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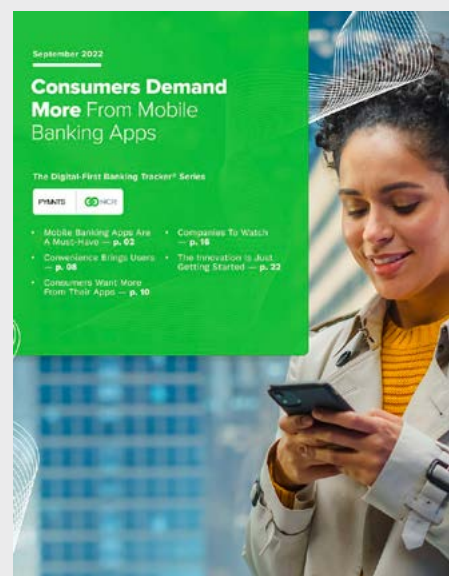


October 2022

Experience-Oriented Digital-First Banking

Digital-First Banking Tracker® Series

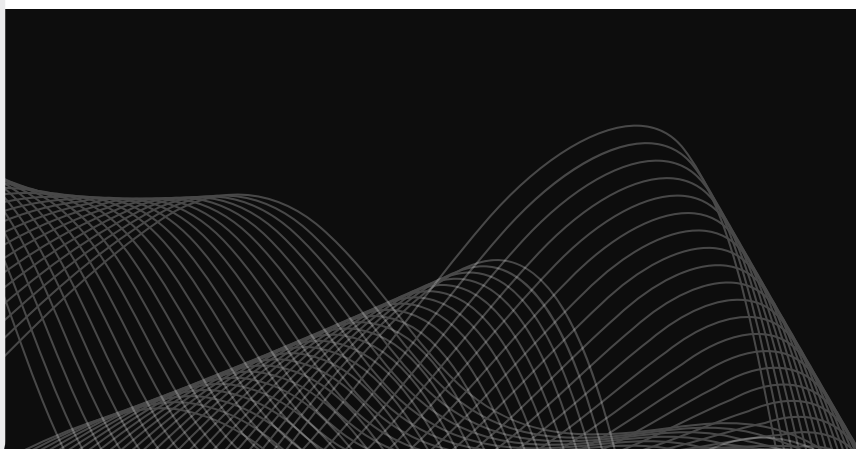
Read the previous edition



SEPTEMBER 2022

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PYMNTS



Acknowledgment

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Need To Know

Excellent Experiences Are No Longer Optional

The importance of digital banking is about to grow.

Spurred by the closure of nearly 3,000 physical branches in the United States in 2021, customers say they expect 61% of their banking business to be digital by 2024, with the biggest increases consisting of more ATM- and mobile-facilitated transactions.

“Technology has made the customers a lot stickier than they used to be. And I think that’s playing to our advantage.”

Source: <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/us-bank-branch-closures-increase-38-to-new-record-high-in-2021-68483121>

JEFFREY DEUEL
CEO and president



Need To Know

With branch closures a common trend, consumers have had to rely on technology to bridge the gap.

With 1,262 bank branch closures across the first two quarters of 2022, an increased number of banks have been [adopting](#) a “branch-lite model” to develop more digital, technology-focused banking hubs. Consumers have had to adapt to this shift by embracing digital channels.

All age groups are [making](#) digital-only banks their primary financial institutions (FIs), with younger, more tech-familiar generations the most likely to do so.

Complete adoption of digital-only banking services is a long way off, however, with just one in 10 consumers [having](#) their primary accounts with digital banks.

Consumers who are very or extremely interested in making their primary accounts digital-only, by generation:



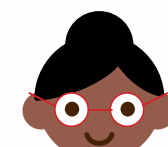
31%
of Generation Z



41%
of millennials



42%
of bridge millennials



29%
of Generation X



8%
of baby boomers and seniors

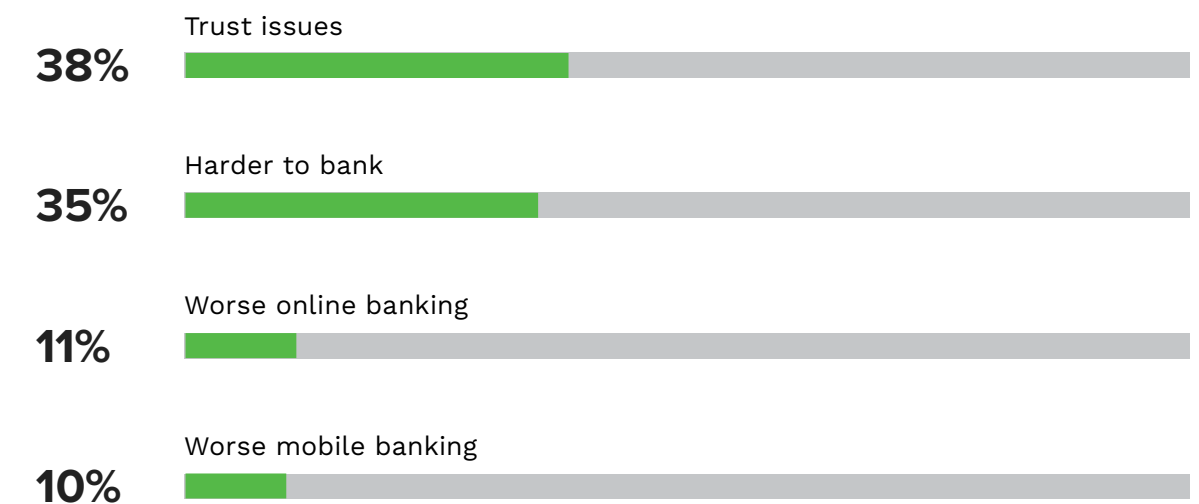
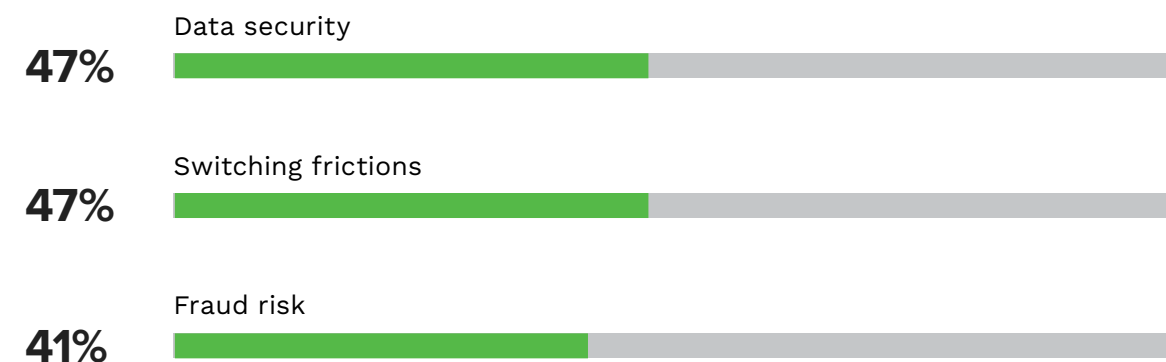
Need To Know

Much of consumers' hesitancy to switch their primary accounts to digital has to do with the banking experience, with 35% of consumers [saying](#) that digital-only banking makes it “harder to bank” and 38% lacking trust in this channel.

While the branch is unlikely to disappear altogether, digital banks [have](#) a major opportunity to win consumers' trust by becoming more customized and experience-oriented. Consumers want highly personalized banking experiences, with 62% in a recent [survey](#) saying they are even willing to share more personal information to get more relevant communications from their FIs. Providing experience-oriented banking is one way for financial services companies to differentiate themselves in a crowded field.

A recent [study](#) from Keynova Group finds that consumers are eager not only to begin using mobile banking but also to personalize their experiences. Banks such as BMO Harris, Fifth Third, Truist and U.S. Bank are achieving standout satisfaction scores by offering features such as quick links to transfers, payments and statements as well as savings progress on their digital app dashboards. These options not only help customers improve their financial health but also win their trust and loyalty. Forty-one percent of banks on the study's Mobile Banker Scorecard now offer personalization of their apps' dashboards, compared to just 30% just 12 months ago.

Reasons why consumers [hesitate to switch to digital-only banking](#):



Source: <https://www.pymnts.com/study/digital-banking-nonbanks-mobile-banking-services-payments/>

News And Trends

Customization Puts Power In Consumers' Hands

Customized banking app dashboards help users control spending

Banks are [rolling out](#) personalized insights and customized app dashboards for online and mobile banking users. These new dashboards display up-to-date account information and allow for quick navigation to frequently used features, making the mobile customer experience easier and more useful. Additionally, banks are using notifications to help keep their customers on top of things, with 29% of banks already sending proactive notifications to let customers know if they have low cash balances or are at risk of overdrafts. For those looking to track their spending habits or income sources, nearly half of the mobile apps allow consumers to break down their cash flow. The tailored insights generated by these features have the power not only to boost customers' financial health but also to humanize the digital experience, leading to long-term trust and loyalty.

News And Trends

Millennials, SMBs and financially stressed are most likely to prefer digital-only banks

A recent PYMNTS [study](#) found that while just one in 10 consumers banks primarily at a digital-only FI, interest is on the rise for a number of demographics who find these entities better aligned with their needs. More than half — 57% — of millennials and bridge millennials say they are very or extremely interested in using digital banks in the next 12 months. Moreover, the consumers most likely to make digital-only banks their primary FIs were millennials and bridge millennials, small- to mid-sized business (SMB) owners and consumers experiencing financial hardship. Lower costs, faster transfers and more convenient, easier transaction experiences comprised the biggest reasons for consumers' interest in switching to digital banks. PYMNTS' data also found that 85% of freelancers, 84% of millennials and bridge millennials, 83% of small business owners and 78% of consumers who live paycheck to paycheck with issues paying bills already use digital banks.

The consumers most likely to have their primary financial accounts at digital-only banks, by generation:



17%
of bridge millennials



16%
of millennials



16%
of freelancers or independent contractors



16%
of small business owners or self-employed



14%
who live paycheck to paycheck with issues paying bills

Source: <https://www.pymnts.com/study/mainstreaming-digital-banking-consumer-finance-fintechs/>

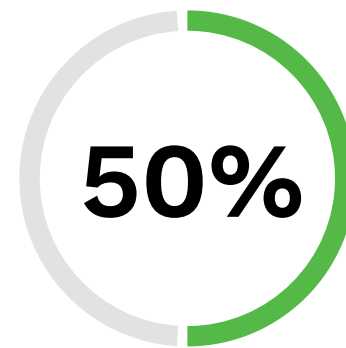
News And Trends

Convenience, personalized experiences drive interest in bundled banking

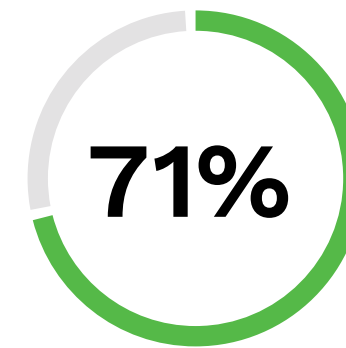
Banks are being encouraged to bundle up, a trend that has nothing to do with the weather. Convenience and personalized experiences have become the watchwords in banking as consumers navigating economic hardships increasingly want all their financial accounts in a single, easily accessible place. Nearly 50% of consumers prefer to have all their accounts with one bank, and 71% said ease and convenience are what motivate their interest in bundled banking. Forty-two percent of consumers said they would be somewhat more likely to leave a bank that had not bundled its offerings, spelling trouble for banks that do not consolidate these services.

Consumers want banks to bundle their offerings

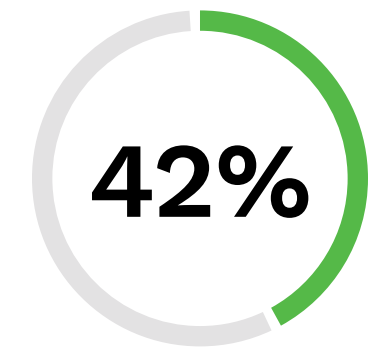
Source: <https://www.pymnts.com/study/bundled-banking-products-innovation-digitization-consumer-finance/>



of consumers prefer to have their accounts with a single FI.



of consumers say ease and convenience motivate their interest in bundled banking.



of consumers say they would be somewhat more likely to leave a bank that did not bundle its services for their use.

PYMNTS Intelligence

Personalized Digital Banking Builds Consumer Trust And Loyalty

Consumers both want and need to engage with their FIs digitally, but they want these interactions to be highly personalized.

Branch closures rendered digital banking a necessity, and now it is a permanent fixture of the business landscape.

Banks closed 9% of their branches in 2021. While these moves were in response to pandemic-era decreases in customer demand for in-person banking, this shift has created a new need for digital services to take the place of amenities previously accessed via a branch. A recent Citizens Financial Group survey found that most consumers now do at least some of their banking digitally, and more than 70% view their digital shifts as permanent.

Most consumers are at least curious about digital banking.

Fifty-nine percent of consumers say they are at least somewhat interested in trying digital banking over the coming 12 months, and 36% say they are very or extremely interested in this. The most common motivation is faster and easier transfers followed by lower costs and fewer fees. Younger generations are leading the pack.

PYMNTS Intelligence

Consumers are highly willing to use digital banking, but they may not be fully won over yet.

More than 70% of banking customers in every geographic region and age demographic are willing to consider digital channels. An equal share — 70% — of customer service interactions now occur on mobile, nearly twice as many as in 2017. Despite this apparent endorsement, mobile service use was nearly 10 percentage points higher than customer preference in 2021, indicating that banks still have work to do in fully converting customers to digital and mobile services.

A yearning for more personalized banking experiences is widespread, especially among younger consumers.

A survey of 3,000 global consumers found that banking customers are seeking more personalized mobile experiences that offer full service anytime, anywhere. More than 80% of Gen Z consumers surveyed want to be able to take care of even complicated tasks using digital channels, such as completing loan applications or adding personal details to a profile to obtain tailored product recommendations. Ninety-eight percent of consumers surveyed also want fast answers to their banking questions, yet 58% say their FIs have granted them this experience.

Share of consumers who are very or extremely interested in using a digital bank in the next 12 months:



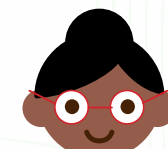
45%
of Generation Z



57%
of millennials



57%
of bridge millennials



39%
of Generation X



13%
of baby boomers and seniors

Source: <https://www.pymnts.com/study/mainstreaming-digital-banking-consumer-finance-fintechs/>

PYMNTS Intelligence

A positive technology experience leads to consumer trust — but sometimes human interaction is needed.

Banks that are unable to provide their customers with good experiences are unlikely to have customers say they trust them. Banks can also promote a trusting relationship with their clients by knowing when to move from a digital interaction to a human one. When an issue is not immediately resolved, 41% of consumers surveyed say they want to be able to switch from a chatbot to a customer service representative from inside the messaging application.

While digital banking's convenience is here to stay, the human touch will remain essential to an excellent customer experience.

While there is no going back to the pre-digital era, the ability to interact with other humans, whether in person or through a virtual channel, is still a core necessity for most bank customers, especially when accessing financial advice and working through complex transactions. Two-thirds of both consumers and businesses prefer human interaction and know-how when receiving any kind of financial advice. Combining the human touch and a positive technology experience is how digital FIs can retain customers in this highly competitive environment.

“Providing an exceptional digital-first banking experience goes well beyond a fancy interface. To deliver the experiences consumers want, financial institutions need to know their customers via the mountains of data they collect, demonstrate that they know them through relevant, timely offers and services and wow them with a frictionless digital experience. The financial institutions that do this best will stave off attrition and be in a prime position to onboard new accounts and customers.”

DOUG BROWN
President



Chart Of The Month

Some Consumers Are Not Ready For Digital-Only Banking. Here Is Why.

The most-cited sources of hesitation include satisfaction with their current banks, the desire to be able to access physical branches for in-person transactions and distrust of primarily digital banks. Concerns with digital, such as difficulty accessing customer service, challenges with the technology and inconvenience of use, also ranked in the double digits, however, suggesting that the digital customer experience is key.

FIGURE 1:

What holds consumers back from digital-only banking

Share of consumers who identified select reasons for not being interested in using a digital bank in the next year

- Most important
- Selected, but not most important
- Total

Source: PYMNTS

How Consumers Use Digital Banks, September 2022

N = 897: Respondents not interested in using a digital bank, fielded June 30, 2022 – July 7, 2022



Insider POV

Keeping Small Businesses Afloat With Personalization And Automation



GRANT SAHAG
Executive vice president

“The most interesting personalization component is helping small business owners and consumers work through complex workflows.”



An interview with Grant Sahag, executive vice president at [Novo](#), about how personalization and automation tools help keep the smallest businesses competitive

Enabling small businesses to thrive

Small businesses have always faced unique challenges, but now these players need automated notifications, instant access to dashboards displaying their financial data and transactions and the ability to make payments in real time. Not having these options could mean going out of business. These organizations typically lack IT or accounting specialists, often relying on one person's grit to perform administrative tasks such as paying bills day to day.

“[Small businesses] are essentially living paycheck to paycheck,” said Grant Sahag, executive vice president at Novo, a banking platform geared toward small businesses with three or fewer employees. “The bills that these folks are trying to pay are not just vendors; they're trying to pay their electricity bills.”

Using a predictive financial tool that provides both automated functions and personalized insights can sometimes mean the difference between life and death for these small firms.

Insider POV

Keeping the cash flowing

A decade ago, these kinds of tools were not available for small businesses or individuals trying to personalize their banking, but they have become game-changers, Sahag said. Such tools learn the habits and identity of each user and begin to anticipate their actions, speeding up transactions and simplifying processes. This technology also allows customers to create dashboards that grant them better visibility into the business's cash flow and allow them to automate transfers and payments.

Eliminating barriers to personalization

Both banks and FinTechs face hurdles to personalization, said Sahag, noting that most traditional banks have invested fewer resources into this imperative than their more agile, tech-centric competitors.

“[Legacy banks] are serving a very wide market. Even if they wanted to provide a personalized experience, the amount of time it takes is a barrier to entry. And in the end, it is really a data problem,” said Sahag.

Additionally, the walled-garden model that many FIs use creates a barrier, while FinTechs and neobanks that use an open banking system tend to have access to better, more up-to-date data and application programming interfaces that enable personalized, digital-centric experiences for their customers.

Providing the tools for personalization

If major banks fail to provide these tools, customers will find alternative ways to access the functionalities that personalization offers.

“That is why [these tools] have been so disruptive [to the banking market],” Sahag explained. “And that disruption feels [to customers] like getting a more personalized experience.”

Sahag said these tools help ensure that companies of any size can manage complex flows of currency and cut down on additional administrative steps. Best of all, the tools help maintain small businesses that otherwise might not be able to manage their finances.

“One customer said, ‘You’ve allowed me to sleep easier at night because I can pay my bills,’” said Sahag.

Companies To Watch

Banks Up Their Investments In Personalized Digital Experiences

The logo for Bank of America, featuring the text "BANK OF AMERICA" in blue and a red and blue striped flag icon to the right.

After a record 2.8 billion [logins](#) to digital accounts during Q2 2022, Bank of America is planning to boost its spending on technology to further expand its electronic banking tools. The bank has a record 55 million verified digital clients, and more than 72% of the bank's households actively use digital channels. BoA customers also sent 43% more Zelle transfers during the second quarter than checks, and approximately 28 million customers interacted with Erica, the bank's virtual financial assistant. Additionally, BoA has found that digital channels are very popular with wealth management clients, as these consumers' interactions with Erica have increased by 33%.

The logo for Truist, featuring the word "TRUIST" in blue and a blue square icon with a white "H" inside.

Truist Financial Corporation has [announced](#) Truist Assist, a new mobile banking app and online banking platform for its personal banking customers. The digital assistant employs natural-language processing and understanding to answer queries and provide financial information via app or online. Should a customer need a higher level of assistance, Truist's contact center is embedded, and the platform offers a frictionless transition from the virtual assistant to a representative when needed.

The logo for Westpac, featuring a red stylized "W" followed by the word "estpac" in black.

Australian bank Westpac [intends](#) to launch a simplified digital mortgage process allowing customers to obtain unconditional approval in roughly 10 minutes. Digital mortgages will be available near the end of 2022 for select customers refinancing through Westpac's Flexi First Option home loan. Westpac will expand this to a greater number of consumers through the 2023 calendar year.

What's Next

The Competition For Digital-Only Consumers Is Just Beginning

As banks move to a more virtual and digital world, one trend of which FIs should take note is that consumers now [say](#) they do not consider their primary FIs to be the providers they trust the most to deliver financial services. PayPal is number one as the most trusted provider, with 42% of consumers in 2022 ranking it as such. Overall, U.S. FIs struggle with maintaining consumer trust in an increasingly challenging market. That trust is harder to gain via digital channels, where fraud risk is higher and consumers can easily switch providers. It is thus key that FIs get the experience right every time to retain customers.

“ Digital experience expectations among consumers have grown exponentially. And brands like Amazon, Delta Air Lines and Apple have brought forward the gold standard for the digital experiences consumers expect from every brand they interact with. To provide that same gold-standard experience, financial institutions need to be agile, utilize their abundance of data and have a digital-first mindset across the entire organization. ”

DOUG BROWN
President



About

PYMNTS PYMNTS is where the best minds and the best content meet on the web to learn about “What’s Next” in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.



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