DIGITAL-FIRST BANKING TRACKER®

DECEMBER 2020

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ACKNOWLEDGMENT

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WHAT'S **INSIDE**

The recent news of COVID-19 vaccine approvals may have created a light at the end of the tunnel for many, but numerous industries are hardly out of the woods. The pandemic has caused a global recession that could rival the impact of the one of 2008 and governments around the world were forced to institute social distancing guidelines and stay-at-home mandates to reduce the risk of infection. More than 20,000 financial institution (FI) branch locations are expected to close their doors after the pandemic has ended and four U.S. banks have already failed since the pandemic began.

Bank customers are taking to mobile and online banking in record numbers to maintain their financial lifestyles, with 53 percent of bank customers around the world using banking apps more often now than they did before the pandemic began. Sixty-two percent of consumers in the European Union are interested in ditching in-branch banking entirely in favor of digital alternatives — a 13 percentage point increase from 2017 — but a substantial minority remains that still desires some form of in-branch capability for more complicated transactions. The new dynamic brought on by the pandemic looks like it is here to stay, however, as 87 percent of first-time banking app users plan to maintain their new financial habits beyond the pandemic.

Banks will need to seriously revamp their in-branch experiences to accommodate the new normal as customers are growing used to the unparalleled convenience and speed that mobile banking has to offer. One-third of bank customers said they would visit physical branches more often if they could compete with the ease of mobile banking, and banks are deploying or workshopping a number of technologies to make this convenience a reality. Smart ATMs are being leveraged en masse to provide a similar range of banking transactions as can be accomplished by human tellers, and many banks are also deploying virtual video meetings so customers can interact with bank staff without leaving the comfort and safety of their home.

FIs need to be prepared for whatever form the post-pandemic financial industry takes, though digitization is sure to play a key role, and they will need to begin these efforts now if they wish to succeed in 2021.

Digital-first banking developments around the world

The total cost of the pandemic is likely incalculable, but its effect on in-branch banking could add up to 20,000 closed branches, according to experts. These impending closures are not entirely blamed on the pandemic but are the result of a years-long shift toward digital transactions, with the total number of banks in the U.S. declining by 7 percent over the past five years. Credit unions are also reportedly considering more physical branch shutdowns as their members move online, mirroring banks' digital shift.

Branches that remain open will need to look into enhancements as expectations for in-branch banking experiences change. New research has found that 35 percent of customers will always want access to in-branch banking in some capacity, yet 23 percent said that service should be faster. One-quarter of respondents said that they wanted shorter teller lines, while 31 percent want longer hours of operation. Many branches are deploying self-service kiosks and upgraded ATMs to meet these requests.

ATMs will likely play a crucial role in banking going forward, but customers' expectations for them are changing as well. A survey from September 2020 found that 54 percent of Americans desired a contactless way to open new financial accounts or access existing ones, and new ATMs are being developed to meet these demands. Some leverage smartphone integrations that allow customers to interact with the machines while others deploy biometric verification instead of physical PIN pads for security.

For more on these stories and other digital-first banking developments, read the Tracker's News and Trends section (p. 11).

The online and in-branch innovations needed for the future of digital-first banking

The past year has brought about a sea change in the financial industry, with online banking growing more popular than ever and brick-and-mortar branches changing dramatically to limit the spread of infection. Banks have rapidly adapted to survive, but many of the shifts they have made in 2020 will be here to stay for the foreseeable future. In this month's Feature Story (p. 8), CarrieAnne Cormier, senior vice president of retail operations and strategy for Avidia Bank, discusses why maintaining a constant line of contact with customers is critical to success in a digital-first banking space.

Deep Dive: How the events of 2020 will affect the future of digital-first banking

This year's events, including the pandemic and accompanying economic downturn, will continue to make waves in the financial industry for years to come. Unprecedented numbers of customers flocked to digital banking instead of physical branches and do not plan to change course any time soon, forcing banks to adopt with new innovations for this rapidly changing customer base. This month's Deep Dive (p. 15) explores how the financial industry was affected by the pandemic and details the new initiatives they are undertaking to accommodate changing customer demands. Consumers were shifting to digital and mobile banking well before the pandemic's onset, but social distancing and limited branch operations highly accelerated that uptake. Banking customers are now searching for financial partners that not only offer digital experiences but also allow consumers to complete transactions wherever and however they want.

EXECUTIVE Insight

Just seven percent of banks have undergone large-scale digital transformation efforts in the past year. What are some the challenges banks face in these efforts and how can they overcome them?

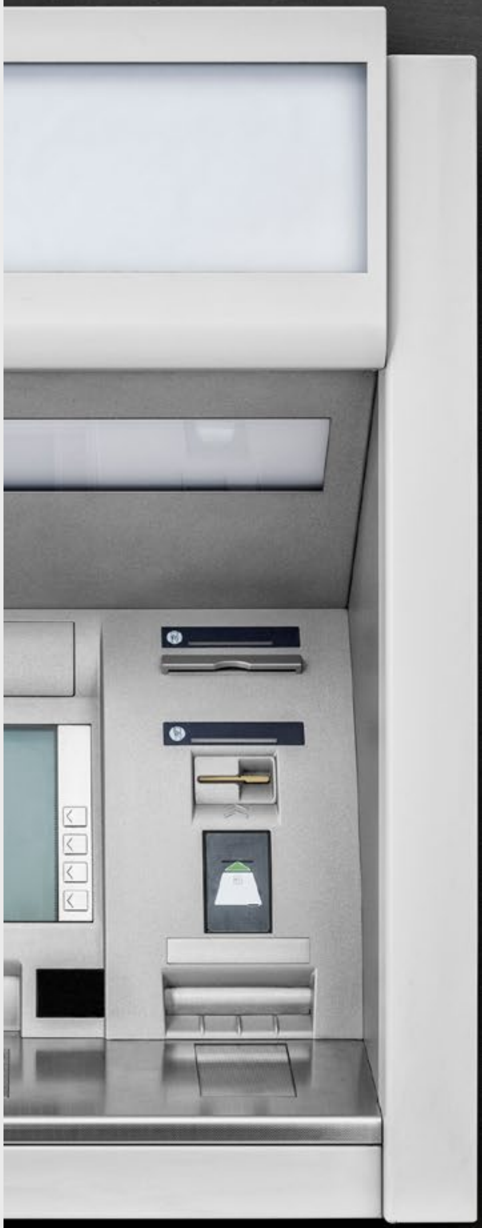
"Budgeting, staffing and culture are some of the biggest obstacles banks face. The banks that are the most successful are those that can change the culture and implement a truly digital-first mindset across all channels within the branch. To truly transform the business and have a digital-first approach, institutions have to eliminate silos and update back-office systems across channels."

Up to 20,000 bank branches are expected to close before the end of the pandemic. What sort of challenges has the pandemic posed to banks and what lessons can they learn from them moving forward?

"Almost overnight, many [banks] had to stand up systems and set up processes that would allow them to service small business PPP loans, their digital solutions were pushed to the brink and they had to learn how to operate almost 100 percent remote. The biggest lesson that banks should take away from [the pandemic] moving forward is that they can move quickly and that they are able to pivot and be more agile than previously thought. [This year] really showed that banks can do these things and still be successful while conducting business primarily via digital."

Douglas Brown
senior vice president and
general manager NCR Corporation

5 FIVE FAST FACTS



INNOVATION

The number of banks self-describing as "innovation pioneers" has fallen since 2019.

DIGITIZATION

More than half of global banking customers are using bank apps more often during the pandemic.

CLOSURES

Tens of thousands of banks could close the before pandemic ends.

IMPROVEMENTS

Bank customers want smaller lines and longer operating hours from bank branches.

ATMs

Contactless ATMs could help meet consumers' demands for touchless transactions.

DIGITAL-FIRST BANKING

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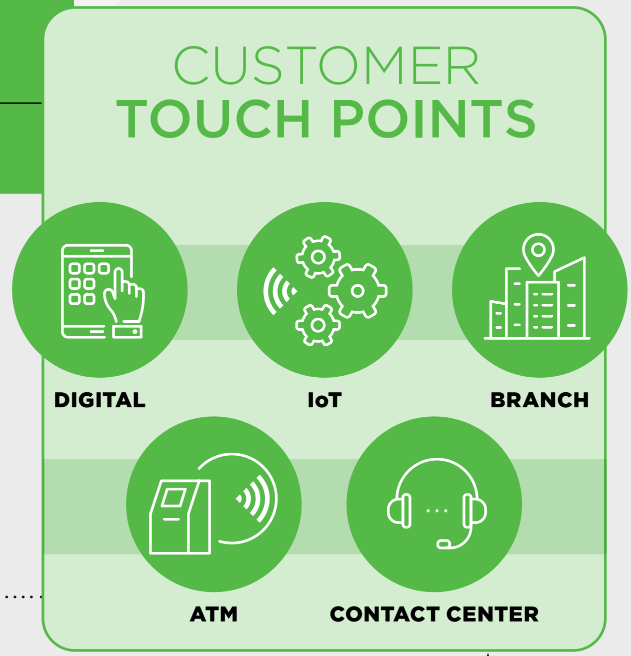
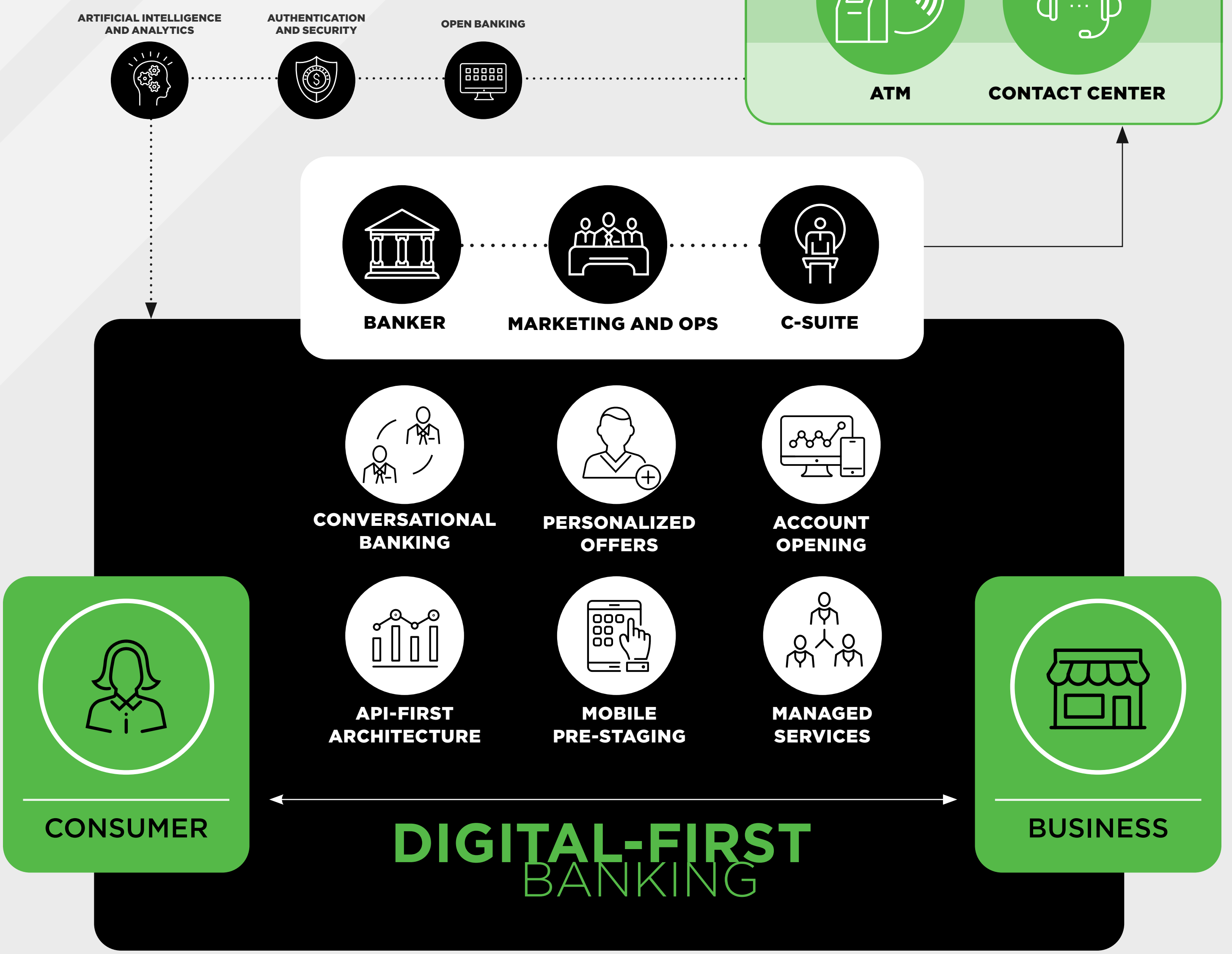


ECOSYSTEM

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

AVIDIA BANK ON THE DIGITAL APPROACH TO MEETING CUSTOMERS', BUSINESSES' NEEDS

The pandemic has led to massive changes for banks, which have had to radically adjust their operations despite generally being deemed essential businesses. FIs around the world have accelerated the deployment of digital banking programs to cope with social distancing orders and bank branches that remained open took steps like offering appointment-only visits to reduce transmission risks.

One FI navigating pandemic-related challenges is Massachusetts-based Avidia Bank, which was founded in 2007 and currently has $1.9 billion in assets. Avidia — like other banks around the world — has been forced to make numerous changes to its brick-and-mortar and online services to provide proper safety precautions while serving customers. The FI has ultimately tried to stay in tune with its customers' needs and swiftly react to them, said CarrieAnne Cormier, senior vice president of retail operations and strategy at Avidia.

"You hear a lot about the new normal and stuff like that, but I really see it as banking at the speed of life," she said. "Financial institutions in general have had to adapt at our consumers' and our business clients' paces and how they're conducting their lives and how fast or slow that's going."

Cormier recently offered PYMNTS an inside look at how Avidia has handled the pandemic's game-changing effects and why open communication is critical to FIs' continued digital-first success.

In-branch changes

Avidia's pandemic adaptations were first devoted to keeping its customers and staff members safe, as was the case with bank branches globally. Its brick-and-mortar locations shifted to appointment-only visits to limit the number of employees and customers indoors at any given time, and all back-office staff who could work from home were required to do so.

"It's been funny how much we used to rely on certain old practices, and [we] have used this pandemic as a way to spring into action on things we could have done so long ago," Cormier said. "We hadn't had a huge focus on working from home before, but we were able to focus on improving our internal workflows, which, in turn, has had an effect on our customers. We also saw about a 50 percent savings in our on-site energy usage, which is significant with 10 locations."

Some FIs have been unable to pivot to digital as quickly as Avidia, and customers around the world have suffered the consequences. Difficulties at a single FI often gave the impression that the entire industry was having the same difficulties, resulting in decreased customer satisfaction even at banks that were taking the proper precautions.

"There was a local credit union [near us] that shut [its] doors in March for lobby access and their digital tools weren't as strong, so they had customers waiting for over two hours," Cormier said. "The lines would be literally 25 to 30 cars long, and that creates that perception of scarcity and feeling nervous."

The best way to connect with anxious customers, Cormier said, was through digital channels, with even corporate customers benefiting from increased digital outreach.

Online innovations

Mobile banking has experienced a steady increase in users over the past several months, but Cormier pointed out that this growth has been mostly gradual. She attributed this to steady adoption before the pandemic began, which had prompted most customers who preferred digital banking to begin using it before March. Corporate banking was a different story, however.

"We probably saw a 40 percent increase in new mobile business users right off the bat, and that's continued to trend upwards," Cormier noted. "That tells me that, although consumers were very focused on mobile tools in the past, businesses weren't as much, and the pandemic has helped them make that shift."

She said that the FI's biggest challenge during the digital shift has been maintaining constant contact with first-time digital users. Many customers who were used to conducting in-person transactions had difficulty verifying their identities with the bank while digital natives were accustomed to two-factor authentication and other security measures.

"When customers banked with us [in person], they were able to use their money wherever they needed to, but when it came to interacting with the bank, a lot of it was still manual," Cormier explained. "We were able to set a way to connect with customers over the phone and verify them that way."

Customers consistently report that their new digital engagement habits are here to stay, which means the various online tools that have been developed during the pandemic will likely serve banks well into the future. It will be incumbent on FIs to ensure that customers have smooth and secure experiences as their financial lifestyles become more digital

NEWS & TRENDS

THE PANDEMIC'S EFFECT ON BANKING

Just 7 percent of banks have deployed large-scale digital transformation efforts

The ongoing pandemic has drastically changed the way that bank customers interact with their FIs, and many have switched to digital interactions to stay safe. Banks have been slower in their large-scale efforts to adjust to this change, however, with a recent study of 750 banks and financial services firms finding that just 7 percent of FIs have deployed major digital transformation efforts this year. Banks appear to be largely aware of this shortcoming, it seems, as just 9 percent identify as "innovation pioneers," down from 14 percent last year.

Banks had a variety of reasons for this low rate of perceived digital transformation. The most widely cited reasons were cost and time, with 71 percent of banks saying it was prohibitively expensive or time consuming to undertake this major effort. System integration challenges were second-most commonly cited at 66 percent and 62 percent faced challenges with their legacy banking systems. FIs are aware of digital-first banking's benefits, even if they cannot harness them. Seventy-three percent of banks said that mobility was a boon while 64 percent touted the implementation of open application programming interfaces (APIs) or artificial intelligence (AI) and machine learning (ML).

EU bank customers express interest in switching to digital banking entirely

Bank customers are hungering for more digital capabilities in light of the new banking paradigm. A recent survey of European Union bank customers found that 46 percent were interested in new digital banking solutions that made their online transactions quicker and easier while 42 percent said they wanted solutions that would make their transactions more secure. Sixty-two percent of respondents said they were interested in switching from in-person banking to digital banking entirely — a 13 percentage point increase from 2017. This change is driven in large part by the pandemic: 53 percent of global banking customers now use banking apps more often than before the pandemic struck.

Many of these consumers are first-time banking app users, and their newfound habits are here to stay. Another study found that 87 percent of first-time users plan to continue using banking apps once the pandemic is over, but 52 percent of digital banking app users said that the pandemic has not significantly affected their banking habits. This indicates that banks' most valuable customer base is likely those interested in making the switch to digital but have not yet pulled the trigger as the research indicates that those who do make the switch are likely to stick with digital no matter the circumstances.

20,000 bank branches could close as a result of the pandemic

The shift to digital banking has had a massive impact on in-person banking as well. Industry experts predict that more than 20,000 physical branches could be forced to close after the pandemic ends as casualties of social distancing, stay-at-home orders, economic struggles and the growing popularity of digital banking. These estimated pandemic-induced closures are the latest development in a steady decline in bank branches as the total number in the U.S. has declined by 7 percent over the past five years. Credit unions have also reported a strong but gradual digital shift and are reportedly considering more branch shutdowns as their members move online.

The shift to digital banking carries new risks, however, specifically the threat of digital fraud. The United Nations said that cybercrime increased by 350 percent over the course of 2020, including data theft, money laundering and botnet attacks. Every FI will have to decide for itself whether or not this risk outweighs the potential benefits of moving to digital banking, such as increased customer access, reduced costs and accelerated transaction speeds.

Bank branches still fulfill vital customer needs but have room for improvement, research shows

There is still a significant demand for in-branch banking despite the unprecedented surge in digital banking adoption. New research recently found that 35 percent of customers will always want access to in-branch banking in some capacity and that 10 percent do not see themselves ever making a complete switch to digital. Various reasons exist for both camps as 26 percent seek face-to-face advice for important financial decisions and 17 percent favor in-person interactions over virtual ones with staff and fellow customers. Branch visits are expected to increase to 28 percent of all bank interactions after the pandemic is over, however, up from 11 percent currently.

Bank customers do think in-branch interactions could use some improvement, though. Twenty-three percent said that service should be faster while 26 percent want smaller lines and 31 percent asked for longer hours of operation. Some branches are deploying self-service machines to help meet these needs, and 16 percent of customers say that these would improve their in-branch banking experiences.

DIGITAL-FIRST BANKING INNOVATIONS

How contactless ATMs could play a significant role going forward

ATM use saw a surprisingly significant decline during the pandemic due to the risks of high-touch surfaces, with many consumers leveraging contactless payment options rather than handling cash. A survey found that slightly less than half of ATM deployers and vendors only operated 75 percent of their machines since mid-March, and 27 percent operated less than half. This stands in contrast to the increased adoption of contactless payment methods, which 51 percent of Americans now use regularly.

This means that contactless access to bank accounts could be the way of the future, rather than old-school ATM machines with buttons and touchscreens. Another survey from September 2020 found that 54 percent of U.S. consumers desired a contactless way to open new financial accounts or access existing ones, making contactless ATMs a perfect fit for this need. Security could be achieved through the use of facial recognition, voice biometrics or mobile phone integrations, offering touchless alternatives to the PIN pads found on most conventional ATMs.

Banks add more personality to chatbots to help build trust

One crucial technology to aid customer service staff as interactions move increasingly online are chatbots, which can help answer simple customer queries and reduce the workload for human employees so they can focus on more complex inquiries. This may help banks effectively serve customers at speed, but trust in FIs has fallen from 43 percent two years ago to 29 percent, which experts attribute in part to a lack of person-to-person interactions as branch visits have fallen by 40 percent during the pandemic. The chatbots that are replacing these interactions have not been cutting the mustard, according to managing director of Accenture's banking practice, Alan McIntyre, as the bots' developmental focus has largely been providing functional advice rather than friendliness.

Banks are taking steps to address this aloofness in their chatbot systems, however. Bank of America recently hired several employees from Disney to improve the demeanor of its AI chatbot Erica, for example, while Capital One enlisted the help of anthropologists, journalists and Pixar filmmakers to aid in the development of its chatbot Eno.

DIGITAL-FIRST BANKING IMPLEMENTATIONS

DBS introduces self-service banking at one-third of its branches

Banks are working to improve their in-person banking options to reduce contact between staff and customers, both to reduce the risk of infection and streamline transactions for a post-pandemic world. DBS, the largest bank in Southeast Asia, recently announced plans to introduce self-service options at one-third of its branch locations over the next 12 to 18 months, allowing services to be accessible 24/7 rather than during normal business hours. Customers will be able to replace debit cards and access wealth management services in addition to services offered through the DBS mobile app, such as bill payments and fund transfers.

This announcement comes as DBS has observed a sea change in banking habits amid the pandemic. The FI reported that monthly average branch visits fell by 15 percent between June and October and that 95 percent of all banking interactions are now done through online and mobile channels. The addition of self-service technology at branches will allow the FI to reduce its staff and save costs per branch while maintaining a similar range of services for those who still prefer branch visits over digital banking.

Sumitomo Mitsui Bank to end cash exchange services with human tellers

Japanese banks are also exploring options to introduce more contactless services. One of the three largest banks in Japan, Sumitomo Mitsui Bank, recently unveiled a new branch concept that eliminates cash transaction services with human tellers and replaces these with QR codes that customers can leverage to withdraw or deposit cash at several in-branch ATMs. The bank plans to expand this service to 300 of its branches, accounting for 70 percent of its locations, by the end of 2022. The bank is taking further steps to reduce its employee count by combining several of each branch's departments into one. This plan was reportedly in the works for several years prior to the pandemic but was accelerated by the need to reduce human interactions.

Another Japanese bank, Mizuho Bank, is also taking steps to best utilize its workforce through a new type of branch that specializes in consultation services with cash transactions as a secondary priority. The transactions it does receive, as well as its account openings and money transfers, are handled through 14 tablets instead of via paper forms, cutting paper usage by half. Mizuho intends to overhaul all of its branches in this manner by fiscal year 2024.

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DEEP DIVE

HOW 2020 SHAPED THE FUTURE OF DIGITAL-FIRST BANKING

The ongoing pandemic has drastically changed day-to-day life and generated economic turbulence that the world will feel for years to come. The banking industry is hardly exempt from the disruption as social distancing and stay-at-home orders have all but emptied physical bank branches to mitigate potential contagion. Some experts project that more than 20,000 branches could even shut their doors for good by the end of the pandemic.

Filling this void is digital banking, which has seen unprecedented levels of adoption as customers look to carry on their financial activities without leaving their homes. This rise in digital banking directly correlates with the increased usage of other digital services, such as food delivery and telehealth appointments, and many consumers are leveraging these services for the very first time. Studies have also indicated that these new users expect to keep these habits even after the pandemic ends, forcing banks to rethink their approaches to customer relationships for the foreseeable future.

The following Deep Dive examines the effects that the pandemic and its downstream effects have had on both digital and in-person banking as well as the lessons banks can take into account moving forward.

How 2020 impacted digital-first banking

One of most significant effects the pandemic had on the banking industry was reduced foot traffic due to social distancing and stay-at-home orders. This is because COVID-19 is notorious for transmitting through close contact between individuals — for example, a bank customer and a loan officer talking at a table — as well as through contact on objects, like money changing hands between a customer and a teller. Banks all over the world were forced to reduce hours, switch to appointment-only visits or shut down branches entirely. HSBC U.K. changed the operating hours of all its branches, for example, and limited the number of customers that can be inside a branch at any given time, while Lloyds Bank has temporarily closed 200 of its 1,600 locations and reduced the operating hours of another 100 locations.

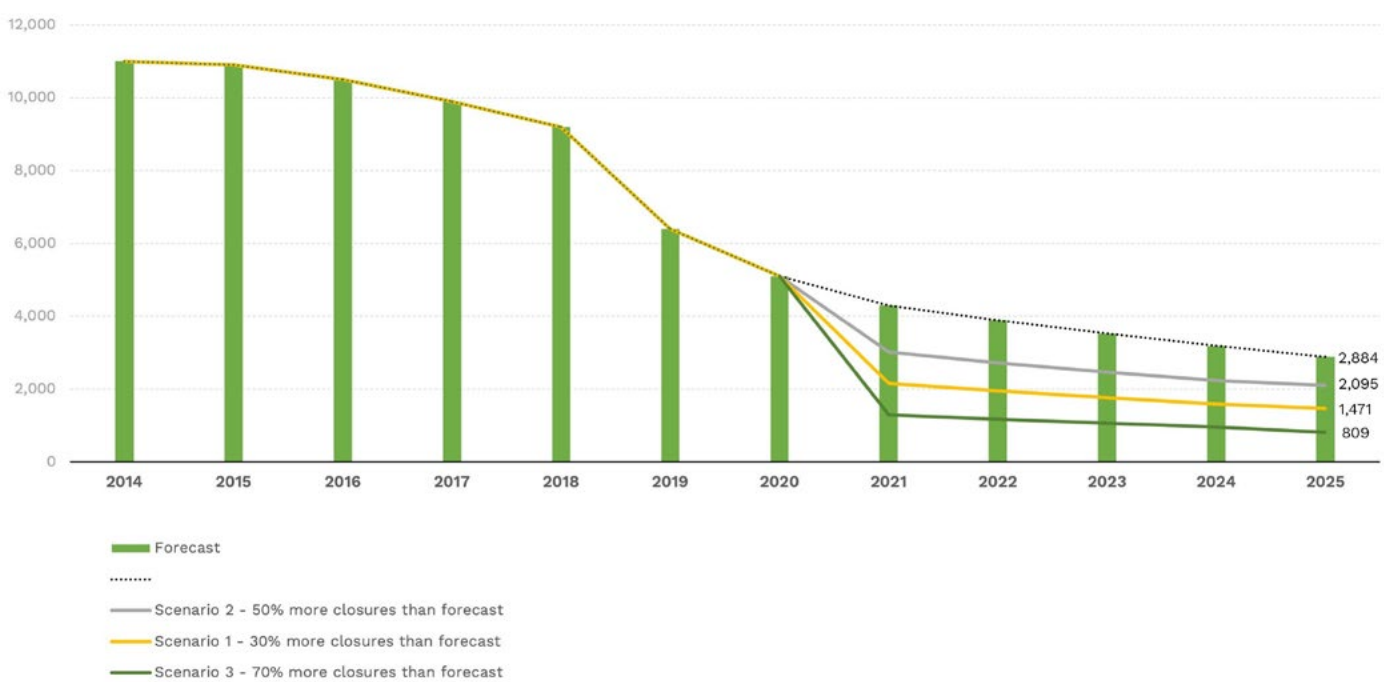
Bank branches are also closing faster than ever before. The average branch footprint for a bank chain in the U.K., according to a recent study, reduced at a negative compound annual growth rate (CAGR) of nearly 13 percent, and the closure rate vastly accelerated during the pandemic. Experts predict that branch closures could increase by up to 70 percent, with customers taking up new digital banking habits and reducing the need for extensive branch footprints.

These digital banking trends were already well on their way before the pandemic hit, but mobile banking adoption has skyrocketed in 2020,

FIGURE 1:

U.K. BANK CLOSURES (2014 - 2025): COVID-19 SCENARIOS

Source: Accenture, July 2020



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especially among first-time users. Another recent survey found that 73 percent of bank customers are now primarily leveraging digital channels for their banking needs and that 21 percent of these regular users are first-time adopters. This follows the overall trend in payments moving online. The same study found that two-thirds of all Mastercard payments are now being conducted online, for example, and 76 percent of users plan to continue making payments digitally going forward.

FIs of all sizes will have to take the lessons of 2020 into account when planning ahead, and digital banking will play a central role. In-branch operations will also likely need to be adjusted to account for the new post-pandemic paradigm.

Lessons to take moving forward

This shift to digital banking is here to stay for many bank customers. One June study found that 56 percent of digital banking users will continue to primarily use mobile or online banking after the pandemic recedes — only 6 percent will shift back to in-person banking once branches reopen at full capacity. The good news is that banks seem to have risen to the challenge as 88 percent of customers say their banks were able to meet their evolving needs during the pandemic and 98 percent did not switch FIs this year.

FIs should not take this customer loyalty for granted, however, and must continue their efforts to meet them where they are both through in-person and digital channels. One-third of bank customers have expressed interest in using physical branches more if they offered some of the same convenience that mobile banking does, for example, with 34 percent favoring self-service screens and 31 percent preferring the ability to schedule virtual video meetings with bank professionals rather than making their way down to a bank branch.

A digital-first and physical banking hybrid could define the FIs of the future, satisfying consumer demands for safety and convenience. Banks that experiment with these features and accelerate a seamless, omnichannel experience are more certain to maintain customer loyalty in a deeply uncertain future.

about

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