



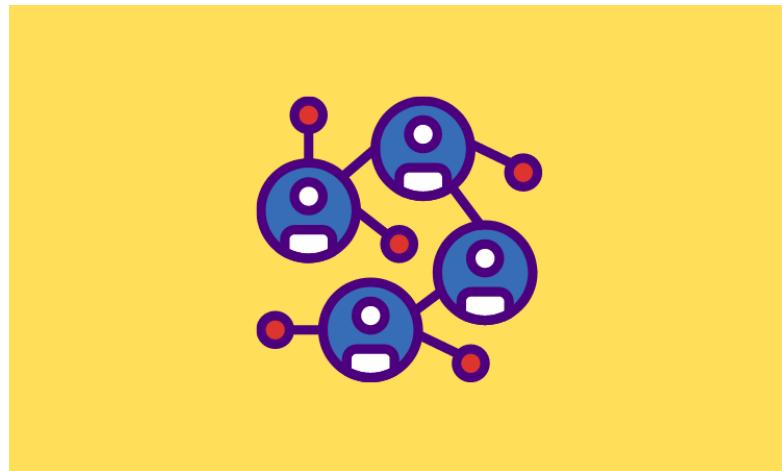
MEMBER EXCLUSIVE, NEW BANKS

Midwest BankCentre shows how community banks can compete with new players

Midwest BankCentre launched Rising Bank to grow its deposits by \$200 million in two years.

Embedded finance is expected to generate about \$230 billion in revenue over the next five years.

SHEHZIL ZAHID | JULY 21, 2021



When Midwest BankCentre began to lose foot traffic in its local branches a few years ago, executives knew the community bank needed to develop a new strategy to compete in a world where big-name brands are taking a bigger slice of the financial services pie.

Community banks play a significant role in the communities they serve but big brands with vast distribution channels have entered the space, posing a new threat that community banks may not be equipped to deal with. To combat this latest challenge, community banks like Midwest BankCentre are producing strategic digital solutions that help them retain and grow customers.

Community banks are vital to their communities. For one, they have an inherently better understanding of their customers and communities.

“When you work with a community banker, you are working with a neighbor, friend or the person sitting next to you at your place of worship,” says Orvin T. Kimbrough, chairman and CEO of Midwest BankCentre. “There is a genuine sense of trust and mutual respect.”

Kimbrough adds that when customers bank with community banks, their dollars stay in the community and create a ripple effect. Each loan that starts or scales a business also creates jobs and generates tax revenues, which in turn support local schools and public services. Kimbrough says that for every \$100 deposited at Midwest, \$95 stays in the region, with each dollar circulating in the area six times on average.

Moreover, community banks are able to serve consumers who have traditionally been denied access to mainstream financial services. While community banks account for only 16% of all bank loans, they finance 43% of all business loans and 40% of all agricultural loans. Kimbrough says that they also account for 60% of small business loans.

“We are often able to be more creative to help customers obtain a loan for a home or business,” says Kimbrough. “Put simply, it is difficult to have that type of relationship, flexibility, or vested interest at a big national bank.”

While community banks have reigned supreme in giving the little guy a leg up, the advent of banking-as-a-service and API-driven banking and payments services has allowed non-traditional players to enter the financial services industry. Community banks are now competing directly with cash-flush companies like Amazon, PayPal, Apple and more, all of whom have been able to enter the space with the aforementioned technologies. Each has expanded into a range of financial services that extends to payments, insurance, lending and checking. Most recently, news broke that Apple was going to offer its own point-of-sale financing solution Apple Pay Later with Apple Pay.

But it's not just technology companies and fintechs that are cashing in. Telecom companies like Verizon and multinational retailers like Walmart have also developed their own financial solutions and services. Verizon launched Family Money, a financial literacy app for kids, last month. Walmart has long offered a slew of financial products such as MoneyCard, a debit card with services that could easily substitute a bank account. Walmart also provides its customers with offerings like money orders, check cashing, wire transfers, and bill payment.

Kimbrough says that to continue to remain relevant, community banks must double down on their community relationships while developing new, technology-driven solutions. That's exactly what Midwest did when the bank began to see fewer customers in local branches. To address the issue and identify new ways to grow core deposits, Midwest teamed up with fintech MANTL in mid-2018 to launch a new digital bank, Rising Bank, in February 2019.

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The decision to launch a new bank brand, separate from the existing business, was rooted in the need to test different strategies and derive a winning formula at Rising, which could then potentially be applied to Midwest.

The gamble paid off.

At launch, Rising Bank offered customers digital checking and savings accounts that were FDIC-insured up to \$250,000 per individual account and up to \$500,000 per joint account. Within 10 weeks, Rising Bank raised \$75 million in deposits — 75% of their initial deposit goal. Rising ultimately met its target goal of \$100 million in deposits over the course of one year in just five months. In two years, Midwest BankCentre grew its deposits to \$200 million.

Midwest may have won the battle but the war's not over yet. MANTL cofounder Nathaniel Harley says that over the next five years, embedded finance is expected to generate about \$230 billion in revenue. That means more non-financial companies will take up more space in the financial sector, potentially squeezing out community banks if they're not able to grow their assets.

As Harley sees it, Rising Bank may be digital, but it operates a lot like a community bank still. Its size still allows it to take a more nuanced approach to its customers and the services it offers. Customers can contact the bank via secure message but they can also reach out and speak to someone on the other end of a call if the issue is more urgent.

He also believes that because of their close relationships in the community, community banks are inherently better positioned to thrive in this new environment — if they make use of the technological opportunities now available.

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While community banks look for faster ways to tech up their services, companies like Jack Henry are finding ways to secure their spots as solid solutions.

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