

# VIRGINIA BANKERS ASSOCIATION

## Fintech & Innovation: Strategic Priorities for the Future of Banking

DJ Seeterlin  
Chief Innovation & Strategy Officer  
Chesapeake Bank

May 23, 2024

# CHESAPEAKE BANK



## CHESAPEAKE

### PAYMENT SYSTEMS

- Full Service Merchant Acquiring
- Partner Programs with Agents, ISOs, ISVs, Payment Facilitators, and Community Banks

# Flexent

- Partners With Banks Nationally To Offer Working Capital Financing Solutions To Their SMB Portfolio
- Asset Based Lending Partnerships With Banks
- Non-interest Fee Income Opportunities For Banks

Founding Member Bank of:

ALLOY LABS  
ALLIANCE 

# CHUCK

Open Loop Payments Network

# Legal-ish Disclaimer



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*Professional driver on a closed course, do not attempt at home.*

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*Not recommended for the microwave, dishwasher, or your oven.*

*Not liable for natural disasters, acts of God, up to and including acts of Chuck Norris.*

*All Sales Final.*

# What are we going to talk about?

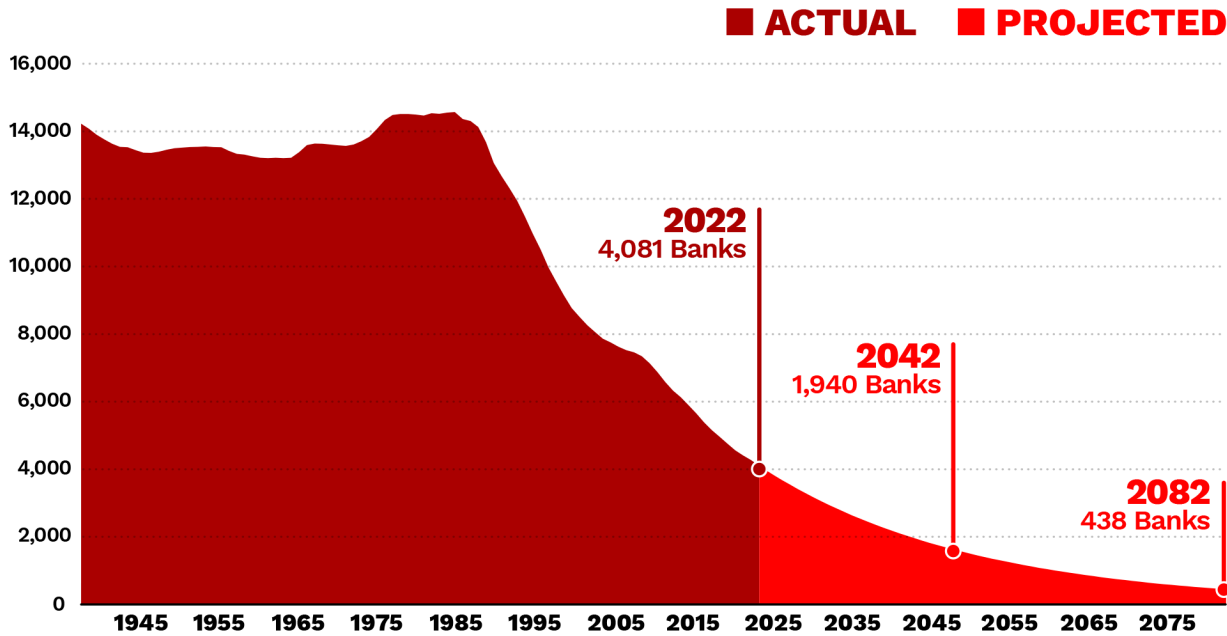
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- **Current State of Banking - How we got here & Where we need to go**
- **Trends in Financial Technology**
- **Evolution of Payments**
- **Crystal Ball**



# Reinventing the Wheel

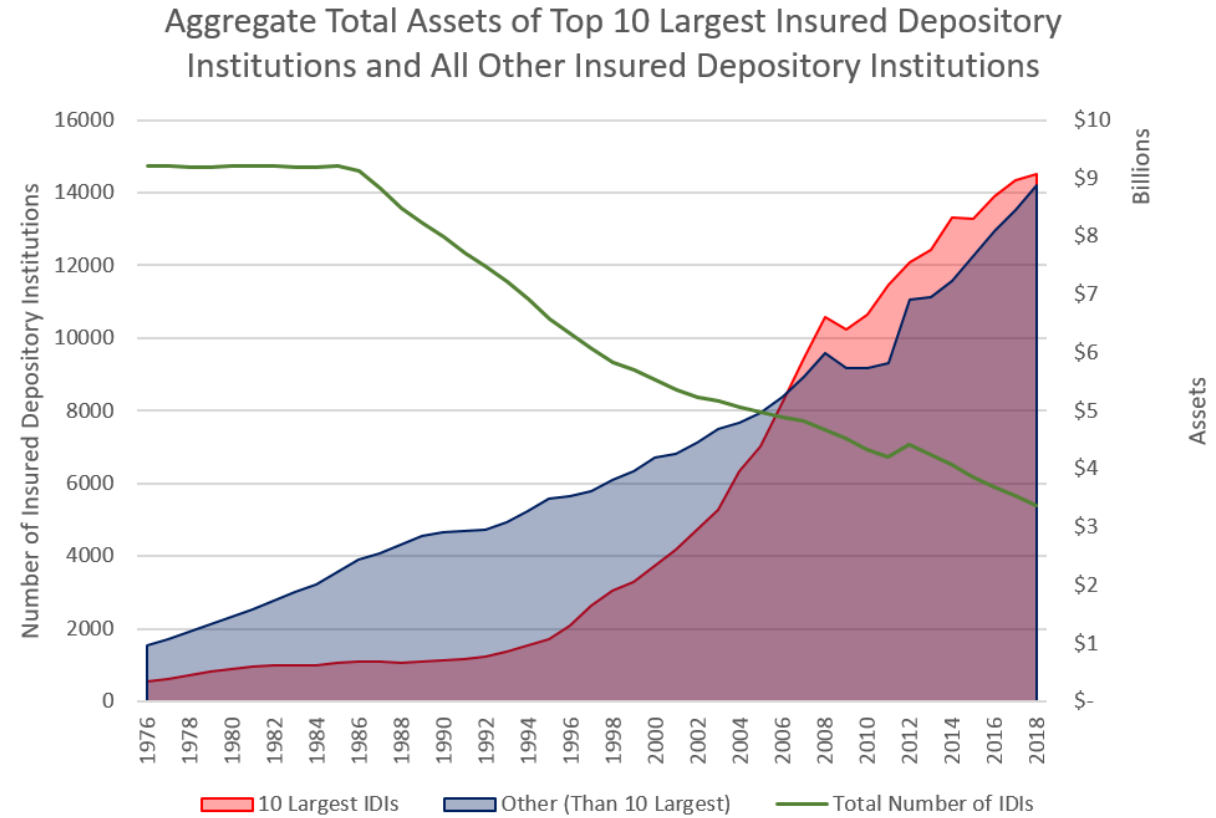
# Current Landscape



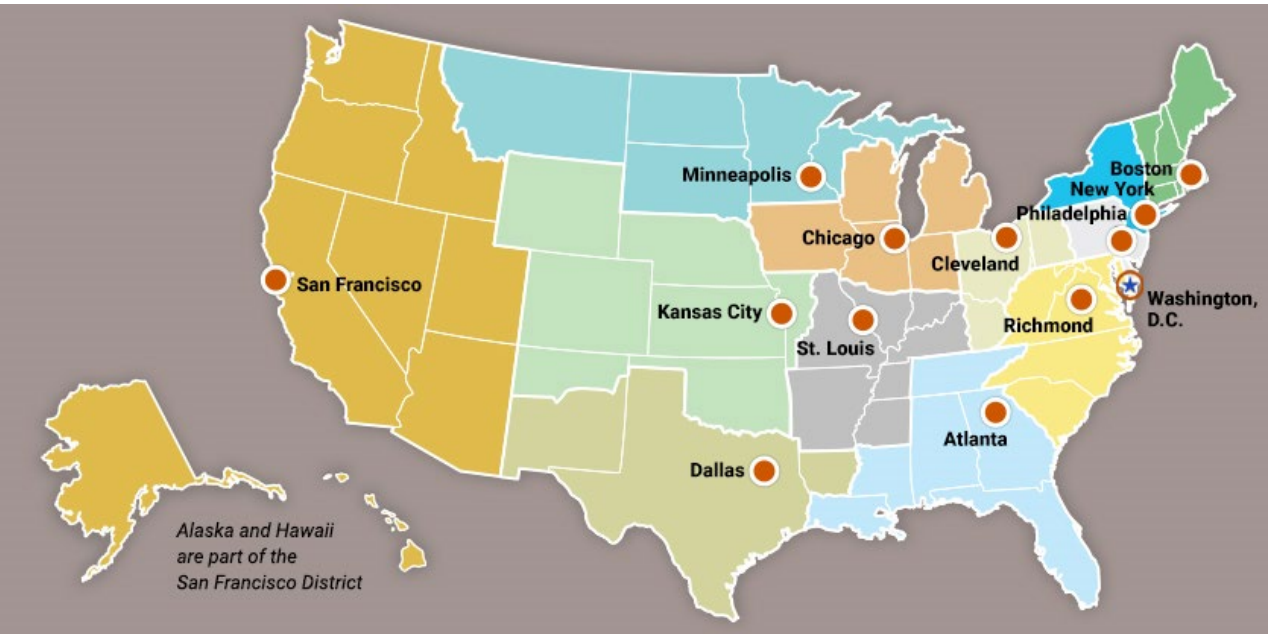
© August 2022 THE FINANCIAL BRAND SOURCE: FDIC

Banks continue to consolidate

## Assets are shifting rapidly to the largest 10 banks

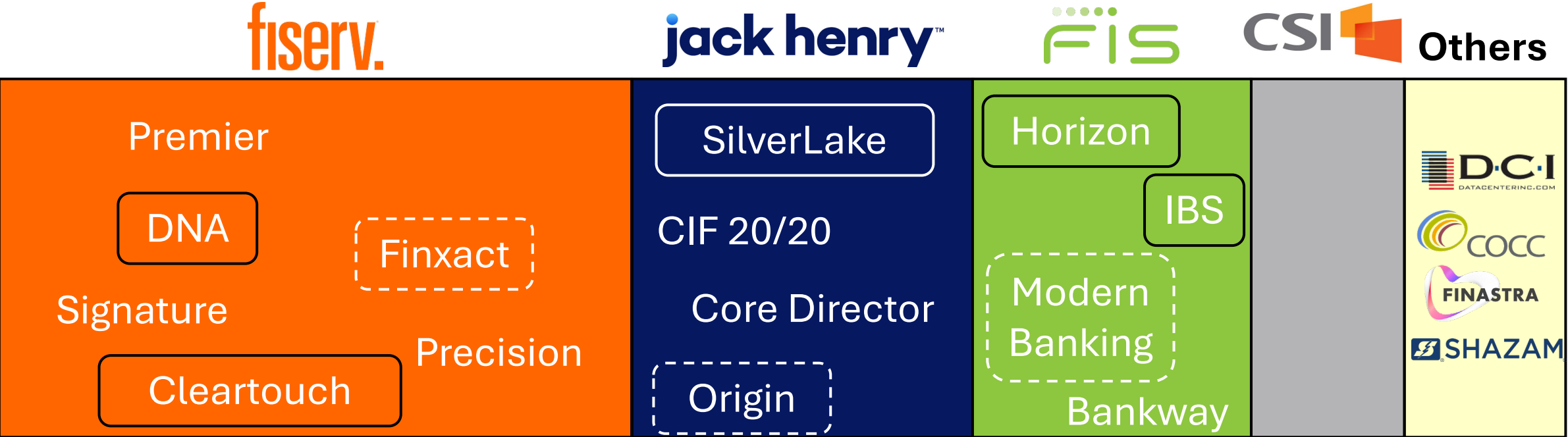


# Traditional Banking Infrastructure Can Move Slowly



Federal Reserve Bank Locations – est. 1913



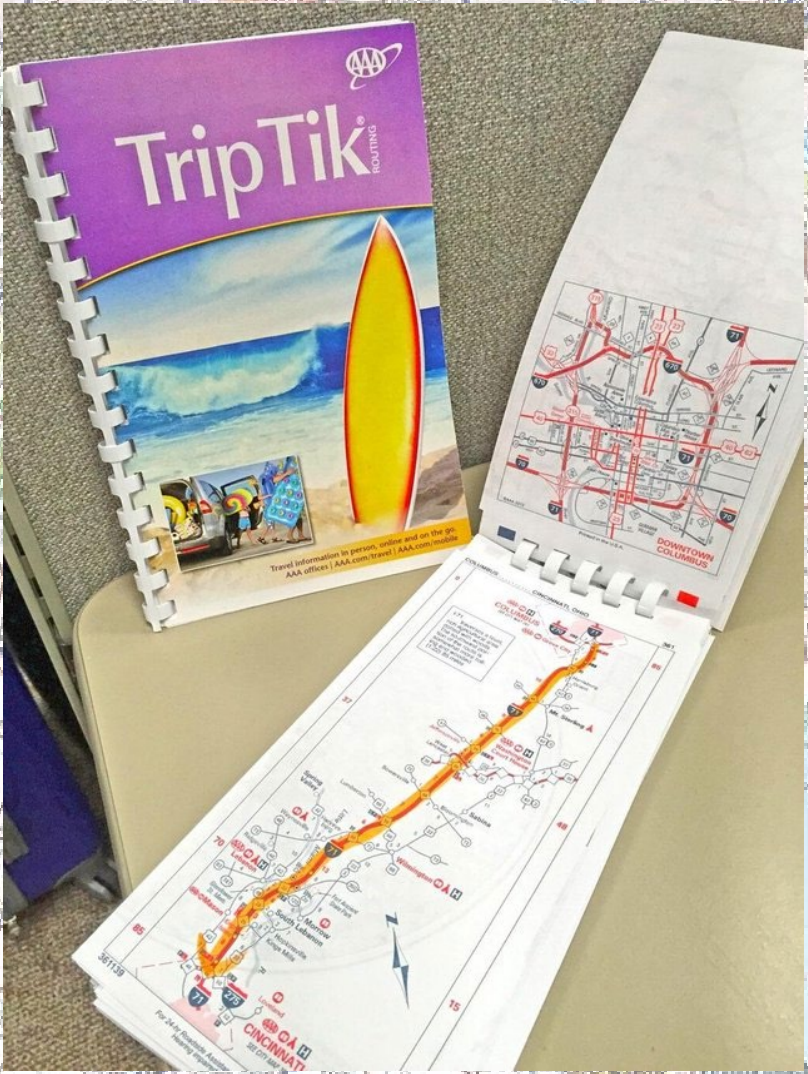








|                |     |               |     |               |     |             |     |           |     |              |     |              |     |                  |     |             |     |
|----------------|-----|---------------|-----|---------------|-----|-------------|-----|-----------|-----|--------------|-----|--------------|-----|------------------|-----|-------------|-----|
| Arlington      | C-8 | Chase City    | A-7 | Fort Royal    | C-7 | Marion      | A-8 | Reasbille | C-8 | Warren       | C-7 | Charles Town | C-7 | Marionburg       | B-7 | Seaside     | C-8 |
| Ashland        | C-8 | Chesapeake    | A-8 | Gene City     | F-2 | Marionville | A-8 | Reasen    | C-8 | Waverly      | F-8 | Charleston   | C-7 | Middlebourne     | B-4 | Suttonville | C-8 |
| Bedford        | C-8 | Chinochaska   | A-8 | Glouster      | A-8 | Marion      | D-8 | Ridglands | C-8 | Whitehall    | C-8 | Chester      | A-4 | Morgantown       | B-8 | Union       | A-4 |
| Belle Haven    | A-7 | Chillicothe   | B-8 | Goldenrod     | D-7 | McKenney    | A-8 | Ridgeland | A-8 | West Pitt    | E-8 | Charleston   | C-7 | Marysville       | B-8 | Waynes      | C-8 |
| Baryville      | C-7 | Clifton Forge | B-8 | Gretna        | A-8 | Midway      | C-7 | Spaworth  | A-8 | White House  | E-8 | Clay         | C-8 | Mount Gay        | C-8 | Wheaton     | B-8 |
| Big Stone Gap  | F-0 | Cliftonville  | A-8 | Gretna        | A-8 | Moongate    | A-8 | Tatum     | A-8 | Williamsburg | B-8 | Elkins       | C-8 | Mayes Store      | C-8 | Wills       | E-8 |
| Bluefield      | C-8 | Coalfield     | A-8 | Harrodsburg   | A-8 | Marionville | A-8 | Tazewell  | A-8 | Winchester   | C-7 | Fairmont     | B-8 | New Martinsville | B-4 | West Union  | C-8 |
| Bluefield      | A-4 | Culpeper      | C-8 | Hannover      | A-8 | Marionville | A-8 | Waverly   | A-8 | Winchester   | C-7 | Fairmont     | B-8 | New Martinsville | B-4 | West Union  | C-8 |
| Boasting Green | C-8 | Cumberland    | C-7 | Hannoverville | A-8 | Marionville | A-8 | Waverly   | A-8 | Winchester   | C-7 | Fairmont     | B-8 | New Martinsville | B-4 | West Union  | C-8 |
| Brown          | A-7 | Dele City     | C-8 | Hannoverville | A-8 | Marionville | A-8 | Waverly   | A-8 | Winchester   | C-7 | Fairmont     | B-8 | New Martinsville | B-4 | West Union  | C-8 |
| Buckner        | A-8 | Dele City     | C-8 | Hannoverville | A-8 | Marionville | A-8 | Waverly   | A-8 | Winchester   | C-7 | Fairmont     | B-8 | New Martinsville | B-4 | West Union  | C-8 |



ATLANTIC OCEAN

# 1. Babylonian Map of the World (Imago Mundi)

📅 Year Created: c.700 to 500 BCE

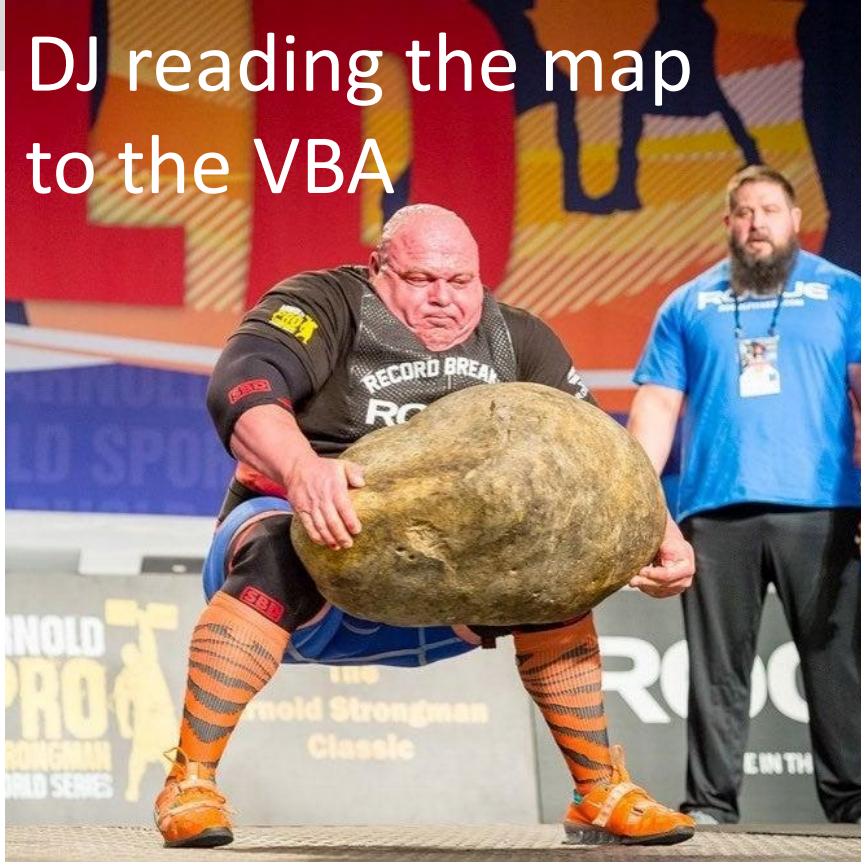
📍 Country of Origin: Sippar, southern Iraq

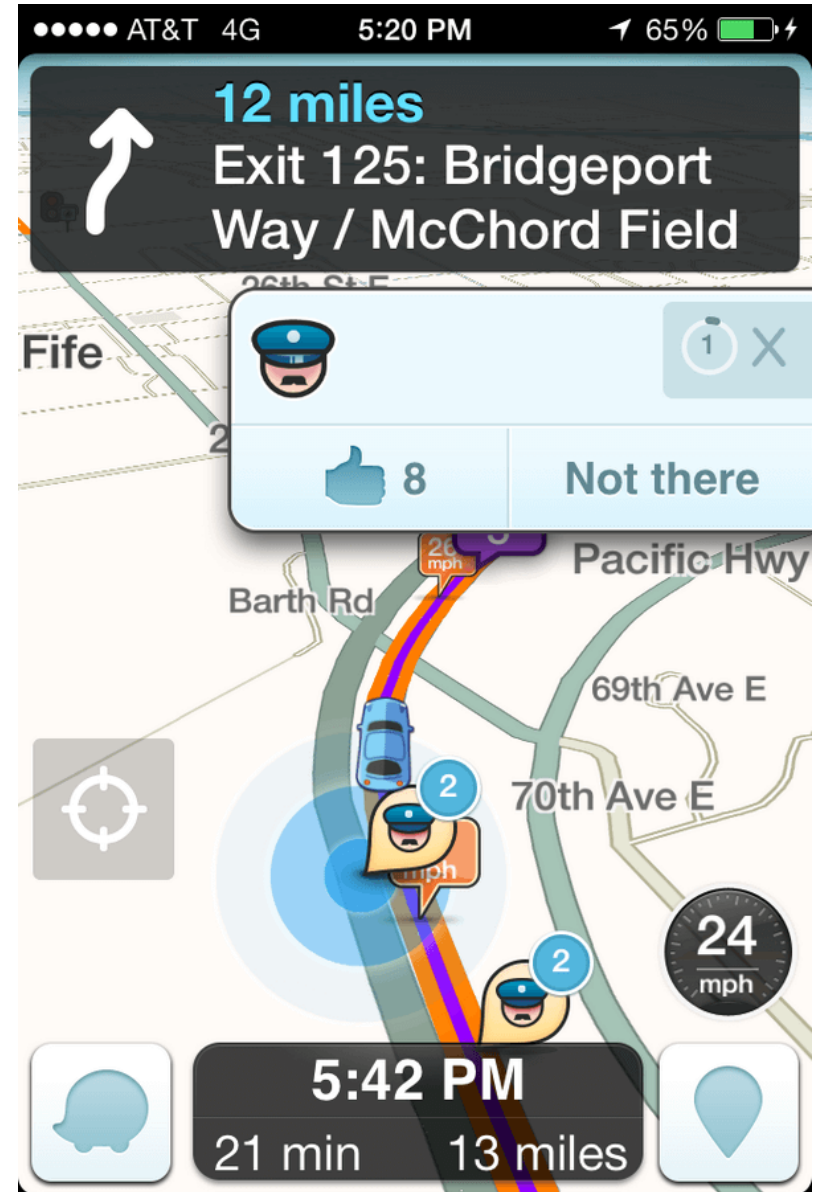
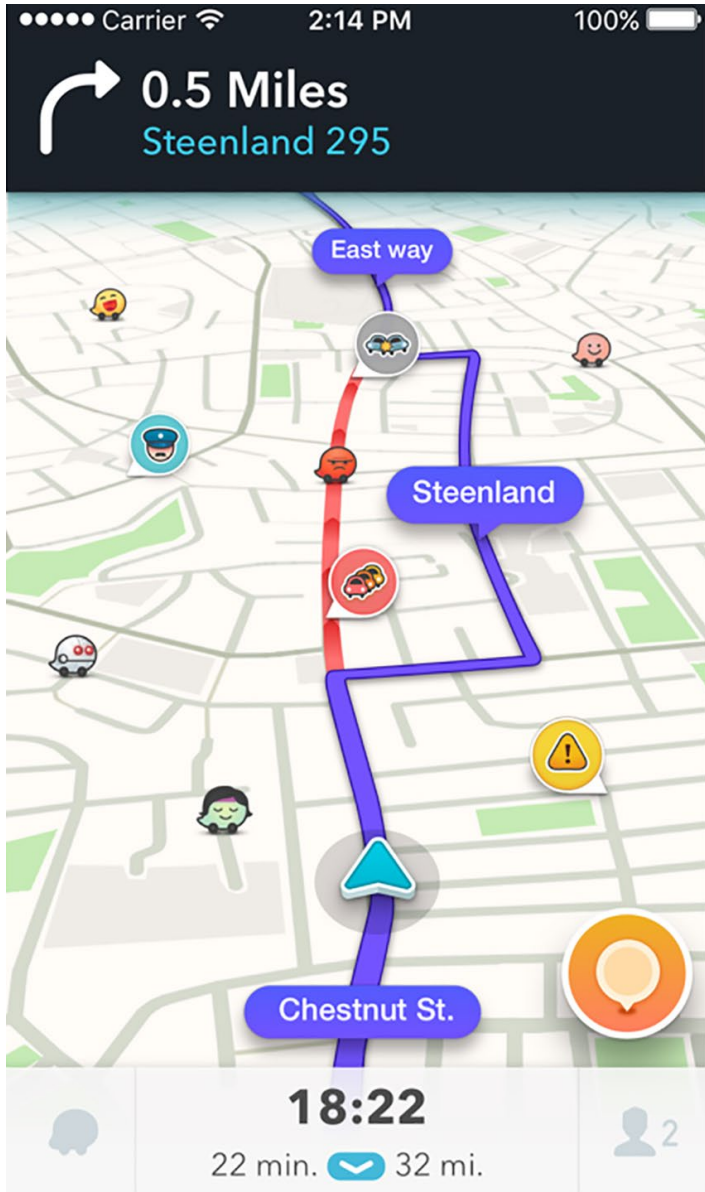
👤 Creator: Unknown Babylonian cartographer

✳️ Materials Used: Etched clay tablet

🗺️ Area Depicted: Known world at the time to the Babylonians; centered on the Euphrates River

DJ reading the map  
to the VBA



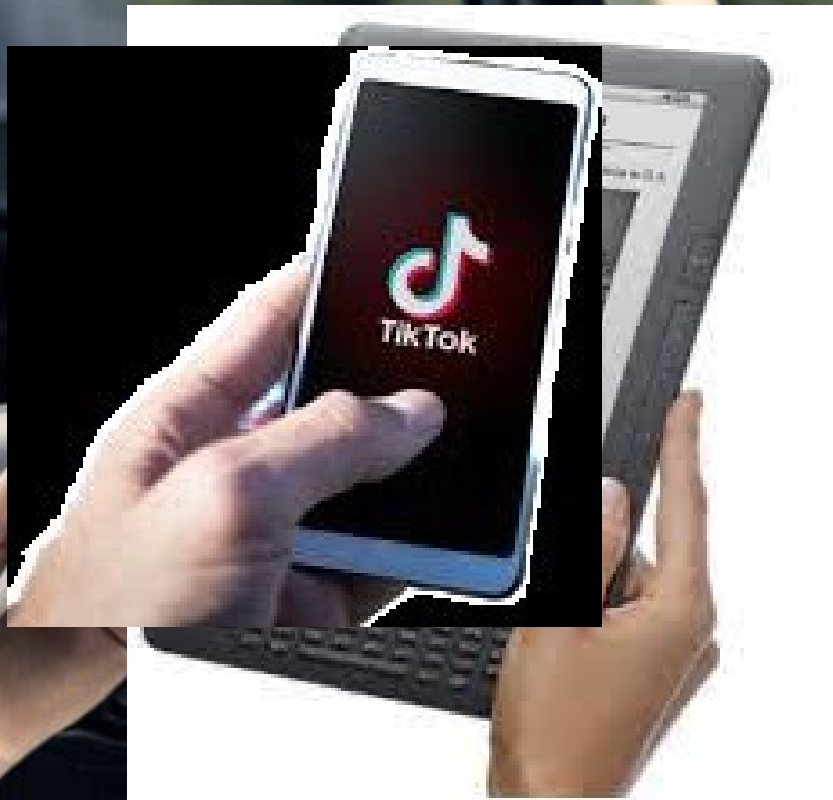




- /Autonomous
- /Sensing
- /Communication
- /Battery
- /Navigation
- /Mirrorless
- /Ecology

Self-Driving

48  
mph



## Drivers

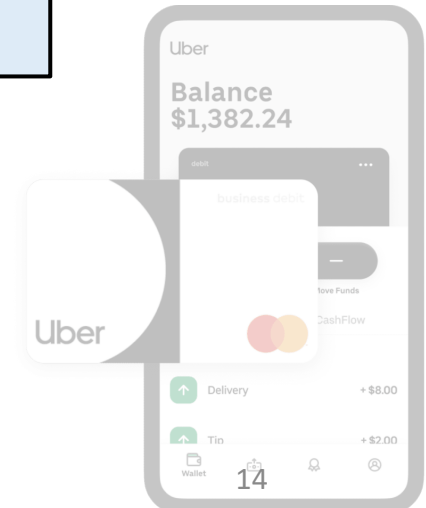
## Changes in Customer expectations Competition:

- Digital Self-service
- Remote Capable (No branch visit required)
- Fast responses
- Intuitive Frictionless Experiences
- 24 hour access


Yesterday's Innovations are Today's Table-Stakes



Competition with unregulated financial services providers (Fintechs)



Fintech & Payments


A photograph of a server room with rows of server racks on both sides of a central aisle. The racks are filled with server hardware, and many blue indicator lights are visible. Blue and black cables are organized in overhead trays. The floor is a light-colored tile. In the center of the image, the word "Google" is overlaid in a large, colorful, sans-serif font. The letters are: 'G' (blue), 'o' (red), 'o' (yellow), 'g' (blue), 'l' (green), and 'e' (red).

Google

Google!





A young child with curly brown hair, wearing a blue top, is shown from the chest up. The child is looking to the right with a curious expression, and their hands are held out in front of them, palms up. The background is a blurred, textured surface, possibly sand or gravel. The text "What's going on in Banking Tech & Innovation?" is overlaid on the right side of the image in a white, sans-serif font.

**What's going on in  
Banking Tech &  
Innovation?**

# BaaS



No, not that kind...

# What is Embedded Banking / Finance vs BaaS?

## Embedded Finance

The integration of financial services into business processes of non-financial services companies



**BUY NOW, PAY LATER.**



SHOP



CHECK OUT

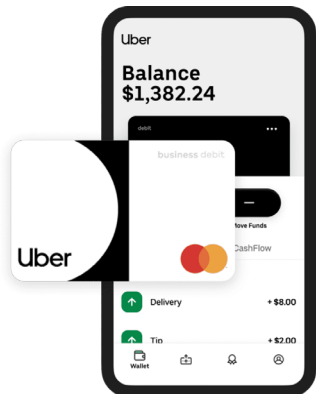
Klarna.

CHOOSE KLARNA



PAY LATER

The Stripe logo, consisting of the word 'stripe' in a bold, blue, lowercase sans-serif font.



## Banking-as-a-Service (Baas)

A partnership model in which a financial institution leverages its bank charter to enable one or more non-bank financial services companies to offer deposit or lending services

Definitions: <https://www.alloylabs.com/post/alloy-labs-members-move-to-standardize-baas>

**B** Consumer Finance Monitor

## Recent FDIC consent orders show increased scrutiny of bank relationships with fintech partners

In February 2024, the Federal Deposit Insurance Corporation (FDIC) entered into consent orders with two banks who partner with fintechs to...

**AB** American Banker

## Tenn. bank is latest to be penalized over banking as a service

An FDIC enforcement action against Lineage Bank is part of a wave of cases involving banks that have partnered with fintechs in recent...

**EM** eMarketer

## FDIC hands enforcement actions to Piermont and Sutton Banks

The news: Piermont Bank and Sutton Bank just joined the growing list of financial institutions with banking-as-a-service (BaaS) partnerships...

**S&P Global**

## Small group of banking-as-a-service banks logs big number of enforcement actions

Small group of banking-as-a-service banks logs big number of enforcement actions ... US banks with financial technology partnerships accounted for...

**AB** American Banker

## Fintechs contend with banking-as-a-service fallout

Fintechs contend with banking-as-a-service fallout ... If a company relationship approaches Five Star Bank, "we need a...

**AB** American Banker

## Banking-as-a-service banks: 'There is a reckoning'

... steady drumbeat of consent orders against banks that offer banking as a service ... fintech banks to keep a closer...

**P** PYMNTS.com

## FDIC Sends Cease and Desist Order to Cross River Over Lending Practices

Federal regulators have cited Crypto and FinTech-focused lender Cross River Bank. The Federal Deposit Insurance Corp.

**AB** American Banker

## OCC says Blue Ridge in 'troubled condition' over Baas

Blue Ridge Bank CEO Billy Beale said the consent order with the OCC, made public this week, was based on an exam by the regulator from June...

# Where did some BaaS banks go wrong?

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- **Hire the lifeguards before you fill the pool**
- **You can't outsource responsibility**
- **Governance Matters**

# Embedded Fintech Partnerships

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More than one way to do things

## Embedded Fintech

The integration of Fintech services into a financial institution's digital banking, or application experience.

savvymoney<sup>®</sup>

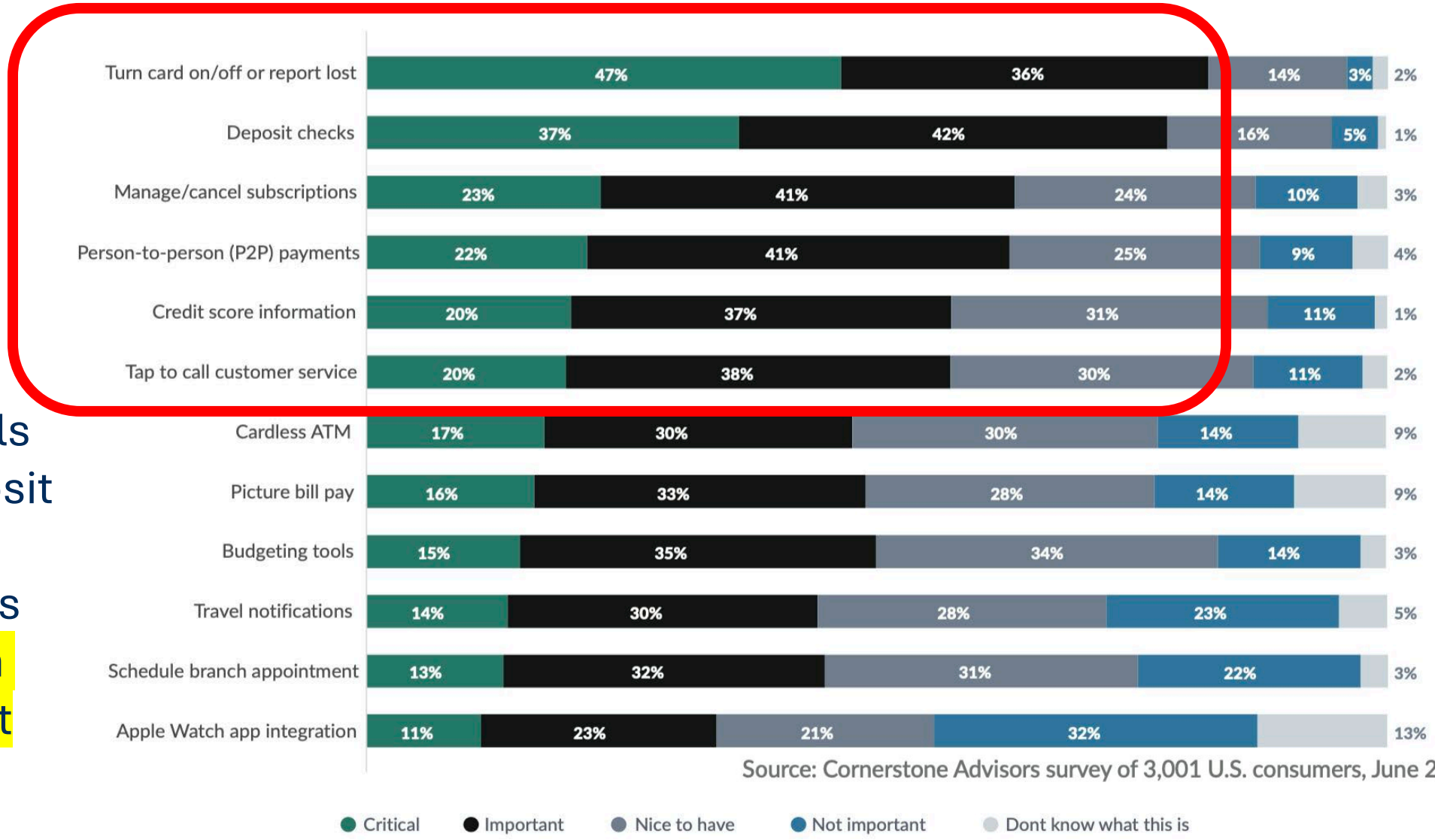
*The*  
POSTAGE

 Carefull

 WISE

Q2 Partner  
Marketplace

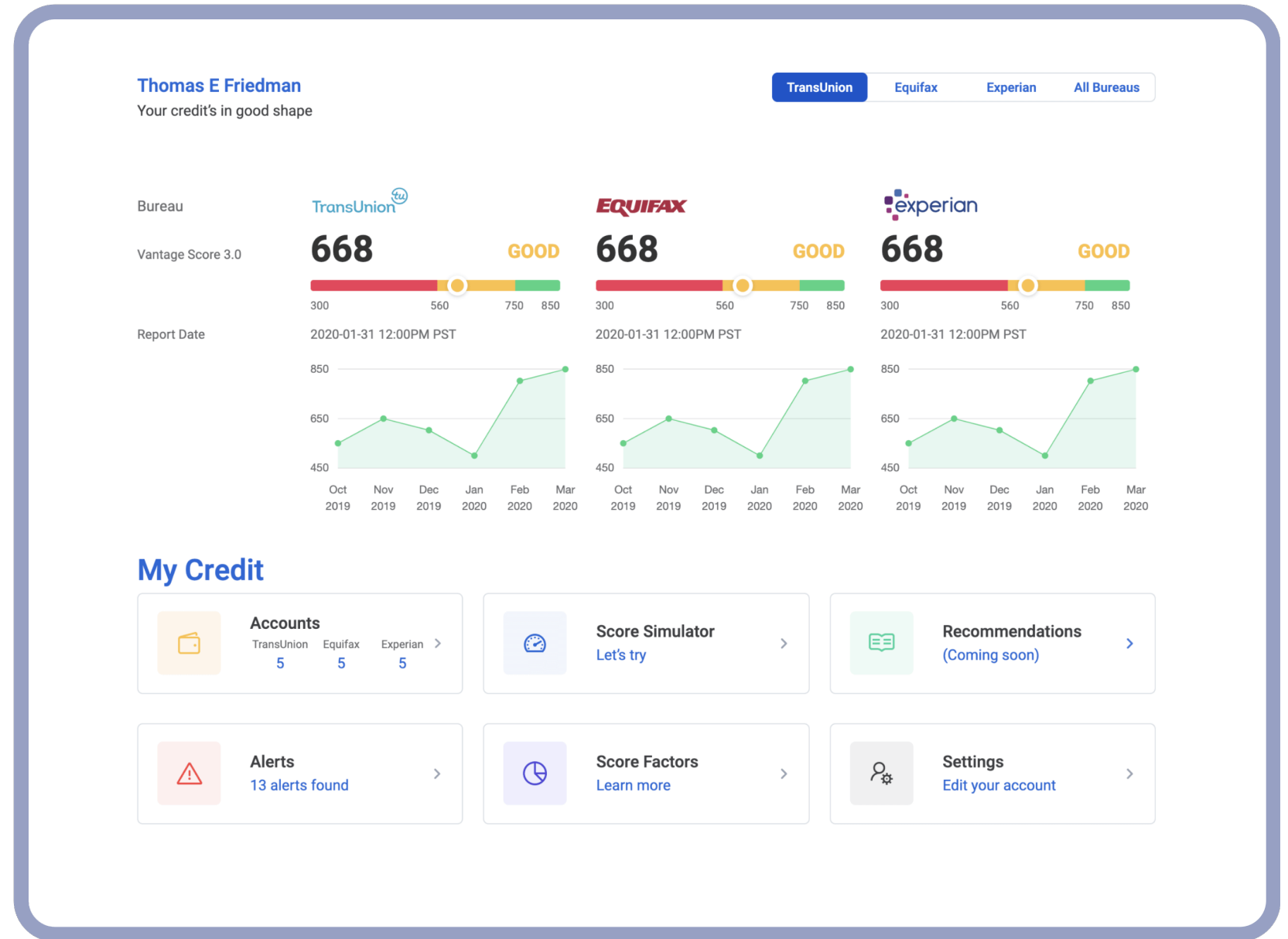
## How important are the following mobile banking capabilities to you?



- Card Controls
- Mobile Deposit
- P2P
- Credit Scores
- Subscription Management

# Embedded Credit Monitoring

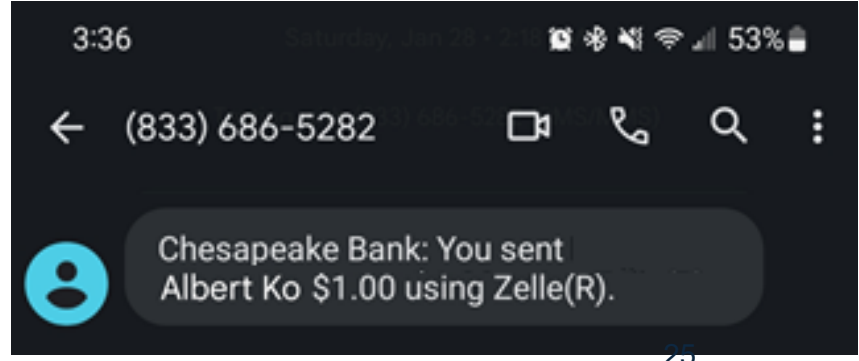
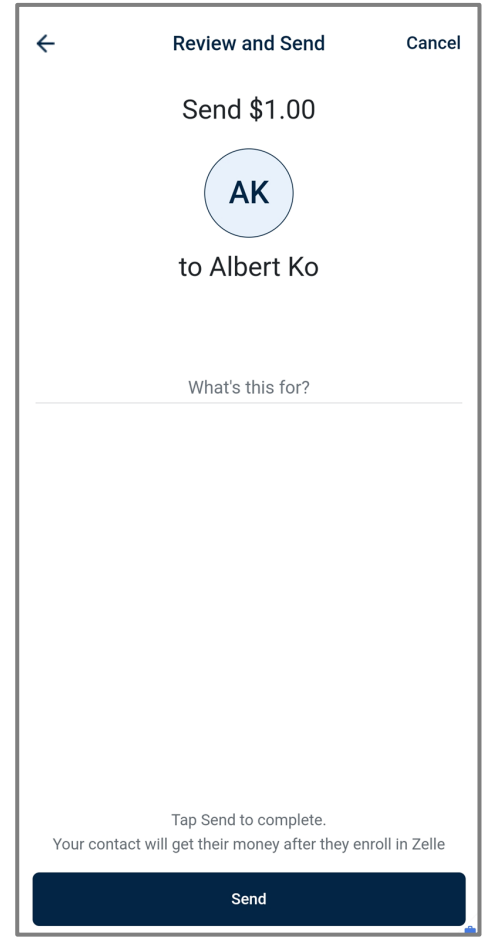
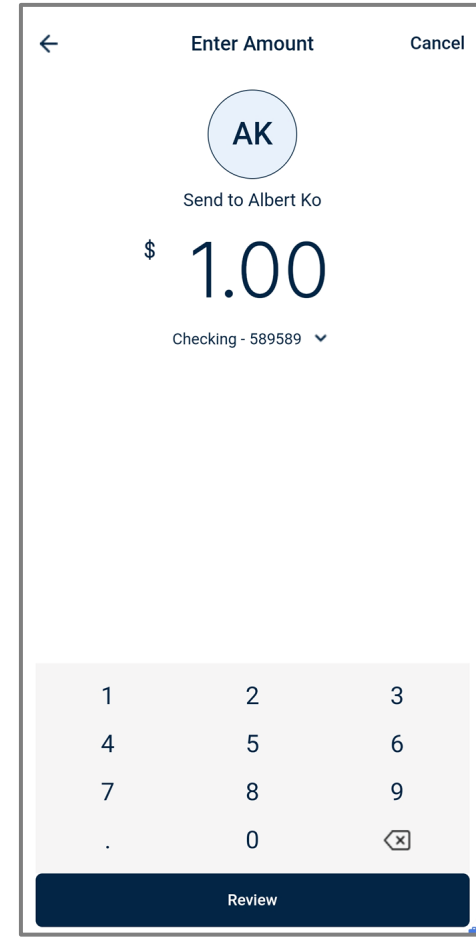
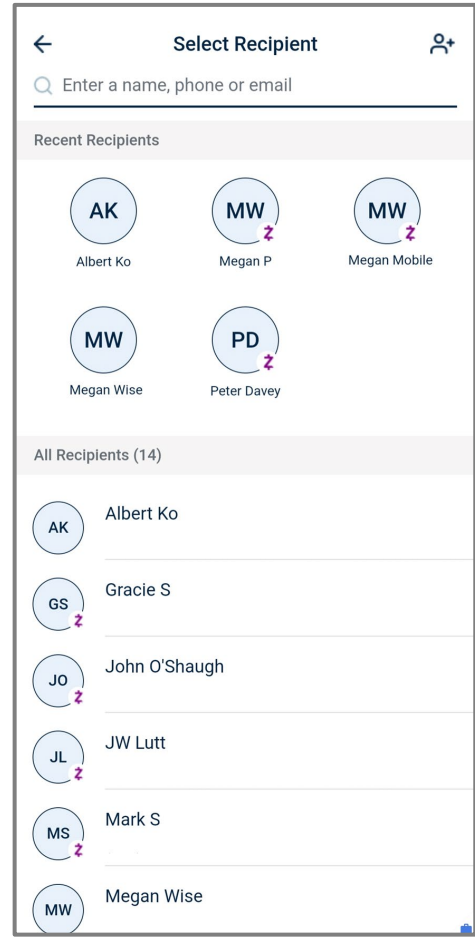
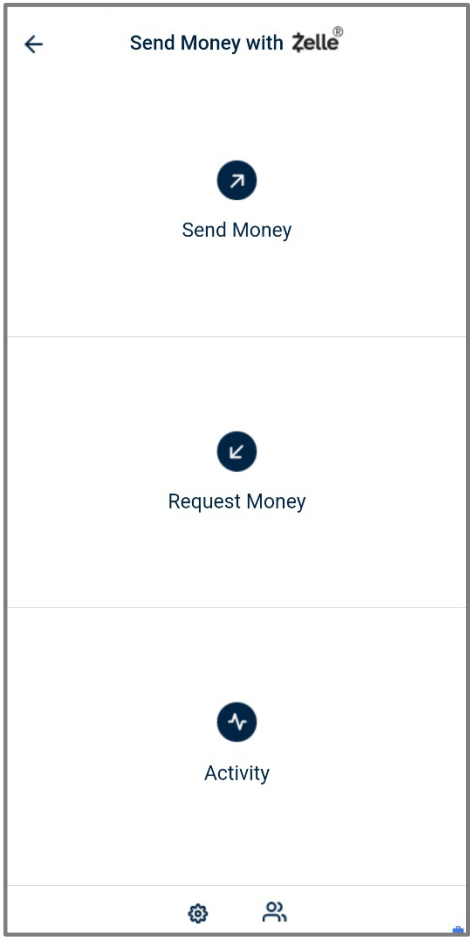
Offers more than a “feature” for the customer. It can be used to identify customer needs.







- Dashboard
- Mobile Deposit
- Payments & Transfers**
- Activity Center
- Transfer Funds
- Pay Chesapeake Peer
- Send Money to Venmo
- Send Money with Zelle®**
- Send a Virtual Gift Card
- Loan Payment
- Pay Bills
- Send a Wire/ACH
- Wire/ACH Recipients



# Instant Payments

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P547 -10




# Legacy Payment Rails

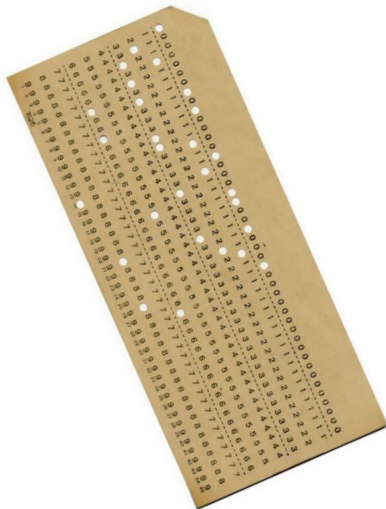


## Checks


- 352 B.C. – Very Old!
- Processed in batches
- Slowest – (1-2 days) 
- Majority of B2B transactions are still checks
- Delayed Settlement

## ACH

- 50 years old
- Processed in batches
- Slow (2 hrs – 2 days) 
- Business hours only
- Large \$\$ Transactions
- Settlement only – Not Auth
- **Same Day ACH**
  - As fast as 2 hours
  - Max \$100,000



## Card Networks

- 50 years old
- Fast Authorization
- Slow Settlement 
- 24/7

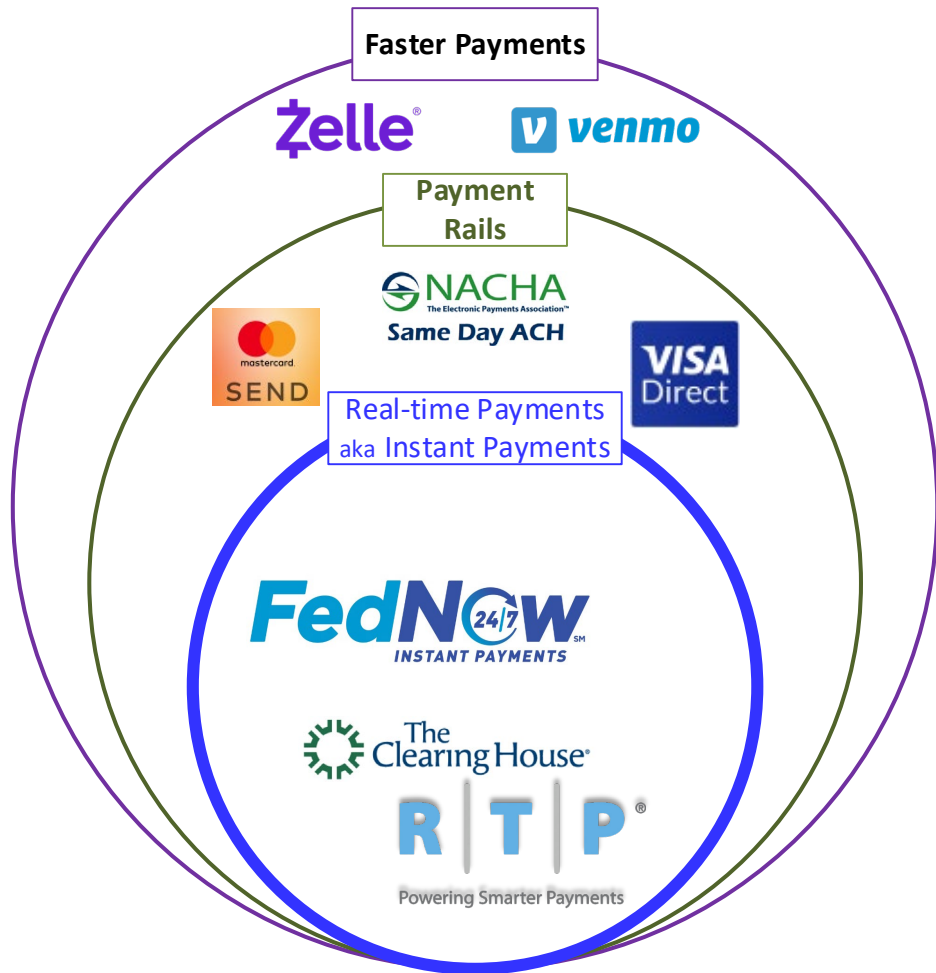


## Wire

- 150 years old
- Processed Individually
- Fast (<1 hour) – Auth & Settlement
- Business hours only
- Largest \$\$\$



# What are Instant/Real-time Payments?



Credits Only  
~~Debits~~



**RTGS**

**Real Time Gross Settlement**  
Instant and Final

Built on New Technology (Not Punch-Card coding)

```

{
  "type": "rtp",
  "amount": 5000,
  "direction": "credit",
  "currency": "USD",
  "originating_account_id": "<Internal Account ID>",
  "receiving_account_id": "<External Account ID>"
}

```

# Status of Real-time Payments in U.S.



- Launched in 2017
- 480+ FIs Live for Receiving
- ~30+ FIs live for Sending
- Leverages a Shared Fed account
- Transaction Limit \$1,000,000

<https://www.theclearinghouse.org/payment-systems/rtp>



- Launched July 2023
- 400+ FIs live for Receiving
- Funds are stored and transferred with the bank's own Fed account
- Optional Liquidity Management System available
- Transaction Limit \$500,000

<https://www.frbervices.org/financial-services/fednow>

## Challenges:

- Applications and Fraud Management tools are still early stage
- Request for Pay – Significant lift required in the industry for ubiquitous support.
- Systems are not interoperable. For full access banks must receive on both networks.

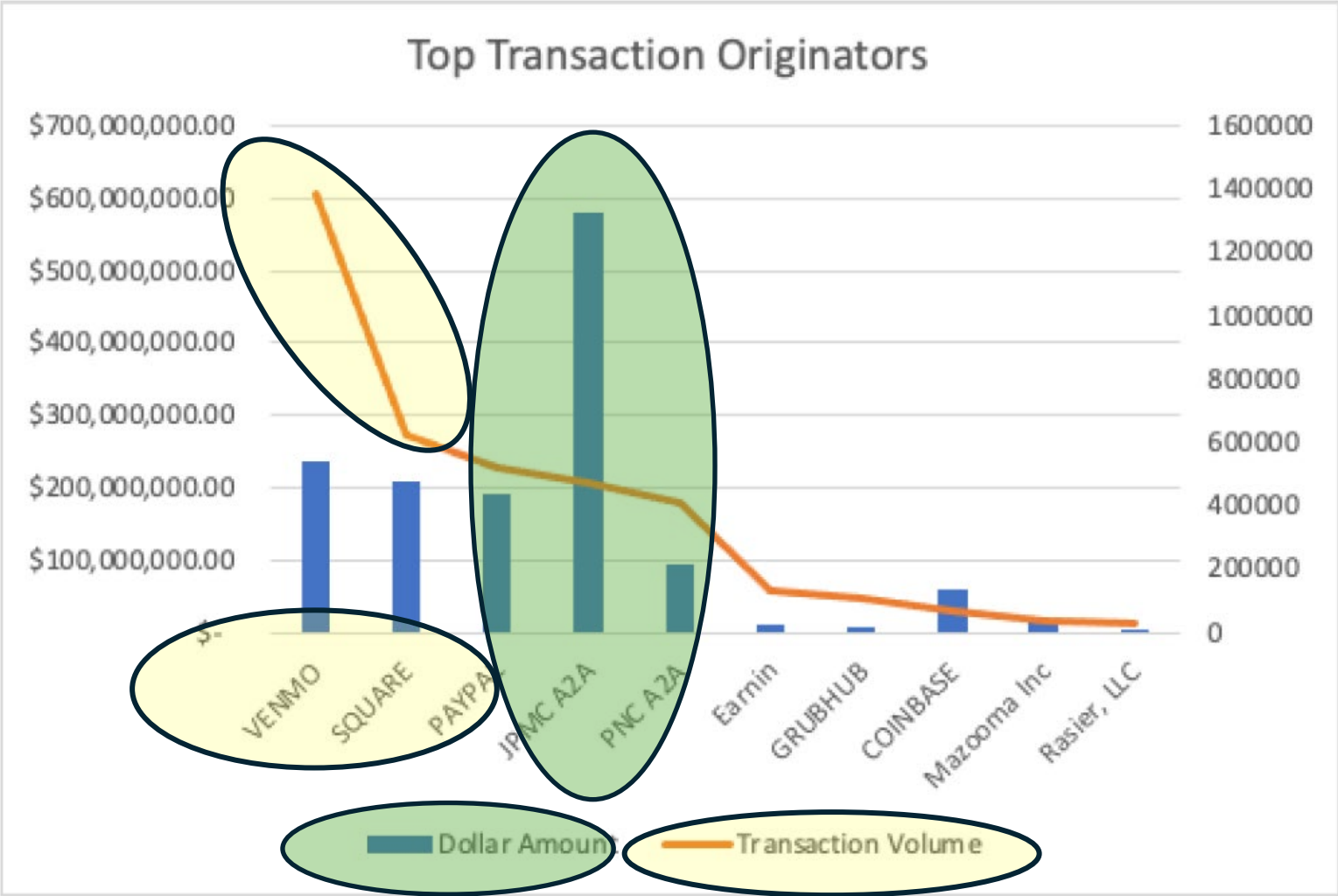
Data as of  
1/30/2024

# Current Market Adoption

## RTP Usage

(statistically representative of the industry)

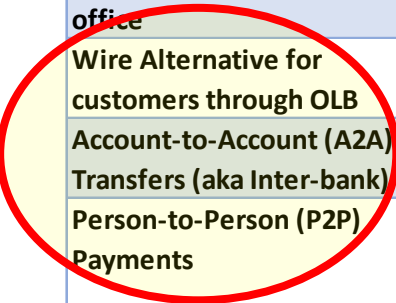
- The Largest Number of Transactions are generated by Square & PayPal cash-outs
- The most dollars moved by RTP are for Account-to-Account Transfer



The chart above is directionally correct, but not comprehensive. It represents transactions processed by one processor for their banks between 2020-2023

# Instant Payments are more than P2P Payments

| Use-Case                                                           |                                                                                                                                                                                                                             |                                                           |
|--------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| Factoring Disbursement                                             | Fund invoices sub                                                                                                                                                                                                           | ... faster than ACH.                                      |
| Merchant Funding                                                   | Enable limited me<br>term lending betw<br>significant fees to                                                                                                                                                               | ... ee.<br>... lity to offer a                            |
| Payfac sub-merchant funding                                        | For Payfac provid<br>funding via ACH b                                                                                                                                                                                      | ... Customer Experience.                                  |
| Business-to-Business (B2B) payments with Request for Payment (RFP) | OLB capability for<br>customers via RFP<br>remittance data.                                                                                                                                                                 | ... iated solution.                                       |
| Wire Alternative for Back office                                   | Bank back-office a<br>otherwise be a wi                                                                                                                                                                                     | ...ovement. May enable later                              |
| Wire Alternative for customers through OLB                         | Online banking ca<br>at another bank in                                                                                                                                                                                     | ...ments outside of business                              |
| Account-to-Account (A2A) Transfers (aka Inter-bank)                | Customer transfe                                                                                                                                                                                                            | ... transaction processing                                |
| Person-to-Person (P2P) Payments                                    | Expand P<br>Current offerings<br>use this as small o                                                                                                                                                                        | ... S<br>... all A2A transfers.                           |
| Bill Payment                                                       | Speeds electronic<br>through bill prese                                                                                                                                                                                     |                                                           |
| Micro-deposits for Account Validation for new accounts             | Speeds up the set<br>take 2+ business o                                                                                                                                                                                     | ... es customer experience.                               |
| Micro-deposits for Account Validation for A2A transfers            | Speeds up the set<br>process can take 2                                                                                                                                                                                     | ... process                                               |
| Factoring Payer incoming payments with Request for Payment (RFP)   | Factoring invoice<br>Payer approves th                                                                                                                                                                                      | ... und future payment<br>... d solution                  |
| Sponsoring third parties into the Realtime network                 | Fintechs are looking for opportunities to enable payments between fintechs and customers.<br>Only Banks can have access to the RTP and FedNow rails. This would be similar in concept to sponsoring Third Party ACH senders | ... Potential new business line with revenue opportunity. |



Maggie



# What's new, or may be around the corner?

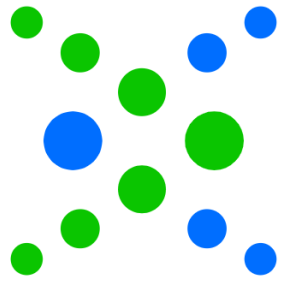
paize



Stable Coins  
e.g. USDC



Pay-by-Bank



Nacha<sup>®</sup>

Credit Push Rules in 2026





Gen AI is coming



“IT’S ALREADY HERE!”

# Connect with Me!

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DJ Seeterlin  
Chief Innovation & Strategy Officer  
Chesapeake Bank



dseeterlin@ches.bank  
(757) 941-1334

Linked 



<https://www.linkedin.com/in/dseeterlin/>