The Playbook for Launching a Digital Bank

Is your financial institution looking to launch a digital bank or digital brand, or moving towards a digital-first strategy? Narmi has delivered the playbook to accomplish this – from integrating with legacy systems to delivering a best-in-class user experience – Narmi has you covered.
INTRODUCTION

With the rise of challenger banks (N26, Chime), deposit-taking FinTechs (SoFi, Acorns) and deposit-taking technology firms (Google, T-Mobile), the ~11,000 financial institutions (FIs) in the United States have been forced to refine their business models and prepare for a different competitive landscape compared to the one they’ve faced over the last 20 years.

This refinement is a very healthy exercise and the best financial institutions are ahead of the curve, preempting changes in the sector rather than reacting to them, incorporating new technologies, and constantly looking for ways to offer customers new solutions to interact with them and their products.

One idea that has become popular with financial institution executives is the concept of starting an independently branded, or co-branded, digital bank or digital brand. The thesis revolves around the notion that starting fresh with a new brand potentially solves several problems facing financial institutions today as they try to move into a “digital-first” way of doing business.

Narmi is part of a large number of these conversations and has outlined what the playbook looks like for implementing a digital-only brand. While this insight piece is geared towards financial institutions considering implementing a digital brand, financial institutions can also apply this playbook to their core brand and therefore their entire organization.
Financial institutions must put experience first when developing and releasing new functionality. The most successful digital brands will offer strong functionality and deliver it via a superior user experience. This may be a deviation away from existing practices, which often force FIs to yield to legacy processes or serve existing customers the way they have been served for years.

Consumers and businesses expect digital transactions to be seamless, intuitive and immediate. The appetite for a clunky banking experience is small, and FIs can build loyalty in the form of increased deposits and additional accounts by offering a better user experience. Experience should therefore be a driver of process, not a byproduct.

Another way to think about user experience is across the various functions that touch a digital brand. The goal with any digital-first offering is to offer a comprehensive and seamless experience from start to finish across the entire user experience. The core areas to think about are:

- Account opening
- Mobile and online banking
- Digital and phone support
- Corporate website
- Employee-facing applications

Notice that the core banking system is not on the above list. There will be more on this later in this playbook, but user experience does not touch the core banking system.

Lastly, it is important for financial institutions to understand the type of user they aim to attract through a digital brand. It is safe to assume this user will:

- Never step into a branch
- View contacting the financial institution as an inconvenience
- Never make an appointment to receive in-person service
- View self-service as the primary way to accomplish a banking task
- Expect every single aspect of banking to be available digitally

Once the type of user is understood, crafting the user experience becomes far easier.
The creation of a digital brand presents a unique opportunity for financial institutions to evaluate existing processes and determine if there are areas for improvement. While changing existing workflows for the core brand may be difficult and time-consuming, the digital brand offers a completely “clean slate.”

Financial institutions must not be afraid to throw legacy processes “out the window” and optimize for user experience or new types of efficiency. You may very well use existing processes in the eventual implementation of your digital brand, but you must be willing to evaluate all existing processes – through an experience minded lens – and see if you can improve them.

Replacing manual processes by leveraging automated technology is one of the areas that can immediately create a noticeable benefit for both internal and external users. For example, over the last three to five years, great advancements have been made in “Know-Your- Customer” (KYC) and identity verification systems. Leveraging an automated KYC and identity verification platform for digital account opening can reduce fraud while keeping the user experience delightful. Efficiency ratios will also increase because less human resources are needed to run a successful Customer Identification Program (CIP).

Another example of automation is leveraging partners that require little to no manual intervention for common processes. For example, money movement (ACH, Wires, etc.) is a primary function of a financial institution, yet often requires multiple touchpoints to ensure limits are enforced, risk is managed, and files are appropriately transmitted. The use of integrated micro-services can alleviate the need for manual processes by ensuring back-end processes are done in an automated fashion.

Technology providers – such as digital banking, digital account opening, bill pay, remote deposit capture, statements and more – should also all be evaluated when launching a digital brand. Costs, contracts, pre-existing relationships are all important, but if a financial institution truly wants to be successful, implementing state-of-the-art technology across as many platforms as possible is critical to success.

One final note is that the implementation of a digital brand does not mean that the financial institution is obligated to change processes just for the sake of change. Rather, think of it as an opportunity to reset the experience for both users and staff, which represents both immediate and future benefits.
Open Accounts Digitally, Quickly, and Safely

Launching a digital brand requires a serious focus on digital account opening. Financial institutions must strive to be experts in opening accounts quickly. This involves permitting customers to open accounts when they want and where they want, all while ensuring identity verification standards are met.

Industry leading account opening strategies follow the below principles:

1. **BEST-IN-CLASS EXPERIENCE**
   Account opening cannot be a clunky, over-built experience. Forward-thinking financial institutions must adopt an experience that matches other leading consumer experiences like Uber, Amazon, and Netflix.

2. **VIEW ACCOUNT OPENING AS A MARKETING PROBLEM**
   Marketers need the right solution to optimize the last (and more important part) of the customer acquisition funnel – a strong digital account opening strategy. Typically, marketers optimize best for user experience and conversion metrics over processes.

3. **AUTOMATION**
   Digital brands must automatically decision accounts, process funding, and open accounts on the core banking system. Users who are auto approved, versus those who end up being approved later via a manual review process, are 5x more valuable to your financial institution.

4. **CONTROL & UNDERSTAND FRAUD**
   Decisions should be automated. However, decisions should be understood and configured based on data. Leading data sources including credit bureaus should be used to accurately decision applications.

Additionally, it is important to craft your digital account opening strategy. Management should ask themselves which of the below strategies they want to optimize for:

- Largest number of new customers
- Highest initial deposit
- Highest number of products opened during account opening
Focusing on the largest number of new customers and instituting a minimal initial balance requirement between $5 and $250 depending on your target customer base are two recommended strategies to consider. Most importantly, financial institutions should also implement a beautiful digital banking experience to grow these new customer relationships over time.

Lastly, rate-driven strategies can be incredibly successful in opening large-deposit accounts. However, these accounts rarely turn into engaged, core-checking accounts and can be somewhat artificial source of growth. Any rate-driven strategy should be complemented by a core-checking strategy to maximize success.

04

**Seamlessly Transition Between Account Opening and Mobile/Online Banking**

The two most important technology stacks of a digital brand are account opening and digital banking (i.e. mobile banking and online banking). Both platforms on a standalone basis are extremely critical, but what is often overlooked is the interaction between the two.

Users do not think of these as separate experiences and expect to seamlessly transition to a digital platform immediately following opening an account. Unfortunately, most financial institutions have not mastered this experience.
If financial institutions can accomplish the four steps below, they will be in the ~1% of financial institutions in the country that effectively offer users this seamless experience:

1. Click on “Open Account Now” on the Financial Institution’s corporate website
2. User inputs personal information and funding details which are processed in under three minutes
3. Account opens on core banking system, funding is processed, user identification is verified and recorded, and CIP program is satisfied
4. User automatically (i.e. in less than 20 seconds) transitions to online or mobile banking platform and can start using their account

If a financial institution desires to be on par with industry leading FinTech companies, they should offer one consistent platform across online account opening and digital banking. If done correctly, the FI can look forward to even more benefits:

- An external account used to initially fund the new account can automatically be linked in mobile and online banking
- A single fraud record covering account opening, ACH fraud, address changes, and more, is generated, thus allowing financial institutions to make smarter, data-driven decisions
- A seamless onboarding experience (welcome email, multi-factor authentication enrollment, etc.)

Continuity is paramount in providing users with a valuable experience, especially when it comes to online account opening and digital banking. Delivering a continuous user experience impresses the user and encourages them to develop a deeper banking relationship with a financial institution. The tangible benefits include increased deposits, higher engagement, and more opportunities for cross-selling.
Financial institutions must offer digital-first service channels.

Conceptually, service is helping a user complete a task at hand with as little friction as possible. Service typically can be approached in two ways: self-service and assisted service. Financial institutions should ensure that the below service-related features are part of any digital brand:

**SELF-SERVICE**
- Changing any type of personal information
- Linking external accounts for money movement
- Opening additional accounts at the same financial institution
- Viewing transfer and availability limits
- Card controls, particularly freezing/unfreezing
- Submitting wire transfers
- Automatically displaying monthly trends, recurring transactions, and spending summaries

**ASSISTED-SERVICE**
- Send a secure message easily through mobile banking and online banking
- Intuitive and simple user experience to authenticate a user when they call into the call center (sending them a one-time code, or a push notification, for example)
- User-friendly alerts to help the user manage their financial story (i.e. sending the user a text that their future-dated scheduled transfer won’t process due to not having enough money in the account)
- Mobile-friendly alerts such as push notifications and text messages
- Embedded chat experience within mobile and online banking

You must aim to resolve service queries within the first response or interaction. This also means you may have to be more lenient when it comes to certain policies such as refunding fees and quickly disputing transactions. Amazon has proved this model works well. Typically, if you have a problem with an Amazon order and chat with customer service, within five minutes the situation is resolved – typically at additional expense to Amazon – regardless of what actually happened.
Master the Interaction with the Primary Brand

Understanding how a financial institution’s new digital brand will co-exist with the financial institution’s existing brand is an important aspect of any digital bank initiative. There are a wide variety of strategies a financial institution can implement when launching a digital bank:

A. Brand and operate the new digital brand completely different than the primary brand

- The average customer will not know the primary brand powers the digital brand
- Offers opportunity to completely silo resources internally
- Existing customers do not know the new digital brand exists
- If an existing customer does happen to open an account at the new digital brand, they will be treated as a completely new customer
- Requires a large marketing budget for new brand education
- Potential loss of pre-existing brand equity
- No conversion of customers needed

B. Leverage “Powered By [Example Bank]” in branding

- Allows for a differentiated and unique name
- Provides confidence to customers that a more established financial institution exists behind a newer digital brand
- Potential for confusion – the customer may be unclear if they can engage with the primary brand or not
- Offers the ability to share primary brand’s resources with new brand (i.e. call center)
- No conversion of customers needed

C. Turn the primary financial institution brand into the digital brand

- No marketing needed on new brand materials
- Truly “reinvent” the financial institution
- No additional resource allocation needed
- Leverage years of existing brand equity
- Conversion of customers and processes required

Each strategy comes with pros and cons, and every financial institution will be different. Leadership should ensure they evaluate both the short-term and long-term ramifications of this decision.
Understand the Economics

A digital brand offers a unique opportunity to reset how financial institutions measure the profitability of the average customer. The most obvious change with a digital brand is the absence of branches. Costs shift from physical presence to digital presence, the latter of which is far more scalable.

Return on investment (ROI) analysis should be performed on any digital brand initiative. A smart way to think through ROI is across both account opening and digital banking. Below are the top questions financial institutions should ask themselves when conducting ROI analysis:

**DIGITAL ACCOUNT OPENING**

- What is the total cost to process applications requiring manual review?
- What is the incremental revenue generated per new customer? Does the average initial deposit balance impact this?
- How much more valuable is a customer that is auto-approved than a customer that is manually reviewed, and then subsequently approved?
- Can we generate much higher initial deposits with the same customer acquisition cost (CAC)? What is the revenue implication of this?
- Can we hold campaigns that generate significant deposit volume overall? What is the revenue implication of this?
- What is the total cost of the platform?
- What is the per-application cost?
- What is the cost of driving the customer to your digital account opening application/corporate website?

**DIGITAL BANKING**

- How much of an increase will we see in deposits from existing customers? What is the revenue implication of this?
- How much of an increase will we see in loans from existing customers? What is the revenue implication of this?
- How many more people use digital banking who never did before? Does their value to the financial institution increase because of this?
- What is the reduction of support tickets received and the associated cost savings?
- What is the reduction of support response time spent per ticket and the associated cost savings?
- How much revenue can be generated from FinTech partners that are integrated with the digital banking platform?
- What is the total cost of the platform?
- What are the variable costs associated with the platform?
Correctly Leverage your Core Banking System

A financial institution’s core banking system is an important part of any successful digital bank. Openness and API-friendly systems are necessary when it comes to leveraging the core’s full capability. Additionally, an API-driven core will allow your digital bank to integrate digital solutions more efficiently, thus reducing the cost of ownership and time to go-live.

Depth of functionality with respect to a core should not be understated. In the initial days, a digital brand is often “lighter” in terms of functionality so there is flexibility with how your core banking system is leveraged. However, as your digital bank grows, you will be tempted to add new products, do more complex transactions digitally and fully realize the opportunity ahead of you. Therefore, a core that can support this more “advanced” functionality is also required at the outset.

To be clear – a new core banking system is not required to launch a digital bank. What is required is openness via APIs and stable functionality to support business requirements. With a digital bank, the front-end digital experience is far more important than the core.
SUMMARY

Regardless of which strategy you employ – launching a digital bank from scratch or turning your financial institution into a digital bank – an emphasis must be placed on technology and user experience. If done correctly, you have set the stage for at least another decade of scalable, organic, and profitable growth.

Narmi’s API-driven and cloud-based platform includes digital account opening, mobile banking, online banking, and a powerful administrator portal. Financial institutions use Narmi to grow deposits, increase accounts, reduce support volume and increase user satisfaction.

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