WHITEPAPER

Digital Banking

Maximizing Technology to Meet the Convenience Demands of Consumers and Small Businesses

The Pandemic Has Transformed the Way Americans Bank

One survey showed that 43 percent of respondents have changed the way they bank due to the pandemic, and 66 percent say they visit physical branches far less. In April 2020, mobile banking registrations shot up 200 percent, and overall use grew 20 percent over a six-month period in the same year.[1]

Waiting in line to deposit a paycheck, spending hours filling out loan applications, and rushing to the nearest branch before closing time has been replaced with mobile deposits, loan decisioning within minutes, and the ability to conduct transactions from a computer or smartphone at any time.

There is no question that the pandemic has changed the traditional banking model—for good. Consumers and small businesses have not only embraced emerging technologies, but have come to expect them from the financial institutions they do business with, thanks to the convenience and speed digital banking provides.

This whitepaper explores the rising demand for digital banking services from both consumers and small businesses and the financial impact these services have on the banking industry. It also discusses how financial institutions can maximize technology to meet their customer's demands and increase their own profitability in a post-pandemic world.

[1] Four ways COVID-19 is reshaping consumer banking behavior; EY

Digital Banking Has Arrived

In a post-pandemic world, digital banking has become a core financial service. A recent Galileo survey showed that last year 21 percent of adults use a digital-only bank as their primary account, and most of these users (79 percent) report that they were satisfied with their bank. That is a higher satisfaction rate compared to the 65 percent of survey respondents who still use traditional banks as their primary account, and of whom only 66 percent were satisfied.[2]

Furthermore, although 77 percent of adults use traditional banks as either a primary or secondary account, 43 percent of their funds are kept elsewhere—with more than one third (35 percent) of it in digital-only banks and stand-alone accounts.[3]

The trend is clear—digital banking has provided a degree of speed and convenience that consumers are no longer willing to compromise on.

Small Businesses and Digital Banking

It's not just consumers who are embracing the digital banking experience. According to the latest research, about 20 percent of small businesses are turning to online lenders for their loan applications, while a recent JD Power survey reported that as many as 42 percent of SMEs think alternative providers —such as fintechs—could deliver better service than traditional banks.[8]

The same JP Power survey also showed that 63 percent of small businesses used mobile banking and 79 percent used online banking between September to November of 2020. Meanwhile, only 59 percent of small businesses visited a branch during the same period.[9]

> ***"As many as 42% of SMEs think alternative providers—such as fintechs—could deliver better service than traditional banks."***

However, despite growing demand by SMEs for digital banking, few financial institutions have stepped up. According to data from Forrester Research, 78 percent of small businesses want data-driven financial insights, however only 12 percent receive such insights from their banking partner.

If financial institutions want to take advantage of this $370 billion opportunity,[10] digitalization is key—a Salesforce report said that following the pandemic, 68 percent of business owners have higher expectations of a brand's digital capabilities when deciding to work with them.[11]

Latest Consumer Trends in Digital Banking

78%

Prefer to do their banking digitally[4]

41%

Prefer to bank via mobile app[5]

62%

Of consumers likely to switch to a digital-only bank[6]

[2&3] Key Findings: Consumer Banking and Money Survey; Galileo

[4&5] Digital Banking Survey: How Americans Prefer To Bank; Forbes

[6] POPULAR TRENDS IN DIGITAL BANKING FOR 2022; International Banker

[7] Federal Reserve's Small Business Credit Survey: 2021 Report on Employer Firms; Federal Reserve

[8&9] Top Trends Transforming Business Banking in 2022 and Beyond; The Financial Brand

[10] Embedded digital banking solutions bind the new banking small business relationship; Bottomline

[11] Digital banking should be the cornerstone of every small business' tech strategy; Fintech Futures

Convenience Drives Digital Banking

1 Consumer lending demands

Today's customers expect the flexibility to do banking when and where they want to do it. The pandemic introduced the speed and convenience of digital banking, and today, consumers expect real-time access to their accounts and seek the ability to apply for loans at their convenience rather than being limited to banking hours.

In fact, a recent PwC survey discovered that 32 percent of banking consumers have no interest in physical branches at all.[12] A growing number of consumers are switching to digital-only banks, or at the very least, financial institutions with greater digital banking capabilities. This trend suggests that to succeed in a post-pandemic world, financial institutions must have a robust digital service offering.

2 Small business lending demands

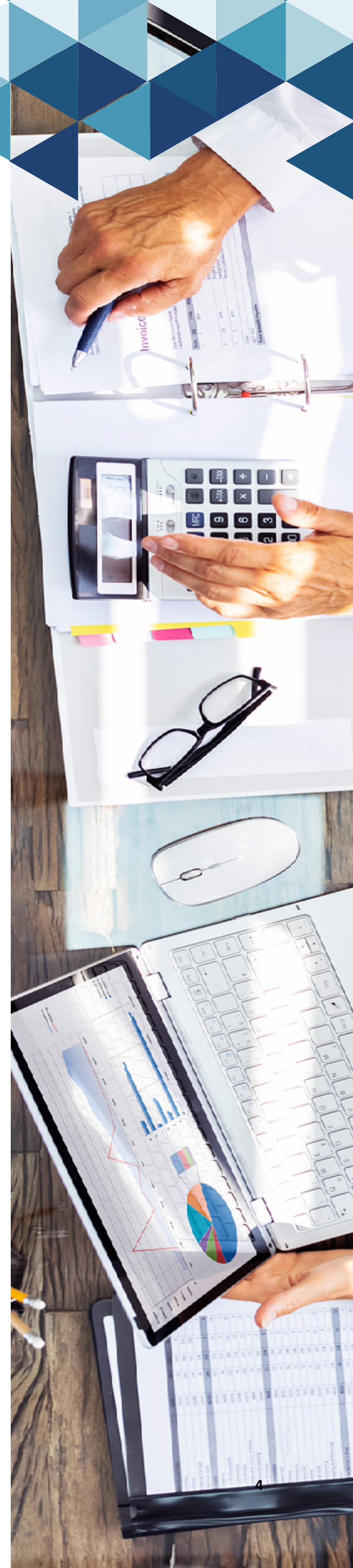
Efficiency and speed are the primary demands behind small business lending, too. Emerging online players are disrupting the retail banking industry with lending innovations that maximize technology, similar to the way Amazon.com changed the retail industry.

The convenience and speed of online-only lending presents an attractive alternative for some small businesses. All of the biggest players in the online lending industry not only offer online and mobile applications, but many of them can be completed in 30 minutes. Comparatively, the average small business spends 25 hours filling out paperwork at three different banks before obtaining funding.

Online applications also expedite the approval process, with small and mid-sized businesses (SMBs) often finding out within hours whether or not their loan has been approved. Conventional banks may take weeks for approval. Of successful applicants who secured lending through small or large banks, 45% and 51% reported "long wait for credit decision" and "difficult application process" as the primary reason for their dissatisfaction, respectively.

As a result, some qualified SMBs who would have been approved through their own banks are still turning to alternative lending sources in order to obtain capital at a faster speed despite what are often significantly higher annualized interest rates.

In order to compete with online lenders, delivering an efficient, convenient way to apply for loans is a must.



[12] PwC's 2021 Digital Banking Consumer Survey; PwC

The Impact of Digital Banking on Profitability

The impact of digital banking on a bank's overall bottom line cannot be ignored. Banks who have successfully implemented a digital banking strategy have seen a positive ROI on their technology investments through increased revenue, more cross-sell opportunities, improved attrition, and greater savings.

Increased revenue

Digital banking users as a whole generate more revenue than non-users. In a two-year study that tracked digital banking customers over a two-year period to determine the impact of digital banking, monthly revenue per customer jumped by nearly 11 percent in customers who enrolled in digital banking. For highly-engaged customers (those with the longest tenure who make the most transactions), that number increased to 13 percent after digital enrollment.

Comparatively, non-digital customers who limited engagement to branch services, on the other hand, experienced a 4.5 percent increase in monthly revenue.[13]

Greater product holdings

The average number of product holdings—loans, certificates of deposit, mortgages, and credit cards—more than doubles following implementation of digital banking. In fact, in one survey, product holdings rose 58.4 percent.[14]

This statistic helps to assuage the concern that the lack of personal service provided by online and mobile banking capabilities will result in decreased engagement with customers. However, consumers who also utilize mobile banking are typically more engaged with their banks.

As more customers move towards a digital experience, it shifts the focus of branch employees away from transactions to more advisory services that result in greater opportunities for engagement and cross-selling.

Lowered attrition

Customers who have access to mobile banking tend to remain with their financial institution. In one study, 82 percent of consumers reported being less likely to consider switching banks once they are accustomed to their bank's online/mobile banking services.[15]

For credit unions, the impact has shown to be even greater—in a separate survey, attrition rates reached 13.4 percent for customers who don't use mobile or online channels versus nearly 5 percent for mobile banking users.

The increased customer retention can in part be attributed to the ability to retain remote customers. Implementing and maximizing banking technology enables banks to develop a digital relationship with their customers. As customers relocate or live remotely due to the pandemic, the need to find a new financial institution lessens with anywhere, anytime access to online banking, applications, and traditional branch-only operations.

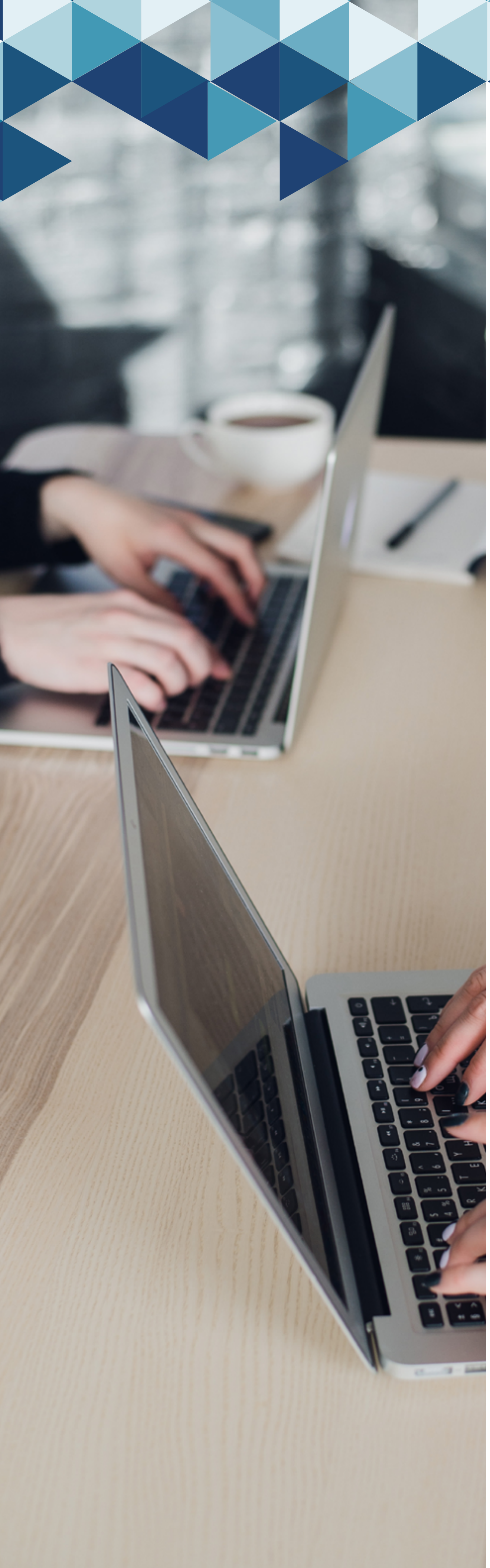
Greater cost and time savings

The potential for cost savings increases with the adoption of banking technology. According to a recent analysis on banking opportunities for operational efficiency, adopting a digital strategy that includes mobile banking can result in significant savings. The analysis found that the cost of processing a transaction via mobile phone was as high as 50 percent lower than the cost via a branch. Based on these figures, a bank with a footprint of 100 branches and 250 ATMs with an average of 165 branch transactions and 65 ATM attractions could save up to $5 million annually by converting just 20 percent of these transactions to a digital channel.

[13] Study from Bank of the West and Fiserv Quantifies the Value of Digital Banking; fisery

[14] Study Finds Digital Banking Adoption Leads to More Valuable Customers; S&P Global

[15] Provident Bank Survey Shows Three-Fourths of U.S. Adults Prefer Digital Banking Services; Provident Bank



Maximizing Technology to Increase Profitability

While both consumers and small businesses place a high value on digital banking, the majority still bank with traditional financial institutions. To remain competitive, financial institutions must meet the convenience expectations of their customers, whether small business or consumer, while maximizing available technology.

Implement a solution for online applications

With speed and convenience being the primary reasons SMBs and consumers seek alternative lending, financial institutions should provide an application process that is both convenient and fast. The ability to receive loan applications online delivers a competitive advantage, providing "my time" consumer and small business lending to customers. By providing 24/7 access to loan applications, FIs make it easy for their customers to do business with them.

Online application solutions also increase efficiency for both customers and loan origination teams. When Mercantil Bank in Florida implemented the Baker Hill turnkey online loan application solution, they reported a better customer experience. The online loan application provided a simplified process that reduced confusion and enabled customers to apply on their own time.

Streamline the decisioning process

Loyalty to a single bank has taken a backseat to faster, more efficient processes. Consumers and small businesses place high value on the ability to decision loans quickly. Financial institutions that can effectively deliver have the upper hand. Mercantil Bank combined Baker Hill's turnkey online loan application and loan origination solution to expedite both the application and decisioning processes. As a result, they reduced loan processing time by 23 percent.

Utilize data to tailor messaging and promote products to consumers

Financial institutions have access to a multi-dimensional view of consumer data, putting them in the unique position to capitalize on this data while maintaining the privacy of their customers' data. Armed with this knowledge, banks have more opportunities to acquire new customers through targeted marketing, identify cross-sell opportunities to existing customers, and enhance their decisioning capabilities.

Conclusion

As on-demand banking becomes the norm, progressive financial institutions must alter their current strategy by maximizing available technology. To compete effectively, banks must proactively seek after the ability to meet their customer demands and capture lending opportunities whenever—and wherever—they arise.

Ready To Transform Your Bank With End-To-End Digitalization?

Built on decades of technology and banking expertise in supporting banks and credit unions as they provide vital resources to their communities, Baker Hill is lending evolved. Baker Hill NextGen® is a configurable, single-platform SaaS solution for commercial, small business, consumer loan origination, and risk management that grows along with you as your business needs change.

- Learn More
- Read Our Customer Success Stories
- Schedule a Consultation

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Baker Hill empowers financial institutions to work smarter, reduce risk and drive more profitable relationships. The company delivers a single unified platform with modern solutions to streamline loan origination and portfolio risk management for commercial, small business and consumer lending. The Baker Hill NextGen® platform also delivers sophisticated analytics and marketing solutions that support sound business decisions to mitigate risk, generate growth and maximize profitability. Baker Hill is the expert solution for loan origination, portfolio risk and relationship management, CECL, and analytics for financial institutions in the United States. For more information, visit **www.bakerhill.com.**

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