DIGITAL-FIRST BANKING
TRACKER®

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DIGITAL-FIRST BANKING TRACKER®

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ACKNOWLEDGMENT

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WHAT'S INSIDE

Fewer banking customers are relying on physical branches for their everyday banking needs than ever before, and most consumers now use digital services for at least some of their banking. At the same time, the ATM market is expected to surge at a 4.9% compound annual growth rate (CAGR) through 2028 as automated teller machines (ATMs) fill the need for physical banking services. Interactive teller machines (ITMs) offer advanced possibilities, such as video calls with financial assistants, but they also add costs as they require financial institutions (FIs) to keep up with technological advancements.

Despite the growing shift to digital-first banking — with 43% of consumers saying they do all their banking online or through mobile apps — a physical presence still provides a sense of security to bank customers, and many feel their FIs are secure only if they also have branch locations they can visit. Banks need fewer and smaller branch locations to address the business most customers want to conduct in person, and ATMs can span the divide by providing a physical touch point.

As ATM fleets are poised to play an ever-more important role in FI branding and customer loyalty, they need to present a consistent user experience, meaning upgrades and maintenance costs may rise as FIs seek to stay relevant with more advanced machines. ATM as a Service (ATMaaS) can make the capital costs of increasingly advanced ATM fleets more manageable for FIs while ensuring consistent delivery of the best possible customer experience.

DIGITAL-FIRST BANKING DEVELOPMENTS AROUND THE WORLD

Consumers are taking their digital-first banking habits into the new year, but banks have work to do to meet customer expectations. A new report found that consumers plan to conduct nearly two-thirds of their banking digitally by 2024, with most expecting to do so via mobile apps or ATMs. Just 9% of surveyed bankers currently rate their companies' digital user experiences as "excellent," however. Most banks feel they could be doing more to innovate their digital services, especially for younger consumers

— and they are not wrong. More than half of Generation Z and millennial banking customers report investing in cryptocurrencies, for example, yet more than three-quarters of banks say they have no plans to work with crypto. Banks looking to serve a new digital-first generation will need to focus more intently on providing customers with the digital tools they seek.

Digital-first trends are not restricted to the youngest demographics, however. A recent survey revealed that 62% of consumers now consider mobile banking apps indispensable, up 7% from last year, while 73% said they use mobile apps more than any other banking channel. Millennial, Generation X and baby boomer respondents all said they are doing more of their banking digitally than they did a year ago. The mobile banking trend goes hand in hand with consumers' increased reliance on digital payment methods, as 93% say they have used at least one digital payment option in the past year. Two-thirds of consumers say convenience is their top motive for leveraging digital payments, with 57% citing ease of use and 46% saying it saves them time.

Financial services trends have created a more competitive space for FIs, as consumers can choose from a wider field of banking options than ever before. More than half of banking customers already are working with more than one FI outside of their primary institutions, reducing the friction of switching FIs, and 39% have considered changing their primary FIs in the past year. That fluidity is even greater among millennials, with 64% of this demographic considering a switch in their primary FIs in the past year — and younger consumers are especially inclined to make digital-first experiences a priority when choosing a primary FI. Banks still have advantages over neobank and FinTech competitors, however. Approximately three-quarters of banking customers say they would rather work with FIs than technology companies when using financial management tools and buy now, pay later (BNPL) services. Banks thus have opportunities to win over digital-first consumers if they future-proof their operations with digital offerings.

For more on these stories and other digital-first banking developments, check out the Tracker's News and Trends section (p. 12).

AT THE DIGITAL EDGE, SILICON VALLEY BANK DEMONSTRATES THE FUTURE OF BANKING

Digital-first banking is becoming the new normal for all FIs, but tech-savvy startups and innovators bring an entirely different set of expectations to banking. The clientele at Silicon Valley Bank are innovators pushing the limits of technology, and they expect nothing less from their FIs. In this month's Feature Story (p. 8), PYMNTS spoke with Kaushal Pandia, the bank's head of global digital acquisition and onboarding, and Milton Santiago, global head of digital services, about how they are leveraging data and technology to provide a digital-first experience that meets the expectations of the most demanding digitally minded customers.

DEEP DIVE: THE ONGOING ROLE OF ATMs IN A DIGITAL BANKING WORLD

Consumers now are conducting more of their banking online or through mobile apps, but they still prefer physical interactions for many services and feel more secure if their banks have branch locations they can visit. ATMs — particularly those employing the latest technology — play an essential role in meeting consumer needs and providing a physical presence for FI brands. This month's Deep Dive (p. 16) explores the development of ITMs, ATMaaS and how banks are responding to the need to quickly deploy the latest technology.

5 FIVE FAST FACTS

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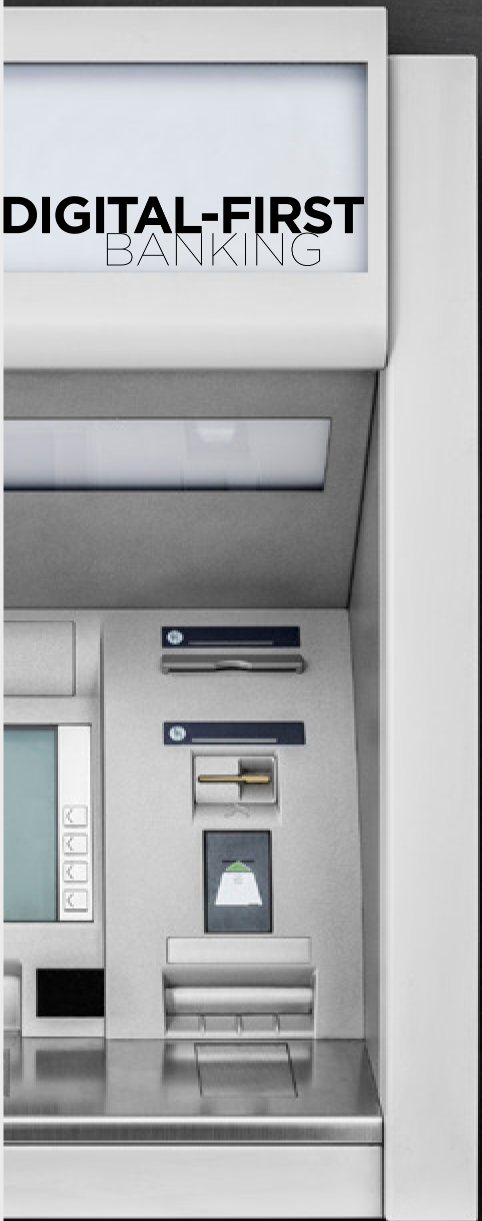


68%

Share of account holders at large FIs who rely primarily on digital banking

28%

Portion of consumers interested in online-only banking with large retailers

24%

Segment of consumers who rate convenience as the most important reason for digital-only banking

68%

Portion of bridge millennials interested in making digital-only banks their primary FIs

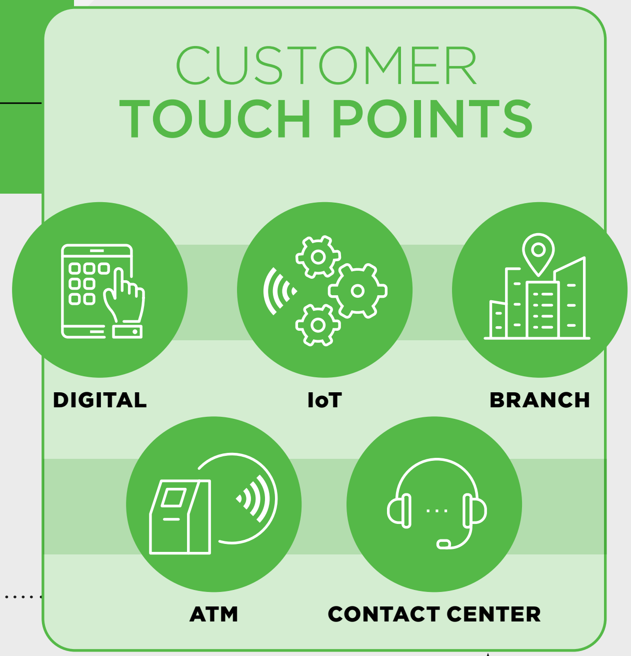
11%

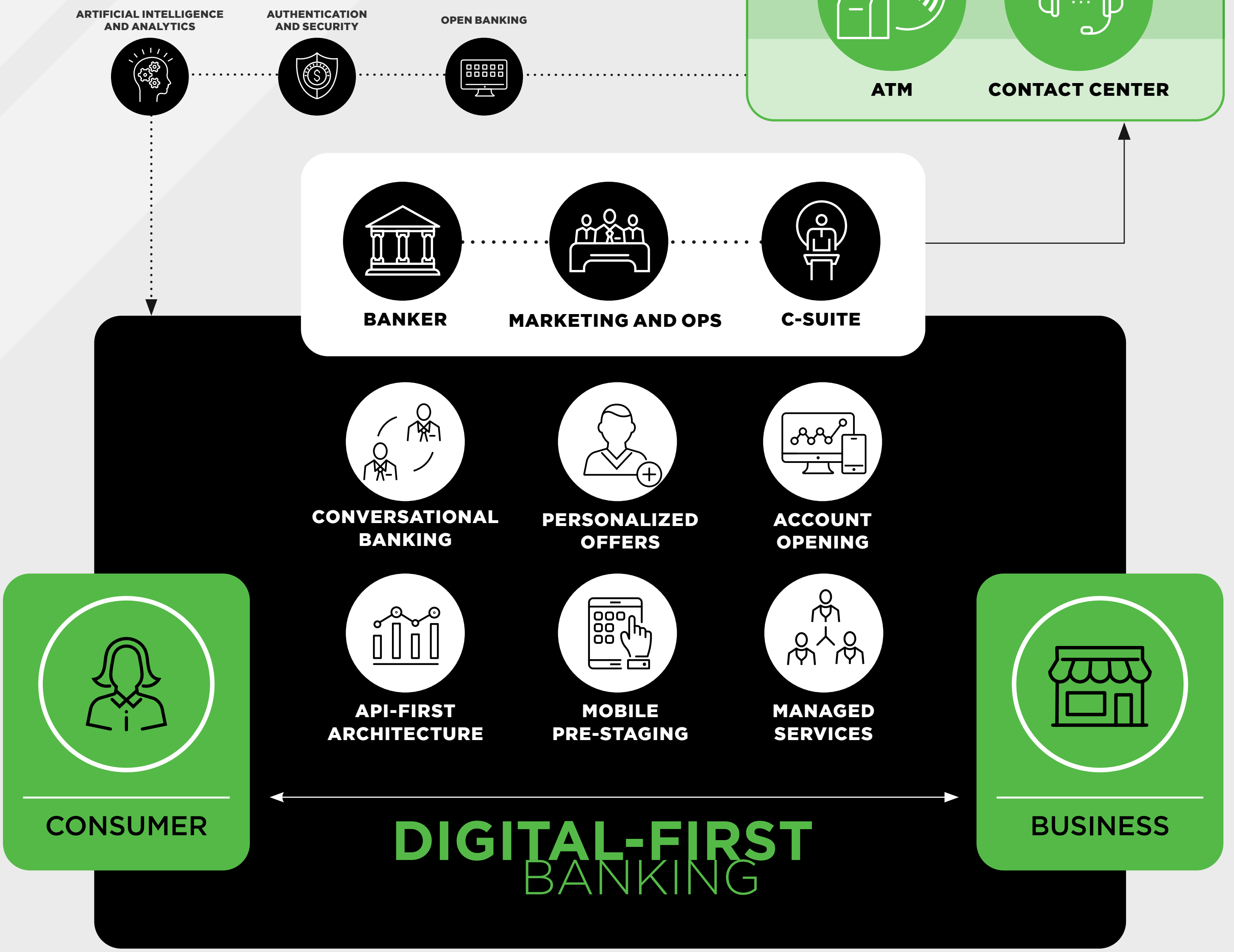
Share of consumers who do most of their banking through ATMs

DIGITAL-FIRST BANKING TRACKER®

ECOSYSTEM

The Digital-First Banking Tracker®, a PYMNTS and NCR Corporation collaboration, examines how banks are using digital transformation to elevate customer experience and improve efficiency.





SILICON VALLEY BANK ON BANKING AT THE EDGE OF TECHNOLOGY

The pandemic has sped up the digital transformation across the economy, and consumers of all kinds now expect fast, convenient and relevant digital experiences from their FIs. Silicon Valley Bank (SVB), whose clients include startup founders and tech-savvy innovators, lives at the cutting edge of that customer expectation. Milton Santiago, SVB's global head of digital services, told PYMNTS in a recent interview that the experience is comparable to inviting chef and restaurateur Gordon Ramsay over for dinner.

"What would be going through your mind? 'What do I cook? How does it taste? How was the placement done?' Your head is on fire," Santiago said. "I would argue that we have the most demanding customers in the world because these are the innovators who focus their lives on transforming how people do business."

THE PHYSICAL TOUCH POINT

SVB's physical locations offer regular banking services, such as deposits and check cashing, but Santiago said that is not their primary purpose. Rather, those locations are physical touch points for services that cannot be digitized, including a few that are not traditional banking services. They even have wine cellars.

"They're less about traditional banking, where you walk in and there's a teller line," Santiago said. "SVB provides meeting centers, areas that have professional hosting — really something that upscales the actual startup."

> "We'll come to you, you come to us or we can meet midway. It doesn't matter where we are meeting; the whole focus is, **'How can we solve your needs?'**"

The result is a very different approach to business banking — one tailored to the needs of SVB's clients, who are involved primarily in technology and healthcare, said Kaushal Pandia, head of global digital acquisition and onboarding. From the start of onboarding, SVB assigns each client a relationship manager (RM) to serve as a go-to person for everything from loans to assistance in finding venture capital.

"All of these discussions, these interactions, happen digitally, via phone or at one of the convenient branches," Pandia said. "Primarily, our network of RMs globally [is] the glue [in] how our clients interact with us, with digital obviously being a layer on top of that to help them do mundane, day-to-day tasks, such as opening an account, checking their balances, doing bill pay, doing transfers, wires, ACH, etc."

In addition to the RMs, branches have personnel on hand to greet customers as they enter and help them find the services they seek. RMs can also meet with clients outside the branch, and Pandia said SVB has become even more flexible during the pandemic.

"We'll come to you, you come to us or we can meet midway," he said. "It doesn't matter where we are meeting; the whole focus is, 'How can we solve your needs?'"

KNOW YOUR CUSTOMER ON EVERY LEVEL

Technology is not just a factor in the client-facing side of banking at SVB but also helps to smooth every part of the banking process, starting with know your customer (KYC). Simple details such as customers having to use their legal names instead of those they commonly use can add friction and make the KYC process painful, Santiago said.

"Our customers really don't want to talk to us. They want ease," he said.

SVB's customers want the friction-free experiences they have come to expect from FinTechs that are not beholden to the same regulations as SVB, Santiago said. SVB has developed processes and technologies that normalize and streamline onboarding to meet those expectations.

Pandia said SVB's RMs consider banking products that fit prospective clients' specific needs, for both where they are now and where they want to go, as well as whether a prospective client is a good fit for SVB. That process starts before the first meeting, with the RM gathering third-party information and creating a file on the potential client in SVB's customer relationship management (CRM) software. Once onboarding begins, that data enters the digital onboarding flow.

"The digital onboarding platform leverages any data that's available internally [or] externally ... and then we pre-fill the application as much as possible with that data, making the process a lot more seamless," Pandia said.

At the same time, digital KYC validates clients and their companies, checking for registered entities and ensuring everyone is who they say they are. Once onboarding is complete, clients' data is flowed into the servicing platform and they are set up with the products they need.

USING DATA TO ANTICIPATE CUSTOMER NEEDS

Analysis of existing client data helps SVB design product profiles tailored to new clients, Santiago said. SVB also leverages data throughout the client relationship, mapping changes in clients' habits and financial needs to continue connecting them with relevant products.

"As we look at servicing the customers on a day-to-day basis, the data allows us to be less [reactive] to [their] needs and more proactive," Santiago said.

SVB's platform enables real-time data analysis of everyday interactions with clients, permitting bank personnel to see when the platform fails to meet customer expectations and fix problems as they arise.

"We can hop on the phone or ping that customer to say, 'Do you have 10 minutes to talk about your experience, and how can we actually change that?' and that goes a long way in potentially converting a detractor to a promoter, because that kind of service doesn't come with a large bank," Pandia said.

SVB has a niche focus, and the selective nature of clients lends itself to close support and tailored experiences. This echelon of service would not be possible, however, without the technology behind it. Clients receive concierge-level service at SVB because its technologies free up personnel to focus on creating better customer experiences.

NEWS &TRENDS

FIs STRATEGIZE FOR A DIGITAL FUTURE

REPORT FINDS THAT MOST BANKS LAG IN OFFERING STANDOUT DIGITAL-FIRST EXPERIENCES

Consumers are carrying their digital-first banking habits into the new year and beyond, but recent research suggests that banks have work to do to meet consumers' expectations. A new report found that consumers expect to conduct approximately two-thirds of their banking digitally by 2024, with most planning to tackle tasks using mobile banking solutions or ATMs. Despite this consumer outlook, just 9% of surveyed bankers currently rate their companies' digital user experiences are "excellent."

Most banks say they could be doing more to innovate the digital services they offer, especially to younger consumers — and they are not necessarily wrong. Generation Z and millennial consumers both report the largest numbers of monthly interactions with their banking providers, at 117 and 102, respectively. They tend to rely on a mix of services, including drive-up ATM offerings and digital assistance, but they are also interested in emerging payment methods such as cryptocurrency. More than half of Gen Z and millennial banking customers are interested in investing in crypto, for example, but few banks are actively innovating in this area, and more than three-quarters say they do not plan to work with crypto. Solving this perception gap will require banks to focus more intently on bringing customers the digital tools they seek.

NEARLY 40% OF BANK CUSTOMERS HAVE PONDERED LEAVING THEIR PRIMARY FIs IN THE PAST YEAR

Banking customers are making their digital-first preferences known and are putting their FIs on notice if they fail to provide the tools and experiences they seek. A recent survey found that 39% of bank customers have thought about leaving their FIs in the past year, with millennials particularly inclined at 64%. It also found that 59% of banking customers already are using more than one FI and that younger consumers are particularly keen to consider digital-first experiences when choosing a primary FI with which to bank.

This is not to say that all hope is lost for FIs as new digitally savvy competitors such as neobanks and FinTechs enter the market. Roughly three-quarters of banking customers say they would rather work with an FI than a tech company when using financial management tools and accessing payment methods such as BNPL. This suggests that banks and credit unions still have opportunities to win over digital-first consumers so long as they work to future-proof their operations with digital offerings and services.

GEN Z CONSUMERS PRIORITIZING DIGITAL SOLUTIONS TO HELP THEM ACHIEVE FINANCIAL STABILITY

Gen Z consumers have grown up in a digital world that leaves them expecting immediate digital access to banking, but they are interested in banking with FIs that offer more than just the latest digital bells and whistles. Recent financial uncertainty has younger consumers looking for stability, with 69% prioritizing retirement savings, 68% concerned about debt accumulation and 91% wanting to make sure they can afford homeownership. FIs that want to attract Gen Z consumers will need the digital tools that address those priorities.

Gen Z consumers nevertheless are inclined to reach for digital and mobile tools when they tap into banking solutions. Of those who have smartphones, 80% use mobile banking apps, creating a demographic of informed and tech-savvy consumers who want ready access to their finances and the information to handle them wisely.

DIGITAL-FIRST BANKING TRENDS

NEARLY TWO-THIRDS OF CONSUMERS SAY MOBILE BANKING APPS ARE CRUCIAL

The move to digital banking crosses generations, with 62% of respondents in a recent survey saying mobile banking apps have become essential to their financial lives, a seven percentage point increase year over year. The portion of consumers who say mobile apps are their most frequently used banking option rose eight percentage points to 73%.

This trend toward mobile banking accompanies consumers' increased reliance on digital payment methods, with 93% saying they have used at least one digital payment method in the past year. Sixty-six percent of consumers say convenience is the most significant driver behind their usage of digital payments, with 57% citing ease of use and 46% saying it saves them time.

PANDEMIC PUSHES MORE FIs AROUND THE GLOBE TO INVEST IN DIGITAL INNOVATION

If there is one silver lining for FIs dealing with the pandemic's disruptions and restrictions, it is that the global health crisis has forced their hands when it comes to investing in digital innovations. A worldwide survey of

senior banking and financial services organization executives found that 14% said their organizations had successfully scaled up their digital transformations in 2021, up from 7% the year before. Approximately two-thirds pointed to the pandemic as influencing the success of their innovation efforts, but 57% said their organizations continued to deal with partial digital deployments or underperforming digital investments.

FIs were forced to adjust their digital services deliveries due to lockdowns, and 44% said they increased digital delivery investment by at least 10%. FIs expect to see ongoing investment, with 78% saying their organizations would enhance investments in customer experience and 72% saying they would invest more money in digital delivery channels.

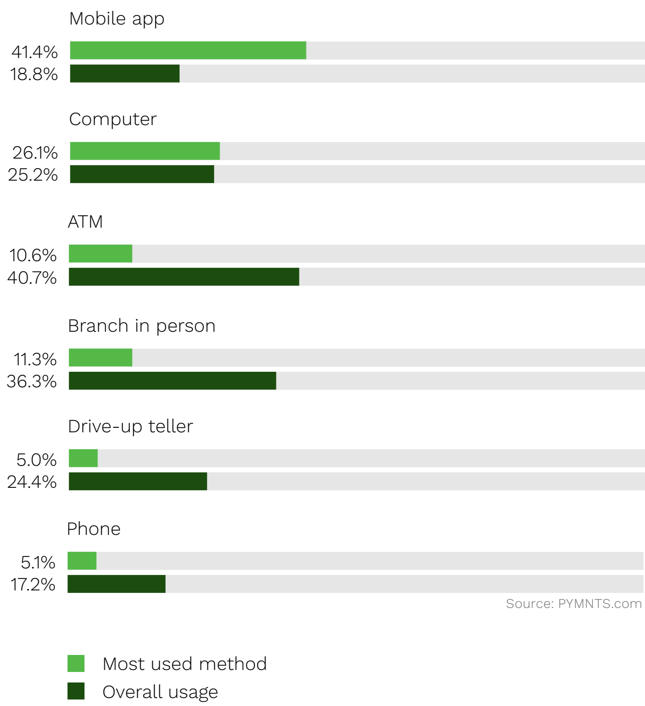
DEEP DIVE

HOW FIs ARE TAPPING ATMs **TO BRIDGE THE GAP BETWEEN DIGITAL AND PHYSICAL BANKING**

As the result of the pandemic, more and more banking customers worldwide rely on mobile and online banking solutions: 41% of consumers report that they bank primarily via mobile app, in fact, and 26% now say they prefer to use their computers. Aside from these trends, there is another tool playing a significant role in banking's digital transformation: the ATM. Nearly 11% of banking customers use ATMs as their primary banking channel, and approximately 41% identify ATMs as a routine way they access banking services. ATMs are also preferred more than drive-up tellers, which just 5% of consumers identify as their primary banking channel.

The global ATM market's expansion is a testament to the technology's enduring popularity. It reached $20.18 billion in 2020, and its 4.9% CAGR is expected to continue through 2028. This month's Deep Dive examines the continuing appeal of ATMs and how technological advancements are creating cutting-edge solutions such as ITMs. It also analyzes how ATM-as-a-service offerings can help FIs better scale their operations by shifting maintenance and management to third-party operators.

Figure 1:
How consumers engage with bank accounts
Share of consumers who engage with bank accounts in select ways, by most used method and overall usage



BRIDGING BRANCHES AND DIGITAL BANKING

Consumers' growing preference for digital banking solutions does not eliminate the need for robust ATM availability, and ATMs provide a physical touch point that can help FIs bridge consumers' physical and digital banking needs. This has been crucial during the pandemic as consumers have sought ways to transact conveniently and safely, and ATMs in many markets now offer more personalized, flexible experiences because of this shift. Users can now pay bills, make money transfers and even engage with tellers via ATMs, for example, illustrating how far the technology has evolved beyond facilitating simple withdrawals and deposits.

Research also suggests that the technology can help consumers use services more effectively when they decide to visit branches. More than 26% of consumers cited the ability to visit a physical bank branch as the most important retail bank benefit, but the services they seek when doing so are becoming more specific. Rather than visiting a branch for everyday banking services, consumers now expect to use them more for advice or consultation. Investing in cutting-edge ATMs that allow consumers to tackle various banking tasks can enable physical branches to be smaller, nimbler and more selective about the services they offer.

Advanced technologies also play an important role in ensuring customers have access to needed services when interacting with ATMs. Consumers across all demographics said they would use video ATMs if they were available at their bank branches, and the technology was ranked ninth among investment priorities for financial services leaders. ITMs can provide a wide range of services that aren't possible through digital-only solutions, such as money orders or video consultations with financial assistants.

One-quarter of FIs have ITMs in place and an additional 60% are planning ITM deployments within three years. This trend has been driven in part by banks' need to deliver positive customer experiences even as pandemic restrictions force them to close or modify their operations. Consumers are also interested in ITMs' capabilities, with 68% using them for deposits and withdrawals, 40% making credit card payments, 26% opening new credit accounts and 21% paying bills.

ATMaaS PROVIDES THE LATEST TECHNOLOGY WITH MANAGEABLE COSTS

There is at least one major consideration for FIs aiming to bolster their ATM fleets with ITMs and other machines leveraging advanced technologies: cost. The upfront cost of purchasing an ATM with basic functionality may be a few thousand dollars, but more advanced machines can run into the tens of thousands. Other recurring costs stem from cash management and software updates to regular maintenance. ATMaaS solutions can offer a fix for many of these cost concerns. These services can help FIs handle the myriad costs associated with managing ATM fleets by offering comprehensive solutions for a single monthly fee. They enable FIs to upgrade to the latest technology using subscription-based pricing without significant upfront capital investment, helping them consolidate costs and reduce the overall ownership expense. ATMaaS also help FIs craft more consistent user experiences, impacting brand perception and loyalty. These solutions allow users to deliver new features such as biometric authentication capabilities and eWallet access to an entire fleet.

Consumers are returning to their bank branches more frequently as pandemic-related concerns ease, but what they expect from branch-based interactions has fundamentally shifted. A growing number of consumers are looking to accomplish more of their financial tasks using ATMs and ITMs and are reserving visits with financial professionals for when they seek advice or consultations. In this climate, FIs that offer advanced ATM fleets equipped with the latest technologies and services more readily can serve the needs of their digital-first customers.

ABOUT

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