

Acoustic & Financial Services

MARKETING ♦ INSIGHTS

Distributed Banking: Optimizing for Deposit and Loan Growth

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Optimizing Channels for Deposit Growth

Overview

Advancements in seamless digital experiences and open data ecosystems are unlocking new possibilities for customers to bank and borrow. A personal checking account can be opened within [Google Pay](#). A business bank account can be opened within [Intuit QuickBooks](#). A small loan can be obtained with [Upstart](#). A home loan can be obtained with [Better Mortgage](#). Each possibility is powered by a technology specialist providing superior user experience while financial institutions support the back-end banking and loan funding.

Banking is evolving to an approach quite similar to the distribution model of airline ticket sales. A seat on a carrier can be purchased in various channels such as third-party aggregator websites, bundled vacation packages, and first-party digital properties. Airlines optimize sales performance by balancing the distribution of bookings across channels, for which banking will need to adopt a similar strategy.

New channels are emerging in distributed banking along with key advancements in enhancing the direct experience—and achieving excellence in distributed banking, with key partnerships and frictionless online engagement, will be crucial for financial firms to meet deposit and loan targets in the years to come.

New channels to obtain retail deposits

Expanding deposits is key to a bank's success. Within retail banking, two great examples of the distributed banking opportunities available are Raisin and Google Plex. Each provider accelerates time-to-value in banking offerings and simplifies financial user experience.

[Raisin](#), based in Germany, enables banks to access a wider pool of fixed deposit holders and allows retail customers to obtain more competitive interest rates beyond national borders. A prospect sets up a Raisin account, including Know Your Customer verification, at the local version of the Raisin website (.ie, .fr, .nl). [Raisin](#) then simplifies cross-border fixed deposits growth by managing the entire customer engagement within the Raisin

platform, enabling France customers to deposit into Slovakia, Ireland customers into Latvia, and The Netherlands customers into Italy. Raisin currently has [103 partner banks](#) from over 30 countries across 8 marketplaces as of January 2021.

[Google Plex](#), to be launched sometime in 2021, will enable banks to obtain the augmented value of financial wellness insights that Google can provide while also acquiring new checking and savings account customers that directly engage within the Google Pay platform. Google Plex can analyze spending patterns, simplify opt-in to partner offers, and advise on savings goals. Google Pay users can open up a bank account within the mobile app and select during the sign-up process which bank will hold the user's deposits. [Citi and Stanford Federal Credit Union](#) are the two initial launch partner banks, with another nine banks to go live thereafter.

Empowering the SMB banking experience

Supporting the specific needs of SMBs is crucial to deposit growth, especially given current economic conditions. Distributed banking through key partnerships with Intuit QuickBooks and Shopify present significant potential in unlocking ease of commerce, greatly enabling SMBs to navigate through business turbulence and build up deposits.

Intuit QuickBooks launched [QuickBooks Cash](#), enabling SMB customers to obtain improved cash insights by opening a business bank account within the online software, with deposits held by Green Dot Bank. Key advantages delivered by this partnership include instant invoice deposit, accelerating cash access from days to minutes, and AI-powered cash-flow analysis to improve clarity of business liquidity.

Shopify will be launching [Shopify Balance](#), in which an SMB can improve expense management with a business account powered by [Stripe Treasury](#) and deposits held by Evolve Bank. Shopify identified that [40% of its customers](#) used the same bank account for personal and business management. Shopify Balance assists SMBs to more easily manage expenses by offering a separate account within its platform and a rewards program for business expenses to obtain greater operational savings.

Delivering mobile excellence in direct engagement

Direct banking still holds great importance in the distribution model, especially mobile banking. Making the right choices in shaping a bank's mobile app experience, particularly the ease of account sign-up, is critical to long-term success.

Various banks have taken the approach of having the mobile app as the only channel of which to open an account. Inquiring to open an account on the websites of neobanks [Current](#) and [Revolut](#) will direct prospects to provide a mobile number to receive a link to download the mobile app. Major bank Credit Suisse also takes the app-only sign up approach for its new bank, [CSX](#), for which a website inquiry presents a prompt to app download links and a QR code.

Banks should look to configure the optimal mix of in-house and external resources that will concurrently deliver seamless mobile-centric experience and improve operating efficiency.

Moving Forward

In the future, achieving deposits targets will no longer be as dependent on the number of branches or ATMs. The robustness of distribution partners that provide augmented value to a customer's financial needs, in combination with an exemplary direct mobile experience, will be crucial to success.

Optimizing Channels for Loan Growth

Overview

Recent fintech disruptors have opened new distribution channels for offering loans to customers. Companies founded in the smartphone era are reshaping how applicants can obtain small loans and how a first-time home buyer can be approved for a mortgage. Extensive manual processes to approve a loan that can stretch for weeks can now be simplified into minutes by utilizing cloud-based automation.

Loan innovation is similar to the evolution of in-flight entertainment systems. Some airlines, particularly low-cost carriers, opted out of providing seatback in-flight entertainment. Implementation, maintenance, and fuel costs of seatback monitors and A/V cables escalate when multiplied across an entire fleet. The smartphone and tablet era enabled airlines to innovate with in-flight WiFi, leapfrogging into streaming entertainment with a bring-your-own-device model.

The opportunity of distributed banking for loans, both for banks with substantial and limited budgets for digital transformation, enables institutions to unlock new approaches to financial performance. Banks that embrace the distributed model for loan growth and concurrently make strategic choices to enhance the direct experience for loan processing will be in formidable positions to achieve financial targets.

Improving small loan application efficiency

Fintech startups are taking new approaches to the processing and approval of small personal loans. [Upstart](#) is disrupting the small loans market by utilizing artificial intelligence to broaden risk analysis beyond FICO scores, with loans applied and approved for on Upstart's website, with loan origination provided by bank partners. According to a [December 2019 Upstart survey](#), 80% of Americans have never defaulted, and yet only 48% have access to prime credit.

AI modeling has enabled Upstart to issue higher volume of loans at more competitive rates with lower default rates. [The Upstart S-1 filing](#) showcases how the company has expanded risk modeling from 23 variables when launching

loans in 2014 to over 1,600 variables in 2020, including macroeconomic factors, cost of living, and digital signals. Data from ongoing repayment events assist in managing risk to improve many aspects of the loan process, including fee optimization, income and identity fraud, prepayment and time-limited default prediction.

AI utilization has also enabled greater automation. Across the first three quarters of 2020, [65.6% of its loan applications](#) were approved and fully automated, requiring no direct human involvement. Upstart targets small to mid-market banks, of which each can provide its own loan parameters, and currently has [ten bank partners](#) as of September 30, 2020, including Cross River Bank, First Federal Bank of Kansas City, and Apple Bank for Savings.

Enabling fully digital mortgages

The home-buying process typically involves many manual procedures that can add significant time to transactions. [Better](#) is disrupting housing loans with a fully digital process on its website that can simplify initial loan estimates from 3 days to 3 minutes. Two key advantages that Better provides as a distribution channel for banks: its disciplined focus on driving digital cost efficiencies and providing a wider access to customers that have a high preference for digital-first engagement.

There can be a significant differential between the direct vs. distributed cost of processing a mortgage. Banks incur direct costs that add up throughout the term of originating a loan, from staff and commissions to technology and processes. Better reduces the overall cost for a bank to originate a loan as Better digitizes the steps across the mortgage process and eliminates multiple fees. Better expanded its deal volume from \$1 billion in 2019 to [\\$6 billion in 2020](#) as the pandemic placed greater focus on digital possibilities for obtaining a mortgage.

[Better has a network](#) of over 25 of the world's largest mortgage investors, including banks, investment funds, and Fannie Mae. Better's broader reach compared to traditional lenders, coupled with Better's continuous improvements in automations, enables Better to provide a formidable channel for distributed banking. End customers obtain greater access to more competitive rates across the mortgage investors and for the mortgage investors to match its parameters to a wider potential pool of customers.

Innovating direct loan engagement

Balancing distribution channel in parallel with improving direct operational productivity will be essential to successful loan performance. The cost differences between direct and indirect loan acquisition are challenging banks to evaluate innovation priorities across business, marketing, operations, and IT teams, to determine how a bank can continuously elevate a customer's direct banking experience.

Digital specialists have emerged to assist banks in providing 'out-of-the-box' capabilities that improve the productivity of direct loan operations. [Amount](#), an Avant spinoff, provides banks with modular services for various financial products, including personal loans and point-of-sale loans. [HSBC](#), TD Bank, BBVA, and Regions Bank are utilizing Amount's technology, highlighting that even some of the largest banks are sometimes choosing to buy rather than build in-house for direct loan engagement.

Moving forward

Optimizing loan distribution routes will be imperative to financial success. Customers continue to gain greater access to wider financial possibilities with just a few clicks, taps, and types. Banks need to meet these ease-of-commerce expectations - through intermediary partners and through a bank's direct digital channels - to achieve loan growth targets.

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