DIGITAL-FIRST BANKING TRACKER®

JULY 2020

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ACKNOWLEDGMENT

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WHAT'S INSIDE

The COVID-19 pandemic continues to ravage global industries, with some markets beginning to see the light at the end of the tunnel while others are now plunging into financial struggles and uncertainty. The banking industry is one of the pandemic's countless victims, with financial institutions (FIs) forced to close entirely or drastically reduce hours and capacities. Citigroup has been forced to close 100 branches, for example, while the largest bank in the United States, JPMorgan Chase, recently announced plans to close a staggering 1,000 branches.

Customers who are still using bank branches are demanding that banks make significant adjustments to their physical branches to increase personal safety and reduce the risk of infection. Slightly less than half of customers said that installing plexiglass panels between customers and staff was very important, with 45.6 percent placing importance on the ability to book appointments online. Another 44.1 percent are interested in mobile queuing features that allow them to hold places in line without standing near other customers.

Some FIs are abandoning branches entirely in favor of digital banking options, such as mobile banking apps or web-based bank portals, allowing customers to maintain their financial lifestyles without setting foot in branches. A recent study found that digital banking was the number one way consumers interacted with banks, using apps and browsers for more functions than ever before. Citigroup saw an 84 percent increase in daily mobile check deposits in May, for example, while digital bill payments increased by 78 percent between February and April.

These changes in bank operations, especially the increased focus on digital options, is likely to stick around even after the pandemic recedes. A recent survey found that the pandemic has changed the way 45 percent of bank customers interact with their FIs, many of them permanently. This follows a general trend toward digitization in a number of industries, with the same survey finding that 40 percent of consumers will do more shopping online as opposed to in-store and 38 percent will use more food delivery services than they did pre-COVID-19.

Banks will need to strap in for the long haul when developing their digital options, and it looks like they are here to stay. FIs that do not adapt to the new normal risk losing customers to younger, more digitally native financial options like FinTechs or challenger banks.

Digital-first banking developments around the world

One of the many financial casualties of the COVID-19 pandemic is ATM use. A recent study from AppsFlyer and Google found that global ATM use had decreased by 50 percent as social distancing and stay-at-home orders have driven many bank customers to adopt mobile apps and online banking options rather than visit ATMs. FinTech apps saw a 72 percent increase in usage in Q1 2020 alone, for example.

The digital banking development field is raking in dividends from this increased usage of mobile apps, with a recent report finding that the global digital banking platform industry generated $3.95 billion in revenue in 2019. This growth is expected to continue to rise over the next several years, with experts predicting that the market will reach $10.87 billion by 2027, representing a compound annual growth rate (CAGR) of 13.6 percent over the next seven years.

In-branch operations are also seeing a sea change as a result of the pandemic, with many banks limiting meetings between staff and customers to appointment-only to prevent the potential of contagion. This change in operations might remain after the end of the crisis, according to Stephen Griffin, senior vice president at Alabama-based Regions Bank. It brings with it two distinct benefits: Bank customers can better plan their days around their bank visits and bank staff can more efficiently plan their schedules and daily activities.

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

Scotiabank on how COVID-19 could lead to a lasting change in banking operations

Banks have largely been designated as essential businesses during the pandemic, allowing them to remain open at limited capacity, but customers are turning to digital banking solutions in record numbers to avoid branch visits. Developing the infrastructure necessary to fuel this surge in digital banking has been challenging, according to Adam Swinemar, vice president of digital channels at Scotiabank, but will have been worth it if these consumer trends are here to stay. In this month's Feature Story (p.8), PYMNTS talked to Swinemar about how banks help their customers understand digital banking systems' capabilities and why the shift to digital banking will likely be the industry's modus operandi going forward.

Deep Dive: The financial industry's post-pandemic future

The banking industry is currently in the throes of figuring out how to cope with the ongoing pandemic and is altering branch operations, investing in digital banking technologies and exploring several other avenues to weather the crisis. Banks will need to figure out what the industry will look like once the pandemic is in the rearview mirror, however, and need to start preparing for this reality as soon as possible. This month's Deep Dive (p. 18) explores the future of the financial industry in a post-pandemic world, and how banks will leverage digital banking apps and revamped branch protocols to ensure customers' needs are met in safe and satisfying ways.

EXECUTIVE Insight

Digital banking has become significantly more popular during the past few months, and many customers say they will not return to bank branches even after the pandemic ends. How will this shift in consumers' preferences affect banks' long-term customer engagement and retention strategies?

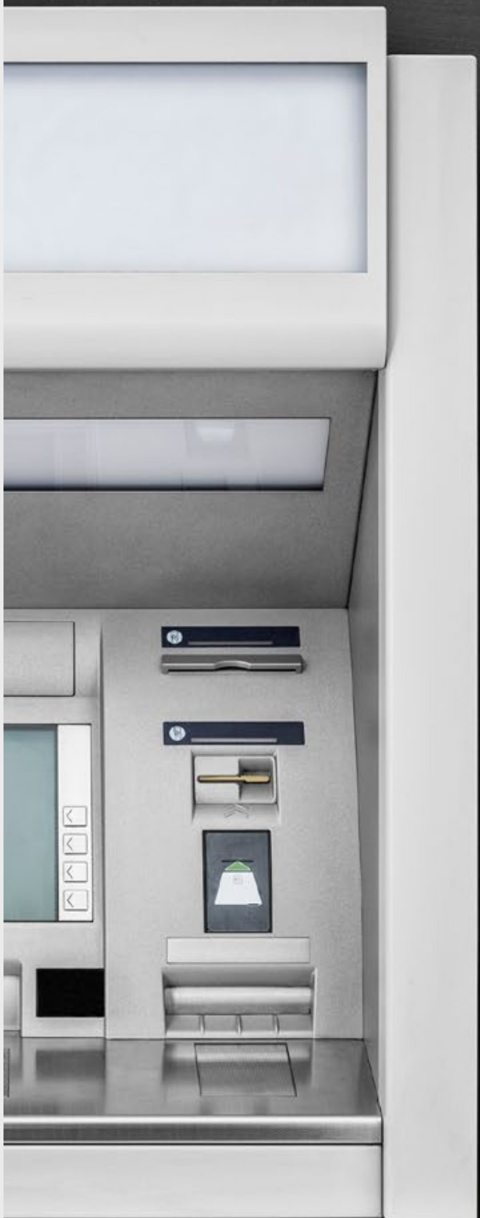
"With the recent shift toward digital self-service and touchless interactions, financial institutions should be reevaluating their business strategies and embracing a digital-first approach to banking through self-service and within the branch ecosystem. Priorities should include digital acceleration, faster innovation and deeper personalization.

Elevating the banking experience and providing individualized advice and guidance to create stronger engagement through digital is vital. A one-size-fits-all approach to personalization is not enough. By leveraging contextual data, FIs can enable deeper user segmentation to provide personal, unique experiences from account opening to onboarding and beyond. For many, this will mean pursuing alignment across the enterprise to break down silos and implement changes.

Amid this digital shift, there is also a segment of users who still prefer person-to-person interactions. Banks and credit unions should also be rethinking their branch strategies and offering collaboration tools such as integrated teller machines to bring forward contactless, digitally enabled branch experiences."

Douglas Brown
senior vice president and
general manager
NCR Digital Banking

5 FIVE FAST FACTS



40%

Share of ATMs that run on Windows XP, which no longer receives security upgrades from Microsoft

50%

Decline in ATM use since the beginning of the COVID-19 pandemic

$10.87B

Estimated value of the digital banking platform market by 2027

72%

Increase in FinTech app usage in Q1 2020

$450M

Total global losses ATM malware Ploutus has caused since its discovery in 2013

DIGITAL-FIRST BANKING

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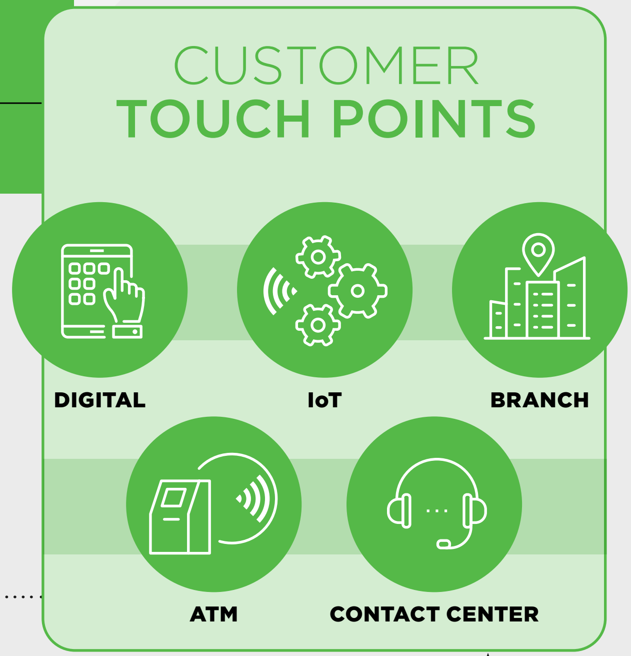
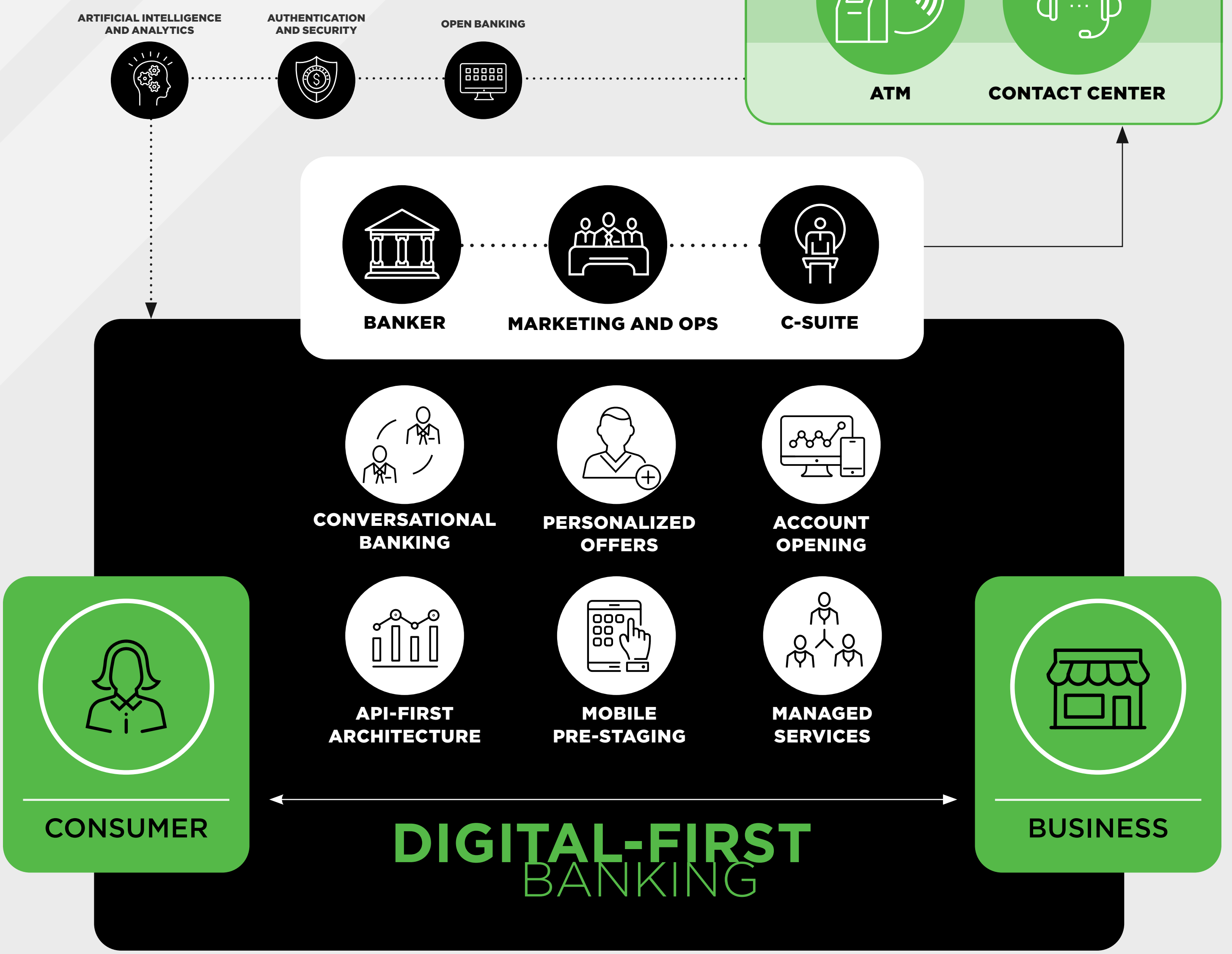
ECOSYSTEM

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.





FEATURE STORY

HOW THE COVID-19 PANDEMIC COULD LEAD TO A PERMANENT SHIFT IN DIGITAL BANKING

The COVID-19 pandemic has rattled the financial industry more than any event since the Great Recession. Banks have been designated as essential businesses and have largely remained open, but the normal way of doing business has all but disappeared. Bank branches around the world are being forced to reduce hours, limit the number of staff present and, in some cases, make customer visits by appointment only, all in the service of limiting human interactions to reduce the risk of COVID-19 infection.

More customers than ever before are turning to digital banking platforms as an alternative to branch visits, with mobile account openings increasing by more than 200 percent in April alone and mobile app traffic rising by 85 percent. Customers have radically altered their financial lifestyles and habits, and banks are dramatically changing the ways they do business to adapt to the new normal.

"Banks have had to shift just as our customers have had to shift," said Adam Swinemar, vice president of digital channels at the 25 million customer-strong Scotiabank. "We're in this together. It's a shared experience."

Swinemar recently offered PYMNTS an inside look at the challenges that the transition to digital banking brings as well as the long-term benefits that this shift can provide to the world's FIs.

Challenges in digital transitions

The biggest obstacle in this shift to digital banking, according to Swinemar, was the sheer speed at which the transition had to take place. The virus had been in the news since January, but the swiftness of the widespread lockdown across North America in early March took the banking industry by surprise. Banks across the U.S. and Canada have been pushing for digital banking for years now, but suddenly it was the only real option for many consumers.

"A lot of the challenges initially were around communicating to clients how the bank was there to support them [digitally], whether that was through support for relief programs, enabling them to use digital alternatives, [or] educating them on how to pay suppliers in a fully virtual way," Swinemar said. "We had to pivot very quickly once we recognized that we didn't have the capacity to reach out to all of our business customers one-to-one, so we had to leverage the digital channel to reach that audience."

The other major challenge was recognizing that not all customers had the ability or desire to make a complete shift to digital banking, and making sure that the bank could either guide them to alternatives or find a compromise that did not put them or bank staff at risk. Regular communication with customers was key to accomplishing this, Swinemar noted, as they found out which customers required extra help and accommodations.

"Not every client can seamlessly transition from fully manual or partially manual to fully digital," he said. "Making sure that we recognize who those customers were and have processes and support teams in place to help them through that transition has been primarily where we've been focused over the past few months."

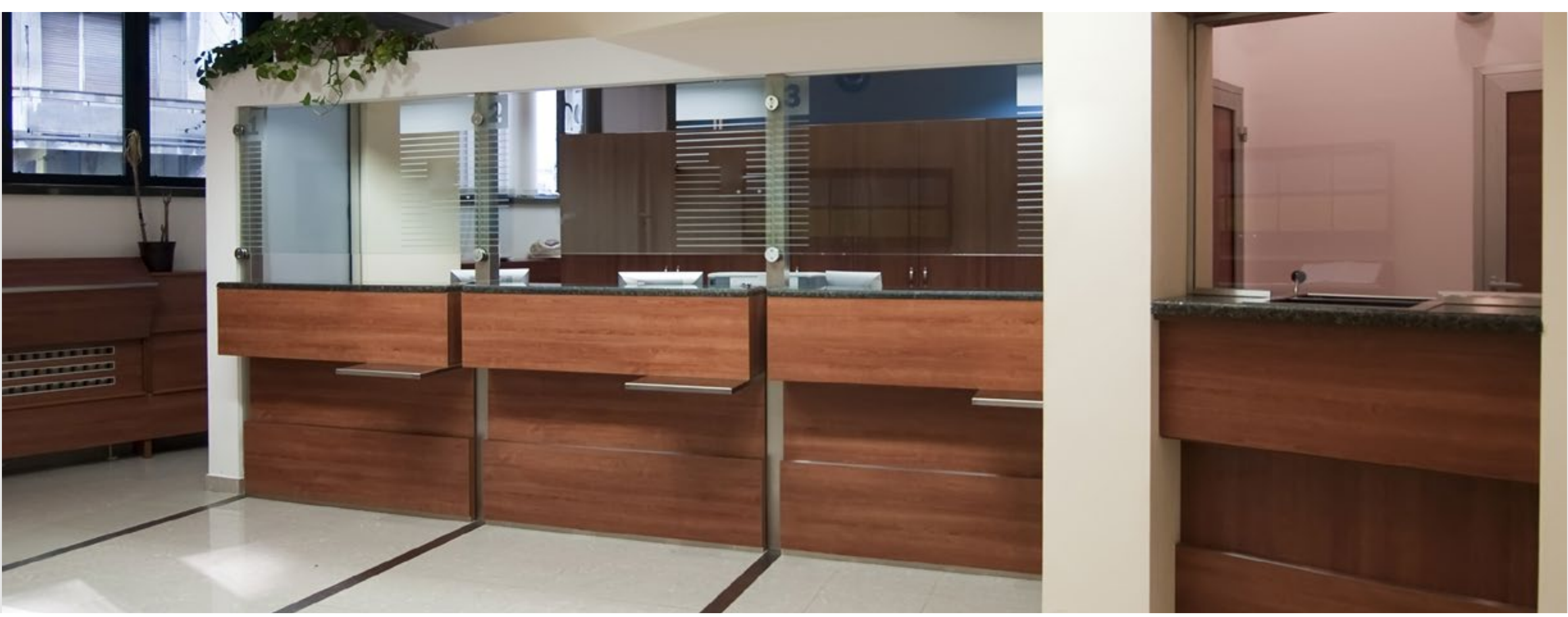
Streamlining and simplifying digital onboarding processes was also crucial to ensuring smooth digital transitions. Customers who face friction in setting up digital banking profiles are extremely likely to abandon the process and possibly even find another bank. This indicates why a convenient onboarding experience is a key factor in any digital banking initiative, and in none more so than one occurring in the middle of a global crisis.

"[Banks] need to take an end-to-end view around how we transition clients to digital," Swinemar said. "It's not just about digitizing the onboarding and getting the fulfillment process done, but also about how we get them comfortable coming into the channel and using the services as a first-time user."

These first-time users are likely to remain long-term digital banking customers even after the virus recedes, according to Swinemar.

Digital banking in a post-pandemic world

Customers who are using digital services for the first time during the COVID-19 pandemic are quite likely to continue using them in a post-pandemic world. A recent study found that only 40 percent of bank customers plan to resume visiting bank branches after the pandemic recedes.



"Once they make that behavior change, those behaviors to digital tend to stick over time," said Swinemar. "From a bank perspective, there's obviously value in having our customers on digital from a capacity perspective, and for customers, there's value in getting things done faster and with more transparency."

Another benefit to this increased digital engagement is the opportunity for banks to have a more in-depth view into their customers' financial lifestyles. In-branch customers only offer their FIs a perspective on how they spend and save their money, but banking apps let banks know when, where and how customers use their services.

"We're using more data to identify opportunities for clients so we can have more optimal digital solutions, and we're also passing that data over to our sales teams so that they can lead with digital conversations," he said. "It's not a replacement to a physical or personal relationship to our customers, but it helps us inform our conversations with customers."

Customers will face multiple online and mobile options for their banking needs as many banks around the world are leaning into digital services. It will be incumbent on banks to maintain customer loyalty through these targeted offerings, or customers will simply open accounts elsewhere.

NEWS &TRENDS

DIGITAL-FIRST BANKING TRENDS

Forty percent of ATMs run on antiquated software, increasing their vulnerability to fraud

There are currently more than 470,000 ATMs deployed across the U.S. in a staggering variety of locations including banks, malls, convenience stores and retailers of all types. A sizable minority of these machines have a fatal flaw when it comes to their security, however: antiquated software that is no longer updated by the manufacturer. An estimated 40 percent of ATMs around the world are running on Windows XP, an operating system that was released in 2001 and stopped being supported by Microsoft in 2014. This means Microsoft will not patch any vulnerabilities hackers find, forcing ATM operators to find third-party security fixes.

Hackers use a variety of techniques against ATMs, from installing commands that tell the machine to spit out cash without withdrawing from accounts to affixing card scanners that read victims' credit card numbers and PINs. One type of malware, Ploutus, has resulted in more than $450 million in losses around the world since 2013.

ATM use declines by 50 percent since the beginning of COVID-19 pandemic

Another development in the ATM space comes from a recent AppsFlyer and Google study, which found that global ATM use has decreased by 50 percent since the beginning of the COVID-19 pandemic. This reduction in ATM use is largely the result of increased mobile app use, according to Google's apps project lead, Rama Afullo. There were more than 22.5 billion app downloads in Q1 2020 alone, along with a 72 percent increase in FinTech app usage and more than $15 billion spent in the iOS store.

The study authors described the drop in ATM usage in favor of mobile apps as a positive development, because it made transactions safer and easier during the pandemic lockdown. They cautioned that the growing use of digital banking options could result in increased fraud, however.

Greek consumers over 60 prefer to bank in person rather than online, study finds

There is still a substantial contingent of customers who prefer interacting with their FIs in person, despite advancements in digital and mobile technologies. A recent survey of Greek FI customers found that a majority of those over the age of 60 preferred to bank in person and are willing to wait in long lines to do so, while nearly 32 percent of Greek seniors regularly used digital banking. Twenty percent of Greek seniors even said they would switch to banks that offered in-person options rather than be forced to bank digitally, and only 27.1 percent would switch to digital banking if their branch locations were to close.

The survey's findings are part of a wider trend among senior citizens, who largely prefer analog solutions to digital ones. Another poll of Greek seniors found that many preferred to pay their utility bills via mail rather than over the phone or online.

Global digital banking platform market expected to hit $10.87 billion by 2027

The digital banking industry is seeing explosive growth, despite the resistance of certain customer segments. A recently published report found that the global digital banking platform market generated $3.95 billion in revenue in 2019 and is expected to reach $10.87 billion by 2027, a CAGR of 13.6 percent over the next seven years.

This growth is driven by an increase in the number of internet users around the world, which is fueling a record-setting shift in the number of customers using mobile and digital banking platforms. The COVID-19 pandemic is also leading customers to adopt digital banking options as social distancing guidelines and stay-at-home orders force bank branches to close or reduce capacity.

Two-thirds of European FI customers hastened digital onboarding adoption because of COVID-19 pandemic

A new survey of European FI customers is also indicating the massive pandemic-related shift to digital banking. Sixty-six percent of respondents said that the pandemic has accelerated their adoption of digital onboarding services for opening bank accounts. Only 14 percent of respondents disagreed with this majority and 33 percent said that all digital banking service providers should offer completely digital onboarding services. Many digital banking apps still require users to register their accounts at physical bank branches, however — an obvious inconvenience during the pandemic. The survey also revealed that 70 percent of European FI customers have accounts with challenger banks or neobanks, and the same portion noted that these digital-only FIs provide better customer experiences than legacy banks.

DIGITAL-FIRST DEVELOPMENTS DURING THE PANDEMIC

Appointment-only branch visits could remain after the pandemic

Many banks around the globe have drastically reduced the number of customers and staff allowed inside their branch locations to maintain social distancing and reduce the risk of contagion. They have done so by requiring appointments for in-branch services — a development that may stick around after restrictions have eased, according to Stephen Griffin, senior vice president at Alabama-based Regions Bank. Appointment-only visits' benefits are twofold: Not only can they help bank customers better plan their days, but they can also help bank branches efficiently plan their staff schedules and operations.

In-branch appointments still take a back seat, however, as customers' preferences for digital banking have spiked during the pandemic. One recent study found that new mobile account registrations soared by 200 percent in early April, while overall mobile banking traffic increased by 85 percent.

One-quarter of all European bank branches could close in the next three years, study finds

The reduction in bank traffic could have long-term ramifications on the European financial industry. A new study recently concluded that one in four bank branches across Europe could close in the next three years as customers rely more heavily on digital banking methods — a trend driven by the pandemic. The analysis found that 70 percent of all account openings, credit card applications, deposits and loans could be conducted digitally, with 53 percent of European consumers reportedly having ceased visiting bank branches to buy new products.

The study also predicted that bank staff will likely primarily consist of advisers who counsel customers on high-level services, such as mortgages or investments. Branches could also shift their staff to include more back-end employees, including accountants and technology personnel, rather than have these staff members concentrated at centralized offices.

Bank cybersecurity threats grow during the pandemic

Yet another threat the ongoing pandemic is posing to banks is the potential for a new wave of cybercrime. A report said that the rise in digital banking is providing more entry points for fraudsters. Bad actors often pose as bank employees in their phishing attempts, requesting customers' passwords or account numbers with fake security portals that deliver information directly to fraudsters.

Cyberattacks conducted by external actors account for 64 percent of data breaches in the financial industry. Their primary target is not necessarily customers' or banks' funds, but personal data that can be monetized when sold on dark web marketplaces: 77 percent of data breaches have such motivations.

ATMs GET SMARTER

Self-service channels set to become more popular post-pandemic

Many consumers are using digital banking solutions for the first time during the pandemic. A recent poll found that 63 percent of FI customers who did not embrace digital options in the past were now much more interested in tools like banking apps or self-service kiosks, with the latter consisting of both in-branch tablets as well as ATMs. Banks are currently investing heavily in self-service technologies, according to Adam Crighton, senior vice president and general manager for banking and commerce solutions provider NCR. Self-service options like ATMs could serve as effective replacements for bank branches if banks expanded their options to include services like video connections to bank tellers, Crighton said.

CaixaBank deploys new ATMs featuring facial recognition technology in Spain

One new ATM feature that is rapidly gaining steam is facial recognition technology, which its proponents say can provide a much higher level of security than traditional authentication methods like PINs. Valencia, Spain-based CaixaBank recently began to deploy ATMs equipped with this technology at 30 of its branch locations throughout the country to bring its total number of such ATMs to more than 100. The ATMs analyze as many as 16,000 points on users' faces

to validate their identities rather than relying on knowledge-based security measures such as passwords or PINs.

CaixaBank plans to complete the rollout of these ATMs by mid-July, making it one of the largest facial recognition ATM networks in the world. CEO Gonzalo Gortázar said that these ATMs are becoming especially useful during the COVID-19 pandemic, as they reduce the amount of physical contact customers have with ATMs' surfaces, thus decreasing the risk of infection.

NEW IN-BRANCH DEVELOPMENTS

Metro Bank opens the first drive-thru bank in Wales

Drive-thru banks are a regular sight in the U.S., enabling customers to access ATMs and interact with bank tellers from the comfort of their vehicles, but such institutions are uncommon overseas and completely absent in certain countries, including Wales. This changed in early June, when Metro Bank opened Wales' first drive-thru bank in Cardiff, allowing contactless interactions with bank tellers for cashier services. This is Metro Bank's 76th branch location and its fifth in the U.K. with drive-thru services. The new location also features Welsh-speaking staff and more than 3,000 safe deposit boxes.

The branch will be operated according to the British government's pandemic guidelines, including the implementation of social distancing measures to limit the person-to-person interactions between customers and staff. Metro Bank also offers staff volunteer opportunities to visit and check in on its more vulnerable customers to ensure their well-being, efforts it has stepped up during the pandemic.

Bank drive-thrus see resurgence during the pandemic

Bank drive-thrus have experienced something of a renaissance during the COVID-19 pandemic, as the closure of bank branches means they are now the next best thing to teller counters for consumers who prefer in-person interactions. They were formerly at risk of declining due to the advent of digital banking technology, but banks across the U.S. are now reopening decommissioned drive-thru lanes or installing new ones as former in-branch customers begin using drive-thrus en masse.

This increased drive-thru traffic has been a boon for companies that install or repair drive-thru technologies. One such company, Convergint Technologies, reported that calls to service drive-thru equipment increased by 42 percent in April and May as opposed to the previous 12 months. Customers are also reporting increased drive-thru traffic, with some saying that they have waited more than 40 minutes in line for their turns at the window.

DEEP DIVE

HOW BANKS ARE RESPONDING TO THE COVID-19 CRISIS AND BEYOND

The way banks and their customers are coping with the new realities brought on by the COVID-19 pandemic could be a bellwether for the future of the financial industry. Online banking currently ranks as the most commonly utilized form of banking, followed by mobile banking, according to a recent study. An increasing number of customers are also picking up their phones to manage their financial lives — a trend expected to persist as long as the COVID-19 pandemic continues.

Both of these shifting trends are the result of customers desiring fewer in-person interactions, opting instead for safer arrangements. Approximately 56.8 percent of 2,000 U.S. and Canadian consumers surveyed in a recent study said it was "very important" to offer mobile app features that help customers avoid using in-store touchpads. This high level of demand suggests that such a feature could be a "gateway item" to digital engagement of consumers.

The study also found most banking customers were highly unlikely to change banks at the end of the pandemic, and 17 percent of undecided customers present an opportunity to be either retained or swayed elsewhere. Brick-and-mortar banks will need to take proactive precautionary measures to assure customers are safe to return if they want to keep them. They must minimize consumer anxieties by clearly marking spaces for social distancing, according to the study. Automated doors are also in demand to help them easily come and go at branches.

Steps beyond initial crisis response

Banks should formulate strategies that go beyond the basic response to the onset of the COVID-19 pandemic to keep staff members safe. The initial response has sensibly

included suspending travel, forgoing large team gatherings, distancing team members and accommodating telecommuting, among other measures. A recent article, however, recommends additional steps banks should take, including adjusting workplace conditions sustainably to help workers to stay mentally and financially fit during the multiple months it will take to contain the virus.

In-branch staff or call center workers who interface directly with customers or need infrastructure found only at brick-and-mortar locations require special attention, since they provide important services. Seoul, South Korea-headquartered Shinhan Bank is allowing 150 of its call center employees to work remotely to handle inquiries that do not require access to customer data, for example. More in-depth calls involving sensitive customer financial information are handled in the office. FIs will also need to beef up controls at off-site workplaces to safeguard sensitive personal information and protect against fraud.

Bank branch precautions

Banks should also continue operating physical branches and ATMs with proper precautions while broadly encouraging customers to embrace remote services for their safety. This will allow banks to offer services that meet all customers' needs, including older consumers, who are most at risk regarding the virus while also being resistant to digital banking.

There are steps that banks can take to monitor risks at physical bank branches while managing operations. These include extensively sanitizing branch interiors, monitoring workers for virus symptoms and pinpointing and changing processes when necessary to avoid service disruption.

Some FIs have even gone so far as to close bank branches after observing lower demand for services and decreased foot traffic. Some banks in Asia and Europe have reportedly closed branches to protect the public and employees from the virus, as the threat outweighed the convenience of keeping the branch open. Bank branches have mostly remained open in South Korea, however, due to the availability of COVID-19 testing, closing only if a case of the virus is identified.

Banks should also provide much-needed credit to businesses and families impacted by the crisis. The financial hardships falling on many U.S. workers are particularly severe, with 74 percent saying they now live "paycheck to paycheck," while 58 percent earn hourly wages.

How banks respond to customers' needs during the pandemic while serving them across multiple channels will help pave the path to recovery. The challenge is finding ways to keep customers — as well as workers — feeling safe and engaged with their banks during the pandemic and beyond.

about

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