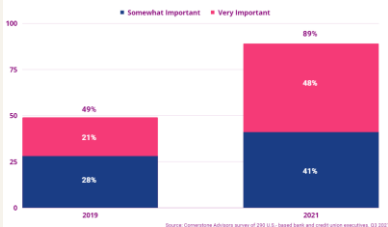
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### How Important Are FinTech Partnerships To Your Financial Institution?



Source: Cornerstone Advisors survey of 200 U.S.-based bank and credit union executives. Q3 2021

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Since the beginning of 2019, has your organization entered into any FinTech partnerships or made any investments in FinTech startups?



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### What Makes A Good Partner for Banks?

- A FinTech Company that:
  - Understands banking
  - Understands the challenges solved by their Product
  - Listens to prospects and clients
  - Is aligned with client expectations and established timelines
  - Makes subject matter experts available to answer the banker's questions
  - Provides and maintains a robust due diligence package/SOC 2 audit report – security focused
  - Possesses transparency around roadmap items
  - Demonstrates a willingness to continuously improve product to meet industry needs

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### How Do We Partner With Banks?

- ✓ KlariVis is a vendor partner. We value our clients as partners.
  - Robust vendor due diligence package – we understand what you need
  - Security first organization – we understand the sensitivity of the data we hold
- ✓ White-glove implementation – we map, we write reports, we test, we validate
- ✓ KlariVis clients provide valuable input into our product evolution
- ✓ Product Evolution Panel – Alignment between KlariVis and client data needs
- ✓ Training included in our agreements
- ✓ Client Success is a priority
- ✓ *Bank clients invest in KlariVis after utilizing our product and realizing the value and impact*

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### Investment considerations

- Bank holding company makes the investment normally
- Maximum ownership below 5% threshold – must get regulatory approval to invest higher amounts
- If investing in an early-stage company, remember you are investing primarily in the management team.
- Accounting implications – Consult tax advisor

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### Challenges From Practical Experience

- Core Vendors position on data.
- Access to data. Many disparate sources.
- Fear of FinTech selling to major core provider and the institution being back to where you were prior to the relationship.
- Fear of being “trapped” – banks want and should be in a position to control their own destiny.
- Uncertainty on FinTech’s ability to deliver product – Check references!
- FinTech’s product remaining relevant as technology advancements and financial institution expectations are changing rapidly - Ask about release frequency and client impact on the FinTech’s product evolution

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### Other Resources That Understand What is Important to Financial Institutions

It is important for Financial Institutions and FinTechs to stay informed and current on industry trends:

- Southern Financial Exchange
- Independent Community Bankers Association
  - ICBA ThinkTECH Accelerator Program - KlariVis 2022 MVP Award
- Bank State Associations
- American Bankers Association
- Regulatory Agencies
- Association for Financial Technology (“AFT”)
- Others....

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## Thank You!



**Gill Hundley, CRCM**  
Chief Administrative & Risk Officer  
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Confidential and Proprietary



Gill Hundley is the Chief Administrative and Risk Officer of Roanoke, Virginia-based KlariVis, a unique and proprietary data analytics solution designed by bankers for bankers.

Prior to KlariVis, she was Chief Risk and Strategy Officer of KBS Results LLC, a provider of management consulting services to community financial institutions. Additionally, she was EVP and Chief Risk Officer of Willey Bank, a \$900m publicly traded bank in Roanoke, Virginia where she spent the bulk of her banking career in various management positions. She also served as Chief Operating Officer for Virginia Community Capital/VCC Bank in Christiansburg Virginia.

Hundley is a graduate of Roanoke College and holds the ABA Certified Regulatory Compliance Manager professional certification. She is a proven hands-on leader with an extensive banking background of 25+ years in diverse areas such as risk management, strategic planning, M&A, process improvements, lending, retail, operations, and compliance. During her banking career, she served on various industry focused committees.

Areas of Expertise:

- Data Analytics and Business Intelligence
- Strategic Planning
- Merger and Acquisition Planning and Integration
- Process Design, Efficiency and Productivity Improvement
- Credit Administration, Lending and Loan Operations
- Risk Management

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## Thank You!

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