

DIGITAL-FIRST BANKING

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MARCH/APRIL 2022



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ACKNOWLEDGMENT

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Digital-First Banking Tracker®

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EDITOR'S LETTER

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The pandemic's impacts have challenged all business entities, and none have been harder-hit than small to mid-sized businesses (SMBs). A recent [report](#) noted that nearly three-quarters of small businesses suffered losses in revenue, profit margins and sales due to the pandemic, and more than half have had to replace their business models overnight to survive in the wake of the crisis. The central tenet of these new models is a reliance on digital channels, and all signs indicate that this transformation is here to stay.

Businesses' digital shift is forcing commercial financial institutions (FIs) to pivot just as quickly and permanently to meet clients' changing needs. More than two-thirds of SMBs are looking to [manage](#) as many aspects of their businesses digitally as possible, including banking. More than half of SMBs consider it "very" or "extremely" important that their banks provide easy-to-use digital experiences.

The proliferation of nimble FinTechs and embedded finance is not making it any easier on banks. Competition is [predicted](#) to lead 36% of SMBs to switch FIs. Moreover, firms' expectations of their banks keep growing. In addition to the prerequisites of low-cost, speedy and secure transactions, businesses have added easy onboarding and responsive customer service as nonnegotiable elements of banking satisfaction. Like their consumer counterparts, SMBs are also [demanding](#) greater banking personalization to meet them where they are in their digital journeys. SMBs are leaning on their banks more than ever to [become](#) not only trusted financial providers but also strategic business partners, and banks that fail to deliver could miss key revenue opportunities.

This edition of the Digital-First Banking Tracker®, a PYMNTS and NCR collaboration, examines what businesses today want and expect from their FIs to remain satisfied and loyal. Faster, seamless digital banking experiences are must-haves, but banks will also need a clear understanding of customers' businesses and goals to ensure that their corporate clients feel valued and heard.

Thought Leadership Team

PYMNTS.com

■ Feature Story

Canvas Credit Union On Keeping The Human Touch In Digital Banking For SMBs

DIGITAL BANKING TECHNOLOGY HAS MADE IT POSSIBLE FOR FIs AND THEIR BUSINESS CLIENTS TO CONDUCT FINANCIAL TRANSACTIONS WITHOUT MEETING IN PERSON.

This is certainly convenient, but for some smaller businesses, digital banking can seem like a mixed blessing. Small businesses may be looking to grow by attracting and serving global customers, but they may also wish to remain the small businesses down the street that conduct their banking in the traditional way.

“I think FIs need to do a blend of both [digital and in-person service], ... where they can have that relationship and at the same time be nimble enough for the technology [to allow clients] to access everything from a [smart]phone,” said Frank Robinson, business sales and service manager for [Canvas Credit Union](#). Canvas is one of Colorado’s leading credit unions and prides itself on having served small businesses with friendly, in-person service since 1938.

A robust online technology presence is essential for FIs to serve their small business customers today, Robinson said. Still, he has a difficult time envisioning a banking world without ready access to friendly tellers and branch managers with whom clients can consult when they need to.

“I think it’s going to come down to the technology that makes [a business owner’s] job a lot easier and their life a lot easier to be able to maneuver their banking situation,

but I think we’re still going to have to have that personal touch,” he said.

BALANCING TECHNOLOGY AND THE HUMAN TOUCH

Robinson said the major value propositions of digital banking for business clients are speed and convenience. Procedures that once took place in person, such as onboarding new clients, can be done in a fraction of the time. Once paper-laden processes, such as loan applications, can be done remotely, and money transfers can be authorized digitally.

“What it really comes down to is time is money, and I don’t want to go down to the local branch to wire money and stand in line for 30 minutes and get pre-approvals and different things like that, when I could be doing a whole bunch of other things in terms of getting to my business,” he said. “If I can send a wire from my phone because it’s already set up, then that’s what I’d rather do.”

He said that small business owners are looking for banks that will take the time to get to know their needs and remove the complexity from banking so that they can be free to do what they do best: take care of their businesses.

“What [I as a small business owner] expect from my bank is to be able to have that banker tell me what I need to know so I don’t really have to fuss with my banking, and I can focus on what I opened my business for,” he said. “You rely on your banker to be the professional and steer you in the right direction. ... I don’t have enough time to be figuring [it] out because I’m too busy focused on my business.”

Robinson emphasized that it is especially important, however, for digital banking to be both comprehensive across all aspects of SMBs’ needs and user-friendly.

“It’s got to be able to do everything that I need to do in terms of moving money around, whether it’s payroll, whether it’s paying vendors or whether it’s accepting money from my vendors or my clients,” he said. “At the same time, [I need to] be able to call someone or talk to someone in a relatively short period of time when I have a question.”

This flexibility to offer the best of both worlds of digital and physical banking, Robinson believes, is the key to satisfying SMB customers. Some banks are trying this hybrid approach with interactive teller machines (ITMs), which allow a live teller to interact with customers from a centralized location. Ultimately, he said, technology must be viewed as another tool for establishing and solidifying a partnership between banks and their business clients.

“I think you still need that personal [interaction] from both sides, the customer and the financial institution,” he said. “The technology is going to be more and more of just a better tool to be able to facilitate those relationships.”

Technology will continue to produce the vital digital tools that can help bankers make small business owners’ lives easier. Community FIs need not forget their roots in personalized banking, however. Instead, they can leverage those roots by delivering seamless digital experiences while continuing to be the trusted advisers their communities need.





Q&A

DOUG BROWN
President



What are some of the most important factors influencing businesses' satisfaction with their FIs today, and why?

A frictionless banking experience, first and foremost. Time is of the essence more than ever before for business owners, and so providing them with simple, seamless experiences will increase satisfaction exponentially. The more a financial institution can simplify the banking experience, allowing SMB clients to effortlessly complete daily banking tasks, is crucial.

What steps do FIs have to take to improve both the digital and in-branch services they offer their SMB clients and other businesses?

The FI has to show that they understand their business clients' individual needs. Regardless of channel, the FI needs to provide a straightforward experience that is personalized and anticipatory. Even the smallest amount of friction for a business owner could cause them to start looking elsewhere for their banking needs.

How important is it for FIs to offer faster, more seamless digital banking experiences to their small business clients?

It's more important than ever before. As more transactions and tasks are done digitally, FIs need to provide their SMB clients with the necessary tools and integrations. Whether it is payroll, authoring checks or integrating into their accounting software, the experience needs to be easy to set up and have quick support if they run into issues.

What are some of the emerging tools, solutions and platforms that business banking customers will expect from FIs in the future to cement their loyalty?

Better personalization capabilities are at the top of the list. Understanding how a business is ran, when they do payroll, pay bills, [and so on], and simplifying that task is critical. Also, including capabilities such as receipt capture, chatbots and eventually accepting crypto as payments will all be things FIs will need to keep tabs on to keep their SMB clients happy, profitable and running efficiently.

The Imperative To Improve Digital Banking For Business Clients



The pandemic's repercussions have been challenging for businesses, particularly SMBs.

A recent [report](#) from Ernst & Young found that 74% of small businesses have taken hits to revenue, profit margins and sales because of the pandemic, and 56% have had to rethink their business models to survive. One of the deeper impacts of the crisis has been on the way SMBs are engaging and interacting with their banks.

During the past year, some 43% of SMBs have [increased](#) their usage of online banking services, and 40% have used more mobile banking. In keeping with this shift, 38% said they decreased their visits to branches and offices, and 24% reduced their use of ATMs. These trends are likely to continue as the growing adoption of card and mobile payments makes branch visits less necessary.

Unfortunately, banks are not always keeping up with their clients' changing needs. As the proliferation of FinTechs and embedded finance makes the financial provider market more competitive, it is more important than ever for FIs to give their clients what they want or risk becoming irrelevant. The Ernst & Young [report](#) predicted that competition from FinTechs will cause 36% of SMBs to switch their financial providers at some point.

This month, PYMNTS examines what businesses expect from their FIs and how

important it is for banks to offer companies fast and seamless digital banking experiences. It also outlines some of the steps FIs can take to improve the services they provide their corporate clients during their digital transformations.

GIVING CORPORATE CLIENTS WHAT THEY WANT

Perhaps business banking customers' most pressing need is for comprehensive digital experiences with their banks. The same [report](#) found that 68% of SMBs are looking to manage as many aspects of their businesses via digital touch points as possible. More than half of SMBs [expressed](#) a wish for fully integrated digital platforms to support them in all facets of their businesses, including banking. Nearly one-quarter said they would be willing to access such integrated platforms through their banks, with 17% willing to pay for that ability. In time, SMBs are likely to expect these

platforms as essential requirements of business banking. Banks that fail to build their own platform infrastructures could miss out on a significant revenue opportunity.

This type of integration also helps fulfill the other digital banking prerequisites for SMBs: speed, security and efficiency. Low-cost, secure transactions that are as close to real time as possible are must-haves for SMBs working with limited cash flow. With the proliferation of APIs, open banking and embedded finance, shared information can mean quicker, more cost-effective service and seamless integration with existing systems. This data sharing also makes possible the personalization that businesses increasingly need and expect from their banks. A recent [survey](#) from Citizens Bank found that 82% of SMBs are at least moderately interested in sharing data with their banks if it permits a more tailored and improved experience.

Excellent digital user experience is non-negotiable, in fact. More than half of SMBs in the Ernst & Young [study](#) said it was “very” or “extremely” important for their banks to offer easy-to-use digital experiences. While nearly two-thirds of businesses were satisfied with their providers’ current experiences, just 19% said they were highly satisfied. Easy onboarding and responsive customer service are integral parts of that experience that

could keep a prospect from going to the competition. More than two-thirds of United Kingdom SMBs in one [report](#) said if their business bank account provider cannot deliver better digital capabilities, they are likely to switch to another.

Swift credit decision-making is also critical. Approximately half of SMBs that received bank loans to help get them through the pandemic would have [liked](#) faster loan access, and nearly one-third wanted to receive those funds within three days. This level of support fits with businesses’ growing expectation that their banks will be fully invested partners in their pursuit of success. The Citizens Bank [report](#) found that more than 80% of business leaders said their banks supported them through the pandemic and that they see their bankers as strategic and financial partners.

Above all, banks must clearly understand customers’ businesses to meet them where they are on their digitization journeys, making sure they feel valued and heard. This will often require a shift in focus from short- to long-term profitability for less digitally savvy businesses in transition. With so many choices on the banking market, successful banking relationships depend on whether or not banks decide to grow with their clients’ needs.





NEWS & TRENDS

CUSTOMER SERVICE AND DIGITIZATION

SMALL BUSINESS OWNER SATISFACTION WITH BANKS UP SIGNIFICANTLY FROM LAST YEAR

Digital transformation has increased small businesses' reliance on payment processors, and commercial banking services providers appear to be stepping up to meet these needs. A recent [study](#) found a significant increase in businesses' satisfaction with their merchant services payment processors this past year, led by larger banks. Researchers attributed the results to industrywide efforts to simplify fee structures, improve customer support and speed up payment processing for small businesses.

The study, generated from a survey of 4,406 small business bank customers, found that overall business satisfaction with banks was at 859 on a 1,000-point scale — up 23 points from 2021. Although larger banks have typically lagged behind FinTechs in merchant satisfaction, Bank of America and Chase Merchant Services enjoyed the most significant gains, up 45 points and 35 points, respectively.

Driving the overall increase in satisfaction were jumps of 33 points in satisfaction with the cost of service and 32 points in satisfaction with service interactions. Small businesses indicated an improved understanding of payment processing fee structures, resulting in a better ability to manage and control overall business costs. Also, 34% of respondents said they are receiving payments faster than expected, up 10 percentage points from last year.

In addition, 73% of businesses surveyed said their banks made proactive improvements in response to the pandemic, leading to a 71 point increase in customer satisfaction with the cost of service. These measures included offers of discounted products and services, updated fraud controls and speedier turnaround times.

THE DIGITAL TRANSFORMATION IN BANKING MUST CENTER ON CUSTOMER EXPERIENCE

With 84% of banking customers [planning](#) to keep the same level of digital banking after the pandemic subsides, the digital banking shift is here for the long haul. [Maintaining](#) solid relationships in a digital environment can be difficult for traditional banks, however. Banks working to strengthen digital customer experiences can cement relationships for the long term, but a recent [study](#) revealed that banks often struggle to deliver high-quality digital experiences because they lack a customer-centric strategy.

Four key initiatives can help banks solidify customer relationships in their digital transformations: continual tool improvement and refinement, optimal onboarding, transferring human relationships to digital channels and offering constant value with content and data.

Studying how customers are using digital tools and collecting their feedback can enable a process of continuous improvement that can help capture customer loyalty. Ensuring a smooth and seamless onboarding process is one of the most vital initiatives, as account openers who fail to engage with services within the first month likely never will. The idea that digitization can strengthen human interactions may seem contradictory, but social media presence, for example, can allow loan officers to find and connect with new prospects. Finally, adding value by creating personalized content based on data analysis can provide exceptional digital experiences that will ensure traditional banks' ability to thrive.

BRANCH CLOSURES IN THE DIGITAL SHIFT

US BANK BRANCH CLOSURES SET RECORD HIGH IN 2021

Closures of United States retail bank branches in 2021 beat 2020's record, according to a recent [report](#). The report found that U.S. banks closed 2,927 branches in 2021 — an increase of 38% from 2020, when 2,126 branches closed. By comparison, only 1,417 branches closed in 2019.

Digital transformation was already underway before the pandemic, but restrictions on in-person interactions led to rapid consumer adoption of mobile and digital banking channels. Decreased margins during the crisis forced banks to reconsider expenses and accelerate plans to consolidate branch footprints.

Banks recognize the need to attract and retain customers who still want to bank at a physical branch, and they have been experimenting with hybrid options. Some banks that have closed physical branches continue to operate ITMs, which are similar to ATMs but have videoconferencing capabilities. ITMs can function in lieu of physical branches by allowing tellers in centralized locations to serve customers remotely, helping to mitigate regulatory concerns in underserved markets.

DIGITAL BANKING LEAVES TELLER DEPOSITS IN THE DISTANCE

The days of making counter deposits with bank tellers are dwindling, according to one [report](#). Brian Moynihan, CEO of Bank of America, told CNBC that only about 15% of deposited checks are now handled at physical branches, down from 50% just 10 years ago, as consumers increasingly deposit funds digitally or through ATMs.

Moynihan said the shift to digital banking has caused the bank to rethink its physical footprint. He noted that the company had 6,000 branches at its “high point” and now has just 4,000, yet “business is probably three times bigger.” Bank of America [reported](#) that active mobile banking users rose 6% to 30.8 million in Q4 2021, while active digital banking users grew 3% to 39.3 million. The report added that the movement away from paper checks is likely to see momentum in the business payments space.



DIGITAL BANKING TRENDS

DIGITAL-FIRST BANKS USE CONTEXT TO PERSONALIZE BANKING

In an age when few people have only a single account or relationship with an FI, banks will need to create seamless and personalized banking experiences to survive. NCR president Doug Brown told PYMNTS in an [interview](#) that there is still friction inherent in banking today that is driving consumers to turn to nimbler FinTechs.

No longer are consumers dealing with just one FI, so developing loyalty will require banks to improve their digital experiences, Brown said. PYMNTS data shows that consumers plan to conduct nearly two-thirds of their banking digitally by 2024, with most expecting to do so via mobile apps or smart ATMs, yet just 9% rate their digital experiences as “excellent.” Banks looking to compete with FinTechs must make a more deliberate push toward personalizing users’ experiences, utilizing data from many different sources to recognize context and help consumers make better-informed financial decisions.

Successful apps know what an individual is attempting to do at a particular moment, Brown said, and can then offer relevant products based on the individual’s unique financial situation. He added that relevance drives customer action and, ultimately, satisfaction.



BANK OF AMERICA SEES RECORD 81% OF MORTGAGE APPLICATIONS INITIATED DIGITALLY

Rapid digitization in the past year has also had a significant impact on the home lending space. Bank of America recently [announced](#) that a record 81% of its total mortgage applications in 2021 took place through its digital application experience, up from 45% in 2020. The bank funded \$53.7 billion in first mortgage loans through its Digital Mortgage Experience in 2021, 2.5 times the volume in 2020.

The bank’s digital mortgage application process saves time and effort by leveraging advanced application prefill capabilities. These features automatically populate many parts of the application for existing Bank of America clients who apply for a first mortgage or home equity line of credit through the bank’s mobile app or online.

Bank of America announced in February that digital engagement with its customers increased 15% during the past year. The bank also added a record 2 million active digital clients last year, bringing its total number of digital users to 54 million.

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