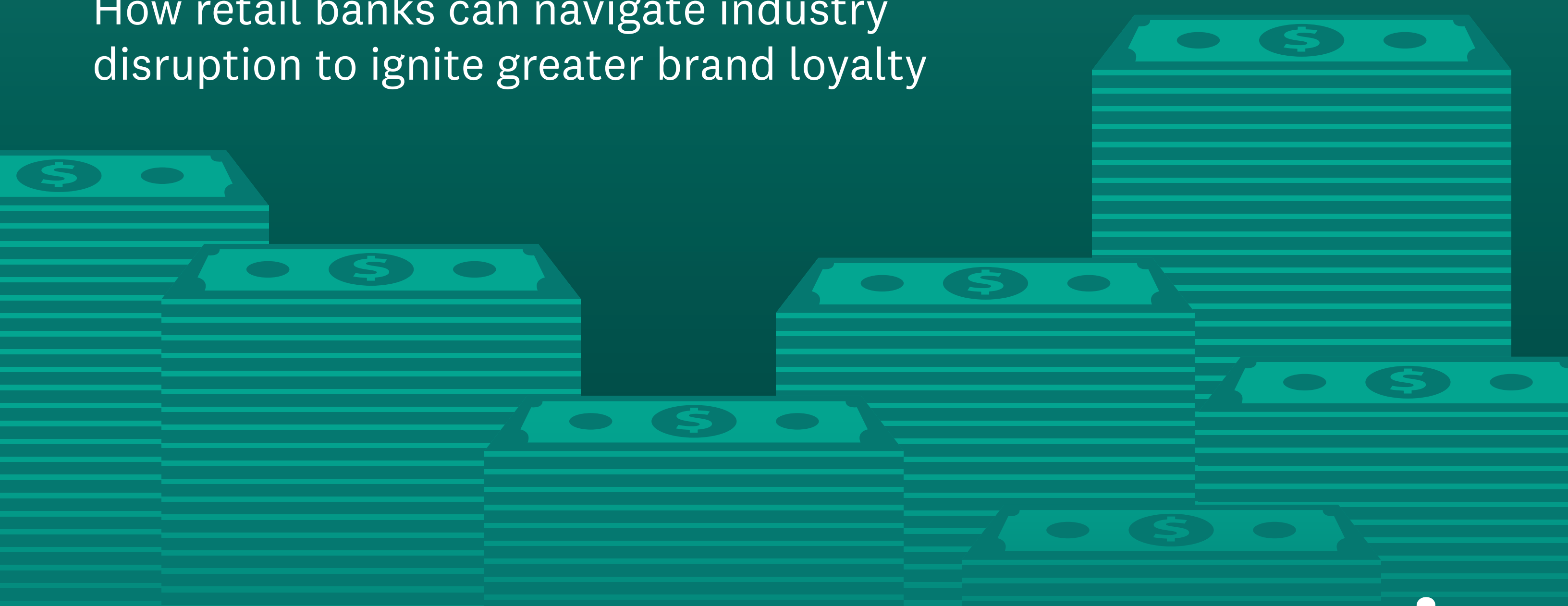
REPORT

Acoustic & Financial Services

MARKETING • INSIGHTS

Achieving Deposit Growth Goals

How retail banks can navigate industry disruption to ignite greater brand loyalty



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Overview

Retail banking is undergoing significant evolution that is shifting how financial services companies go to market, attract customers, and drive revenue.

Challenger bank Chime, an online-only operation, exemplifies this evolution. Chime utilizes its advantage of speed in account sign-ups to unlock new value in banking. As Chime states on its website: “Applying for an account is free and takes less than 2 minutes.” Chime is creating a powerful alternative to traditional options as the *wait alone* in a physical bank lobby to start the account-opening process can certainly last longer than two minutes.

Chime’s growth is an example of how time can serve as a key differentiator. Chime recently announced a Series F that placed its September 2020 valuation at $14.5 billion. Chime has experienced huge growth in account subscriptions in 2.5 years—from 1 million in May 2018, to 3 million in March 2019 (when the company was valued at $1.5 billion), to 8 million in February 2020. Chime’s September 2020 valuation is more than 5x greater than the weighted average market cap of $2.757 billion in Invesco’s KBW Regional Banking ETF as of September 30, 2020.

The example of Chime shows how fintech disruptors can quickly challenge traditional banking valuations and deposit growth. Financial services brands must either embrace the key shifts of how disruptors are impacting rising expectations in deposit value or be left in the dust by the competition as consumers seek out those with better, more convenient offerings.

#1 Simplifying bank account sign-up processes

Delivering easy, fully digital bank account openings is critical to achieving deposit growth targets. Consumers want fast sign-ups, account access, and customer support. And banks must meet these expectations while concurrently managing risk and compliance. Speed, automation, and mobile innovations are setting new benchmarks in account openings, and when comparative offerings are similar enough, whichever company is fastest prevails. To the winner goes the deposits.

Speed in sign-up experiences

No matter what impressive service offerings banks may offer to customers, these offerings can all be for naught if a customer is overwhelmed in the sign-up process. Complex forms will be perceived as a daunting task and many will opt to defer to another time (or never). Making sign-up a complicated, lengthy endeavor will not only annoy your customers, but it’ll keep them from converting.

The Financial Brand’s Digital Banking Report analysis of August 2020 found that 71% of online checking account openings can be opened in under ten minutes and 28% of mobile accounts can be opened in under five minutes. Abandonment rates can spike to as much as 40% if an online/mobile process exceeds these respective time benchmarks.

Peter Ramsey, former fintech executive and now a UX industry consultant, provides an extensive analysis on how challenger banks are outpacing traditional institutions in account sign-ups. In May 2020, Peter documented the opening process of 12 U.K. banks – nine traditional, three challenger – and found a 5x difference between the bank with the least clicks (Revolut at 24) and the most (First Direct at 120). All three challenger banks required less clicks than the nine traditional companies and there was a 1.5x delta between the most clicks of a challenger and least of a traditional.

Does your bank offer a best-in-class, rapid account sign-up?

- What data is essential to obtain from a sign-up process and what data requests could be moved to post-approval onboarding?
- What is the procedure within your bank for confirming revisions of data requirements in sign-up processes?
- Can you expedite internal evaluations--concurrently innovating while maintaining compliance?
- How long does it take to analyze user experience and ameliorate friction points when testing out revised sign-up processes?

Automation to accelerate back-office verifications

Companies setting the standards in financial services often rely heavily on in-house development and strategic partners to deliver the automation necessary for simplicity in account openings. Creating a tech ecosystem that improves UX while also speeding up workflows and strengthening compliance procedures is crucial to deposit growth.

Identity verification, as one example, should involve cross-referencing customer-provided information to available public government data, such as name, address, phone number, and email addresses. Monzo in the U.K. will ask for an address – rather than a list of prior addresses – to find the prospective customer and follow-up if a match isn't found. Identity verification can also be automated as part of Anti-Money Laundering (AML) processes.

Document verification can check and evaluate ID document types such as a driver's license during the onboarding process. This is in tandem with fraud prevention procedures, such as a side-by-side "selfie" of the applicant with ID, or through making a quick video with the ID to show that it's a live person. Requirements can vary based on state and national regulations.

The Reserve Bank of India permits the use of Video Know Your Customer (KYC) in account openings, a groundbreaking example of a national market advocating for innovation in the back-office. This came shortly before the pandemic and the offering became a key differentiator for Kotak, the bank that first launched the protocol.

Automation cost/benefits minimize staff requirements to manually review documents – higher automation accuracy can help optimize audit procedures – and reduce the risk of incurring AML or KYC compliance penalties.

To benchmark your automation metrics, consider:

- What are some manual verification processes at your bank that could be automated based on local legislation and the expanding network of technology partners?
- How can the marketing department partner with compliance and fraud teams to pursue automating ID verification initiatives?
- What's your visibility into the customer journey when transitioning between technology partners in the sign-up experience?
- How fast can your bank interpret insights from customer journeys in first and third-party interactions to optimize sign-up processes?

Mobile-first from Day 1

Mobile banking has been around for quite some time now but remains a critical differentiator in the banking experience today. Just about every service is expected to be possible. For Bank of America, the amount of mobile-only users has been increasing 15% year-over-year. And with 46% of banks currently offering fully mobile sign-up processes – up from 35% in 2019 – user expectations continue to rise that all steps of the customer journey, including the sign-up process, will begin and remain on mobile.

There are even some banks that offer the mobile app as the only sign-up method for account creation. Inquiring to apply for an account with challenger banks Current and Revolut on a website will direct the user to put in a mobile number and then that user will receive a live link via text to download an app.

To benchmark your mobile health, consider:

- How easy or challenging is the account sign-up process by mobile web or app?
- How do abandon rates compare by mobile vs. desktop vs. tablet?
- Does your bank offer new-account sign-up by mobile app? To what extent should this be a near-term priority?
- How much can your bank improve its efficiency ratio by providing a fully digital, fully mobile experience from Day 1 of a customer relationship?

While speed, automation, and mobile have been differentiators in the financial services industry, product differentiator is still a crucial factor in banking. Disruptors are finding clever ways to add value to savings and provide more comparative differentiation.

#2 Strengthening the financial health of deposit holders

One of the evolutions that has caused shifts in deposit growth is the very nature of how brands do business. Revenue was once propelled by fees — monthly maintenance fees on checking accounts, minimum balance fees, foreign transaction fees, interest on cash advances, overdraft fees, ATM fees, etc.

The intense competition for deposits, coupled with historic lows in interest rates, has caused shifts in the model such that banks need to offer a wide range of value-added services at either no or very low cost that align with improving financial health of customers. Racking up deposits can mean more in revenue from higher transaction volume and more loans issued than the fees customers have learned to despise.

The shift to no-fee banking services

Today, customer acquisition means more than more fees collected. In fact, fees will actively keep your customers at bay, and likely push them off to a competitor. There are more and more options for customers looking for no-fee options — 72% of online checking accounts are offered with no monthly fee as of August 2020.

Chime offers a multitude of no-fee services to attract customers. Chime accounts have no minimum balance, no overdraft fees, and no monthly service fees, among other attractive features. Chime earns revenue each time a customer uses the Chime debit card, so providing these no-fee offerings is crucial to Chime's business model of transaction volume.

Enabling smarter savings

Algorithmic savings, automatically calculating a customer's "safe savings amount," and moving small amounts of money into a savings account, is another approach to added-value without added fees. Dobot, a fintech brand acquired by established bank Fifth Third, has been progressively integrating its insights into the bank's financial guidance offerings while also helping acquire new Fifth Third grow deposits by maintaining Dobot as a separate mobile banking app.

Independent fintech startups are also raising the bar on smarter savings expectations with low cost membership models. Acorns allocates the round-up difference of a purchase into investment accounts, with cash-back bonuses to increase investment allocation by shopping with key retail partners. Digit analyzes banking activity and utilizes its algorithms to automatically allocate savings to various goals, with overdraft prevention and overdraft reimbursement if the platform accidentally overdraws.

You have to ask your brand a number of questions if you hope to remain competitive and not lose customers to these no-fee and smarter savings competitors:

- What new features are available in the market for which your brand meets or exceeds these benchmarks?
- Does your bank provide any of these added-value services that seem to be underutilized and could benefit from additional promotion?
- To what extent—based on your customers' expectations—could it be of interest to build, partner, or even buy smarter savings offerings?

Even with no-fee and value-added offerings, there's still one more major evolution changing brands and how they do business. Synergies between software and banking are creating interesting combinations to provide a sum greater than the parts for small and medium businesses (SMBs).

#3 Unlocking greater cash flow for SMB clients

Tech and commerce providers are making clever financial alliances to enable SMBs with access to easier, smarter, and faster financial management accelerating deposit growth. Financial firms that fall short of these new industry benchmarks will find challenges in their growth, especially with SMB customers.

SMBs need assistance and access to better accounting, better banking, and better loan access. Top software brands such as Intuit and Shopify have filled major gaps in the industry with strategic partnerships to enable their SMB customers.

Faster SMB cash access and insights with Intuit QuickBooks Cash

Intuit announced the launch of a new business bank account, QuickBooks Cash. Intuit partnered with Green Dot Bank to provide its millions of QuickBooks Online customers with the capability to open and manage an FDIC-insured bank account fully within the software. The new product hosts a number of crucial benefits focused on SMBs, including:

Instant invoice deposit: The Green Dot partnership enables Intuit QuickBooks Cash customers – upon passing a security check – to receive payments instantly when invoices are paid through QuickBooks Payments. SMBs typically need to wait 3-4 business days for payments to process into a bank account and an additional 2-3 days for funds to be accessible. Now, it's instant—and it's 24/7 instant. Whether the invoice is paid outside business hours or during the weekend, funds become accessible the moment the payment is made.

Virtual envelopes: QuickBooks Cash allows SMB owners to set up virtual envelopes to partition earmarked money while depositing it into the account and QuickBooks system. They allow for more safeguarding for emergency funds while also allowing easy access when needed.

AI-powered cash flow analysis: QuickBooks has extensive AI capabilities, for which the addition of the deposit account will allow Intuit to offer a more sophisticated analysis of each company's financial condition. This will include automated advice based on data that is both external and internal to the company. Cash Flow Planner, in tandem with QuickBooks Cash, can evaluate potential cash flow for the next three months and provide proactive alerts and recommendations if potential liquidity challenges are on the horizon.

Questions for banks to consider include:

- What are your company's current capabilities in delivering smarter SMB financial insights?
- How do your offerings compare to QuickBooks Cash capabilities?
- Are any build, buy, or partnerships under evaluation that should be accelerated based on the QuickBooks Cash launch?

Optimized cash inflows and outflows with Shopify Balance

Shopify, in partnership with Affirm and an undisclosed banking partner, launched Shopify Balance, a means for merchants on Shopify to bank directly on their platform. Merchants can track cash flow, pay bills, and more with Shopify's convenient and competitive offering.

Dedicated business account: About 40% of all Shopify merchants use their own personal checking account and credit cards for business transactions. This platform allows merchants to draw the line between their personal and professional lives, creating more easily accessible business tracking for expenses and sales growth.

Rewards program: Shopify is planning to offer a cashback rewards program to Shopify Balance customers. Balance customers receive discounts on business-related purchases such as shipping and marketing to entice platform users. This could be an excellent cost-saving measure for ecommerce shops.

Flexible financing: Buy Now, Pay Later (BNPL), powered by Affirm, is one of the differentiators of the product. Merchants can utilize the built-in partnership with Affirm to broaden payment options instead of having to directly contract with a BNPL provider. Customers on Shopify merchants can divide up payments into four equal bi-weekly, interest-free payments. The full value of the purchase, excluding Affirm fees, is provided to the merchant and Affirm manages payment collection.

Questions for banks to consider:

- What added value options and/or incentives are in place for someone to manage an SMB account with your company?
- To what extent does your company utilize an SMB rewards program as a benefit?
- What's your firm's current outlook and role in the BNPL market?

It's critical that financial services brands take note of these partnerships. Financial services no longer includes only banks, investors, lenders, and other traditional players. Tech companies are entering into financial services; commerce players are cutting out the middleman; and traditional players are expanding their offerings with help from fellow financial brands. How can your bank consider the above questions to ensure that you're doing everything in your power to offer the best products and services?

Evolve your brand with Acoustic

Not only are banks changing, many of them are changing with evolved tech stacks. Business models are shifting because brands are finding new technologies to uncover revenue opportunities in lieu of traditional methods. Speed, automation, and mobile innovation takes place because brands invest in a holistic tech stack. From marketing to sales, legal to IT, brands are becoming faster, more automated, and focused on efficiency. Partnerships are born through the marriage of tech and finance.

Banks must invest in the technologies that enable them to keep up with increasing customer demands and higher standards.

At **Acoustic**, we can help you keep pace with rapid change.

Schedule a demo with one of our consultants today to see how Acoustic can evolve your business.