Embracing CRA Technology

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I began my banking career nearly 20 years ago at a local bank as the IRA Administrator. At that time, my IRA Department of one was not on the cutting edge. Over the years, as my career advanced within the bank, so did the bank's technology. First came online banking, and then mobile banking, followed quickly by new advancements each year.

Throughout that time, the Community Reinvestment Act remained an important topic in our growing compliance department. As a group of regulatory analysts, we were continually monitoring, tracking and analyzing our bank's historical performance to pursue an Outstanding examination rating. Every few years, we rushed to compile binders full of information for our examiners. It was the same process on repeat.

A few years ago, I was sitting in a meeting with other bankers and local nonprofit leaders. Thoughts and ideas flowed throughout the room, all about how we could work together to meet our community's needs. I left that room contemplating how the process for relationship building could be better. As the world moved more online, I wondered, why hadn't CRA made the same shift? Why was our process locked in the past?

I began to think about how CRA and technology might work together. Why couldn't we find a way to save time digging through historical reports, spreadsheets and general online searches, and instead develop CRA technology that would proactively support community reinvestment while simultaneously helping our staff make more-informed, quicker decisions? I realized this future was possible, but we would first have to harness three key challenges that have significant impacts on the lives as CRA professionals – the digital shift, data overload and the resource gap.

THE DIGITAL SHIFT

Humanity's growing digital shift is no longer a futurist concept or a hypothetical. Americans have moved nearly all aspects of our lives online. We are living in the world of Star Trek – a technology revolution unseen in the history of the world. Consumers have moved rapidly to digital first interactions, whether in their entertainment, shopping, social connection, dating lives and yes, even banking. A recent KPMG study assessed the U.S. global online shopping market at $1.9 trillion dollars.[1] Netflix streams in over 36 million U.S. homes.[2] Socially, 62 percent of Americans actively use Facebook every month.[3]

Driven by this customer behavior, the nation's banking model and services have also made the digital shift. A recent study by the American Bankers Association looked at the banking needs of millennials, a group that will soon make up 40 percent of the workforce and are the fastest growing customer base for banks.[4] Millennials want to conduct their banking from the palm of their hand, instantly, and wholeheartedly believe that within the next five years, the way we access money will be totally different.[5] Similarly, Baby Boomers, a bank's most loyal and affluent customer base, have also adopted digital banking, with 71 percent using online banking services at least once a week, on par with younger generations.[6]

Nonprofits, some of a bank's key CRA partners, have also adopted technology in pursuit of their mission. A quick online search will identify hundreds of tools that a nonprofit can use in providing its services and a recent study by the Nonprofit Technology Network found that 66 percent of nonprofits surveyed include technology in their strategic plans.[7]

Based on this data alone, it appears that everyone, from consumers to banks to nonprofits, has shifted to online and mobile interactions. Why then are we not seeing CRA relationship building moving in that same direction? This leads me to our second challenge – data overload.

DATA OVERLOAD

When I sat down to research interesting facts for this article, I quickly became overloaded with the sheer amount of information available. Every click of the mouse found another study with another notable fact. We each experience this data overload daily.

The most immediate inundation of data that bankers deal with every day is the ever-growing number of new and changing regulations. A recent think tank study analyzed the number of global financial regulations and estimated that over 300 million pages of regulatory documents will be published by 2020.[8] Looking solely at the regulatory guidance for the CRA and the regulation, examiner guidance, Q&As, examination procedures and more add up to

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[1] KPMG, "The Truth About Online Consumers: 2017 Global Online Consume Report," January 2017, available at https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/01/the-truth-about-online-consumers.pdf

[2] Mike Rich, "OTT Breaks Out of Its Netflix Shell," comScore.com, April 10, 2017, available at http://www.comscore.com/Insights/Blog/OTT-Breaks-Out-of-Its-Netflix-Shell

[3] Statista, "Facebook usage penetration in the United States from 2015 to 2022," The Statistics Portal, 2017, available at https://www.statista.com/statistics/183460/share-of-the-us-population-using-facebook/

[4] American Bankers Association, "Millennials and Banking," available at https://www.aba.com/Tools/Infographics/Pages/Infographic-MillennialsBanking.aspx

[5] Ibid.

[6] American Bankers Association, "Banking the Boomers," available at https://www.aba.com/Tools/Infographics/Pages/Infographic-BankingtheBoomers.aspx

[7] Sara Thompson, "Allocating Your Nonprofit's Tech Budget," TechImpact, May 8, 2016, available at http://blog.techimpact.org/allocating-your-nonprofits-tech-budget

[8] Tom Groenfeldt, "Financial Regulations Will Surpass 300 Million Pages by 2020 Says JWG," Fintech – News and Analysis, April 20, 2016, available at https://techandfinance.com/2016/04/20/financial-regulations-will-surpass-300-million-pages-by-2020-says-jwg/

over 800 pages of key documents to review, understand and use in a bank's community reinvestment program. That's just to ensure that a CRA program is operating in alignment with best practices and regulatory expectations.

Think about applying that CRA knowledge into practical relationship building in bank markets, and the challenge only increases. As any CRA Officer will tell you, building strong relationships with nonprofit organizations that drive community development is a key component of addressing a community's needs. So, CRA Officers spend time developing these important relationships – whether through meetings, luncheons, emails or phone calls.

But what does it mean to build relationships with nonprofits in each and every one of the cities and towns where a bank has a branch? In the United States, there are nearly 1.7 million nonprofits registered with the IRS.[9] This figure excludes many of the government agencies that also support community development. There are also a plethora of online resources that can help a banker identify key data points about nonprofits, many of which use similar data sets in varying ways; but more tools, if not designed or used in the right way, only exacerbate data overload.

To make this a little more tangible, in Nashville, an average Midwest city, there are more than 3,300 registered nonprofits.[10] If a banker spent just five minutes researching each one of these nonprofits online to determine if they were the right CRA partner, it would take him or her nearly seven weeks of full-time work. Which leads me to our last challenge – the resource gap.

THE RESOURCE GAP

In most banks, as in most companies, employees are often asked to work more with less. As a bank's footprint grows and expands with new products, digital offerings and, in some cases, new markets, the same staff members are tasked with stretching their skills and resources to take on these additional developments.
The number of banks in the nation has fallen in the last 10 years, from over 7,000 in 2007 to just fewer than 5,000 today.[11] With this contraction of the players in the market, first through bank failures and now through mergers and acquisitions, bank staff are called on to identify and build new CRA partnerships in markets that are, at best, geographically distant, and in most cases, completely unfamiliar.

So, the solution to the problem of limited resources is finding a way to work smarter in the time we have, which has presented itself in many forms, most underpinned by one commonality – technology.

THE RISE OF REGTECH

Rob Nichols, the current ABA President and CEO, recently said that, "the rapid convergence of banking and technology is a critical issue for the future of the banking industry."[12] This banking and technology convergence has

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[9] Internal Revenue Service, "Exempt Organizations Business Master File Extract," October 9, 2017, available at https://www.irs.gov/charities-non-profits/exempt-organizations-business-master-file-extract-eo-bmf

[10] Ibid.

[11] Federal Reserve Bank of St. Louis, "Commercial Banks in the U.S.," FRED Economic Data, available at https://fred.stlouisfed.org/series/USNUM

[12] Rob Nichols, "ABA Fintech > A Commitment to Innovation," ABA Banking Journal, September/October 2017

driven the rise of FinTech, and more recently, RegTech. FinTech has changed the way in which consumers access and engage with money. It is meeting consumers where they demand to be met, online and instantly, with new ways to manage and monitor their finances. FinTech is the topic on everyone's minds, analyzed by experts and featured on magazine covers throughout the world.

However, FinTech may be starting to mature. In a recent publication, KPMG provided important analysis regarding U.S. investment trends in FinTech, which once seemed to be on a meteoric rise, growing from $9.1 billion in 2013 to $37.3 billion in 2015. In contrast, as of the first quarter of 2017, only $1.5 billion had been invested into FinTech companies domestically.[13]

If FinTech investment seems to be slowing down, what is the next natural growth in banking technology? Most signs point to RegTech, which is "...the application of technology to help ease banks' regulatory compliance burden."[14] There's no lack of regulatory compliance burden. A recent article from the American Banker estimated that governance, risk and compliance costs reach somewhere between 15 and 20 percent of total "run the bank" costs for most major banks.[15]

RegTech has the potential to shift regulatory compliance in a similar way that FinTech has shifted consumer banking behavior. RegTech is re-thinking and innovating on many of these more straightforward bank data reporting requirements by applying big data and machine learning to empower efficiency in regulatory compliance. However, this type of regulatory compliance is more objective and standardized, which makes it easier to automate. How then can RegTech support the more subjective, relationship-focused world of CRA?

REGTECH AND CRA

From early on, community reinvestment has relied on relationship building – relationships with consumers, borrowers, nonprofits, developers and more. It's about knowing a community, assessing that community's needs and applying targeted support, whether through lending, investment or services, to meet those needs. Since communities are made up of people, this naturally and rightfully is an organic process. The needs that a community had yesterday may be very different next month or next year. A bank's community reinvestment program must adapt to support and empower those needs.

CRA practitioners are keen experts in identifying their community's needs while also maintaining practical approaches that support a bank's overall goals. They have honed soft skills that allow them to empathize with community partners, analyze potential opportunities and apply complex regulatory requirements in their efforts to ensure a bank's CRA success. In many cases, they are the face of a bank to the people with the most need in a community.

This presents a unique dichotomy – organic, personal community connection versus arms-length, analytical technology. These two choices seem incongruous, at best. One could argue that deploying RegTech to identify and meet CRA requirements will come at the cost of the tangible relationship building that supports the spirit of community reinvestment. I believe the opposite. I am convinced that the power of technology can not only be

[13] KPMG, "The Pulse of Fintech Q1 2017: Global Analysis of Investment in Fintech," April 27, 2017, available at https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/04/pulse-of-fintech-q1.pdf

[14] Rob Morgan, "The Top Fintech Trends Driving the Next Decade," ABA Banking Journal, September/October 2017, available at https://bankingjournal.aba.com/2017/09/the-top-fintech-trends-driving-the-next-decade/

harnessed, but embraced, to streamline the more analytical parts of CRA and in turn, provide more time and resources to affect greater social impact and measurable change.

There are already solutions available that can support and simplify the research and reinvestment process for banks. These solutions are designed with the needs of CRA professionals in mind, helping to prevent data overload. These new innovators are deploying unique approaches at the intersection of technology and community reinvestment and loosely fall into two groups – the research assistants and the opportunity identifiers.

The research assistants have created online tools that help bankers analyze different parts of the community building process, whether by building performance context, conducting due diligence on nonprofit relationships or measuring their bank's CRA activity. The opportunity identifiers take it a step further. They are organizations that not only help banks build knowledge, but identify and promote specific opportunities for banks to support directly. They simplify community reinvestment by cataloguing lending opportunities, qualifying new investments or promoting specific ways to give back.

Together these innovators are deploying technology as the next step in the evolution of CRA relationship building. It's an area where findCRA is heavily invested as we work to identify every CRA-aligned nonprofit in the United States. We want to make it easy for banks to conduct detailed research and build relationships with those nonprofits in any community through our online platform.

For 40 years, CRA professionals have used their skills to build strong community relationships while simultaneously dealing with the challenges of expanding responsibilities, more community needs and fewer resources. They have made differences in the lives of people and have helped their banks succeed, both in CRA exams and as good corporate citizens. Unfortunately, much of their time is spent analyzing history.

By developing and implementing technology that is designed to support CRA relationship building and research, we can push CRA forward and spend less time researching and more time reinvesting. Purposeful CRA RegTech can empower bankers to make proactive, informed decisions about the relationships they want to build which, in turn, will make a measurable, impactful difference in the communities they serve. I challenge every CRA practitioner to rethink his or her approach to CRA by moving beyond analyzing a bank's history to embracing CRA technology to create its future.

ABOUT THE AUTHOR

BRIAN WATERS brings over 15 years of experience in regional banking compliance to his role as President and Co-Founder of findCRA, where he focuses on operations and sales as well as driving processes and marketing outreach. During his time in banking, he oversaw regulatory requirements in the area of fair lending, HMDA, CRA, lending, deposit and BSA/AML for a multi-billion dollar regional bank with product offerings in all 50 states. He is a Certified Regulatory Compliance Manager (CRCM), Certified Anti-Money Laundering Professional (AML) and Certified Controls Specialist (CCS). Brian is a graduate of the ABA's National Compliance School and holds Bachelor's of Arts degrees in Business Administration and English from Bellarmine University in Louisville, Kentucky, his hometown.

ABOUT THE BOOK

This article first appeared in **CRA at 40: Views on the Present and Future of Community Reinvestment**, published by findCRA in November 2017. The book was created in celebration of the 40th anniversary of the Community Reinvestment Act. It tells the stories of community development, from the perspective of those working in our communities who bring their knowledge and passion to bear every day in confronting the most critical problems facing communities in need. The book is about real-world experiences told in plain language by those who live them to provide a lens for readers to see CRA at work, ideas for its future and most importantly, what it means in people's lives. To access the full text or order copies of the book, please visit www.findCRA.com/CRAat40.