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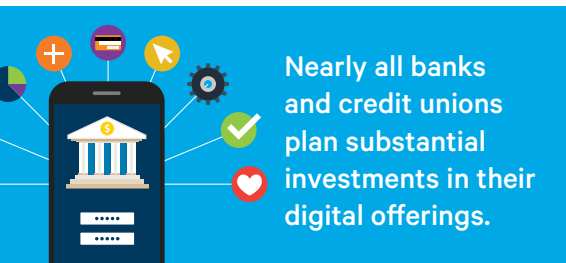


BAI Banking Outlook Special Report:
The Impact of Digital
Acceleration on Banking

Executive Summary

The COVID-19 pandemic may disappear like a comet in the night sky, but its impact on digital banking will leave an afterglow for years to come. The digital acceleration prompted by the pandemic is profound, according to a new BAI Banking Outlook survey of 600 consumers and 200 leaders of financial services organizations.

Nearly all banks and credit unions plan substantial investments in their digital offerings. Many said their top priority is promoting their digital channels to increase customer adoption. But customers may need little prompting.



Nearly all banks and credit unions plan substantial investments in their digital offerings.

They are embracing the digital channels. More than eight in 10 plan to maintain the same level of digital banking services usage even after in-person banking in the branches fully resumes.

The research, conducted in February and March 2021, found that more than four in 10 are doing all their banking digitally; a quarter of them accelerated their digital activity; and 15 percent tried digital for the first time.



More than four in 10 consumers do all their banking digitally.

But with more of their banking activities going online, consumers are on high alert for fraud. They indicated that traditional brick-and-mortar banks are the safest option over direct banks and fintechs.

With branches reducing or suspending operations during the pandemic, call centers' popularity soared. Two-thirds of financial services leaders said call volumes due to digital usage increased by at least 5 percent. The leading reason for calls: Customers using digital for the first time.

Branches are back and will increasingly be staffed with digital advocates to guide consumers on the new tools. Branches will continue to play a key role in the omni-channel ecosystem. While much more activity has gone digital, consumers still crave the human touch at the branch where they feel comfortable doing everything from making a deposit to executing more complex matters like auto loans or mortgages.

"As we emerge from the pandemic, people are returning to the branches where they may encounter new technology," said Karl Dahlgren, managing director of BAI. "By all indications, consumers want both the digital and the face-to-face channels to bank. And it's not just in

the online and mobile channels where a digital transformation is happening. BAI research found that the digital resources consumers would use if available in the branch included video ATMs, interactive teller machines with remote tellers, interactive welcome screens and digital advocates to help with questions."



Consumers want both the digital and the face-to-face channels to bank."

Despite the uncertainty and the frustrations during the pandemic, consumers overwhelmingly said they were satisfied with their primary financial services organization. But that's no guarantee of loyalty. More than half of Gen Z, Millennial and Gen X consumers said they would consider banking with a nontraditional player such as Amazon or PayPal.

It's not that consumers dislike their bank or credit union. It's that they're willing to try something new, especially if it's digital, making it imperative that financial services organizations stay ahead of the game.



Boosting Digital Priorities for 2021

On the heels of the pandemic, financial services organizations are boldly going deeper into digital this year. Four in 10 (42 percent) anticipate spending 5 to 10 percent more; 37 percent plan to boost digital budgets from 11 to 20 percent; and 9 percent plan 21 percent or more. Only 12 percent plan to spend less than 5 percent more on digital. (All figures exclude spending on cybersecurity.)

The top digital priority cited by 30 percent of financial services leaders in 2021 is promoting digital banking to customers to increase adoption. Twenty percent indicated that connecting their digital products across the organization was their No. 1 goal.

The fourth-leading priority at 11 percent was adding more digital resources to the branch. That was an even larger priority for the biggest banks—those with assets more than \$25 billion. Nearly a quarter of the big banks said they will pour more digital resources into their branch network.

Staffing branches with digital advocates was the most-cited planned investment by banks and credit unions. When asked what resources they plan to invest in for their branches more than four in 10 (42 percent) indicated digital advocates, followed by a banker

2021 Investment Plans

Financial organizations' top digital banking investments in 2021 (excluding cybersecurity).

30%

Promoting digital banking to customers to increase adoption

18%

Enhancing current products

20%

Connecting the digital products across our organization

11%

Adding more digital resources in the branch for customers



with a tablet offering a 360-degree view of the customer (36 percent) and interactive teller machines with remote tellers (35 percent). The least cited at 19 percent was robot greeters.

The branch is far from dead and will remain important to customers with needs more complex than simple digital transactions that will continue to grow.

Tom Ormsmeth, executive vice president of digital channels and transaction banking for Wintrust Bank, a \$46 billion financial services organization based in suburban Chicago, said although no one carries the title of digital advocate at Wintrust, guiding customers on the electronic tools is an increasingly important responsibility of branch and call center staff.



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"We want our employees to use the digital products so they can talk with confidence about them to our customers," Ormsmeth said. Branch staffs' comfort with digital options proved invaluable during the height of pandemic when branch lobbies closed, but the drive-thrus remained open.

"Customers in the drive-thrus often asked if there was any other way to make a deposit or payment," said

Ormsmeth, noting that branch staff patiently and knowledgeably walked customers through unfamiliar digital alternatives.

It didn't take a pandemic to boost Wintrust's investment in digital channels. "We had already started in the digital transformation before the pandemic," Ormsmeth said. "I don't see this as necessarily increasing our digital budget because we already made a big financial commitment.

"But the pandemic did prompt us to think about things that we maybe hadn't thought through," he says. "It created more urgency to get the digital piece done a little bit quicker."

Digital Acceleration's Impact on Account Opening

When many branches closed during the height of the pandemic in 2020, consumers turned to the digital channels to open new accounts. More than four in 10 financial services organizations (42 percent) said their digital account openings increased between 20 and 50 percent. Nearly one in five said digital account opening increased between 51 and 80 percent as compared to the previous year.

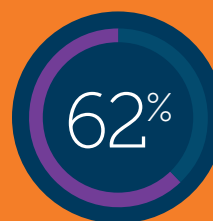
The digital channels used to open primary digital accounts is changing dramatically. There were huge increases in using mobile devices to open accounts or using both mobile/online in opening new deposit accounts online.

For example, in 2019, nearly three-quarters of digital accounts were opened online. In 2020, that percentage fell sharply to 39 percent. Mobile nearly doubled—from 14 to 27 percent. Consumers using both mobile and online to open primary digital accounts rose from 14 to 33 percent.

But bankers aren't exactly clicking their heels over the burst of new digital deposit accounts. More than half (55 percent) said the accounts are lower quality because of smaller balances as compared to those opened in the branch. Attrition is higher, suggesting consumers—who skew younger—are simply testing the new digital account and the organization itself.

Millennials have the heartiest appetites for account opening, with 79 percent indicating they plan to open a deposit account in the next 12 months versus only 11 percent for Boomers+.

When asked what steps they take before opening a new account, nearly two-thirds (62 percent) of consumers said they research information on the institution's website followed by speaking to representative at a branch (49 percent). The lesson here: Have an easy-to-navigate website with a wealth of information.



Percentage of consumers who said they research info on the institution's website before opening a new account.



Percentage of financial services leaders who say that accounts opened online are of lower quality (balances) compared to those opened in the branch.

Change in Digital Accounts

Percentage increases in consumer accounts opened digitally in the past year.

No increase	9%
Less than 20% increase	28%
20% to 50% increase	42%
51% to 80% increase	19%
81% increase or more	2%



Shirley Fiano, director of digital acquisition channels at SouthState Bank, a \$36 billion institution based in Winter Haven, Florida, said the organization ended 2020 with nine percent of consumer accounts opened online. That figure jumped to 19 percent in the first quarter of 2021, which she says translates to about 3,000 to 4,000 new online accounts opened per month.

"The beauty of technology is that it is scalable, especially services like online banking and online account origination," Fiano said. "The reason digital banking is so profitable and so efficient is because it is not based on manual intervention. It is based on solid process implementation and technology, as well as the structure you put in place to design the customer experience."

The Branch is Back

Nearly eight in 10 customers said prior to the pandemic they visited the branch for some of their financial needs. The lowest was Gen Z: Only seven of 10.

The leading reason to visit a branch, cited by all generations, was to make deposits or withdrawals from accounts. Nearly two-thirds have a greater comfort level depositing or withdrawing funds via the branch channel versus a digital channel.

The second-most cited reason to visit a branch—for all generations—is to cash a check. The third leading reason to drop by the branch is a split verdict: Gen Z and Millennials go to solve a problem with an



Eight in 10

Nearly 80% of customers said that, prior to the pandemic, they visited a branch for some of their financial needs.



We have a firm belief that branches will always have a place in banking."

account; Gen X and Boomers+ go to work with a human. The branch is evolving and not going extinct. It will continue to be an important part of the integrated channel mix.

"The pandemic has not had an impact on our branch transformation strategy," SouthState's Fiano said. "All it did was put our plans on hold. We have a firm belief that branches will always have a place in banking. But it might not be the same look or feel that branches had in the past.

"As much as we may not want to believe it, we are a retail service provider," Fiano said. "The consumer should have a choice as to how to access our services. I've been in banking 30 years, and for last 25 years I kept hearing that branches were going to go away. I don't see branches going away. They're just going to perform different types of functions."

Digital Banking Pressures the Call Centers

One of the many impacts the pandemic had on financial services organizations was a dramatic increase in volume fielded by call centers. Consumers sought help on everything from basic account inquiries to quick tutorials on new technology like mobile apps.

The call centers most adept at resolving a customer issue were operated by the traditional banks. Fifty-five percent of consumers said traditional banks ran the best call centers, 27 percent said it was the direct banks and only 13 percent indicated it was the fintechs.

Most Helpful Call Centers

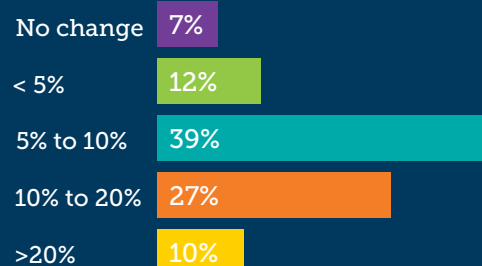
We asked consumers: what type of organization has the most helpful call centers?

Traditional Financial Service Organizations with Branches	55%
Direct Banks (No Branches)	27%
Fintech	13%
Other	5%

Nearly four in 10 leaders (39 percent) said volumes rose between five and 10 percent, and 27 percent said activity rose between 10 and 20 percent. In response, nearly three-quarters (73 percent) of financial services organizations invested in new technologies to support increased call volumes.

The Impact of Digital Banking on Calls

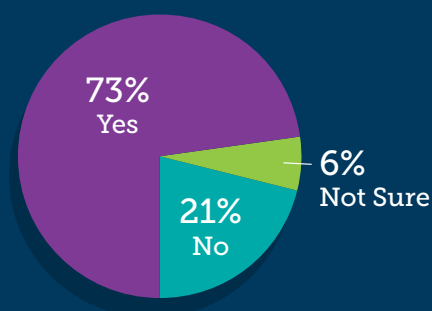
Percentage impact of digital banking on call volume over the past year.



By a nearly equal percentage (71 percent), banks and credit unions plan to invest in new technology for their contact centers. The three most cited technologies were call and text automation, technology to allow agents to work remotely, and advanced reporting technology.

Additional Training Requirements

We asked financial services leaders: Did you invest in new technology to support increased call volume in the past year?



New tools in the call center require more training. More than seven in 10 (71 percent) said call center staffs required additional training to handle the surge in digital banking calls.

Wintrust's Ormsmeth said call volumes soared in the early days of the pandemic. "A lot of people wanted to know how to get on digital," he said. "They didn't know how to do that, so we walked them through."

Calls leveled off after a couple of months, but they remain higher than before the pandemic because of a larger volume of online account opening, which increased fivefold.

Fiano said SouthState experienced a similar surge in calls to its contact center. "The calls were primarily to get set up with online banking because they did not have the tools to bank remotely."

The bank, she said, was "proactive in letting people know about the online services we offered via email and on the website. It did take some initial set up like user names and passwords through the contact center. After that, they could do it on their own. It is now all programmed to be automatic and instantaneous."

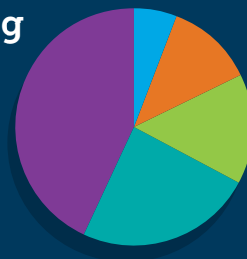
The Long-term Impact of Digital Acceleration

Consumers' pandemic-driven digital banking surge isn't going anywhere, even when the public health crisis fades away. Eighty-four percent of consumers plan to maintain the same level of digital services usage once in-person banking fully resumes.

Since the pandemic, 43 percent of consumers report doing all of their banking digitally, 24 percent have increased digital banking usage, 15 percent started using digital for the first time, 12 percent use a combination of digital and branch services, and 6 percent reported no changes in digital usage.

Digital Banking Changes

How consumer digital banking habits have changed since the pandemic.



Now Doing All Banking Digitally	43%
Have Increased Digital Banking	24%
Started Using Digital	15%
Using Both Digital and Branch Services	12%
No Change	6%



Percentage of consumers who plan to maintain the same level of digital banking services once in-person banking resumes.



Customers acknowledge they may need more handholding with their increased use of digital banking. Gen Z customers, confident of their digital skills, said they figure things out when they have a question about digital banking. But the three older generations said they first turn to customer service. All generations either call or visit a branch, although it was not their leading option.

Some good news for financial services organizations and their digital ambitions: Forty percent of consumers consider themselves early adopters of digital technology versus only 23 percent who consider themselves late adopters. Thirty-eight percent said they fall somewhere in the middle, characterizing themselves as majority adopters.

At Wintrust, Ormsmeth said use of Zelle, a peer-to-peer digital payments network, has increased 140 percent in both transaction and dollar amount. "As a result, we have seen check usage drop a bit. We anticipate the digital adoption in the peer-to-peer payments will continue to grow."

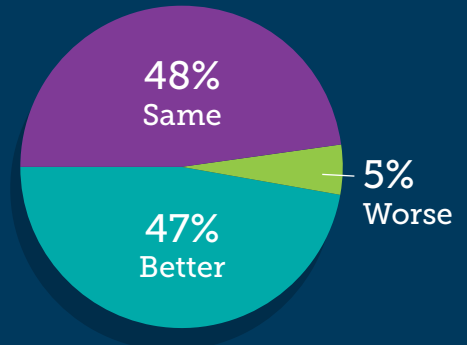
Zelle, he said, has been especially popular with its older consumers because of its ease of use. Zelle, as well as Venmo, has long been a favorite payment method for the bank's 24- to 30-year-old customers.

Positive Attitude Toward Primary Banks or Credit Union

Despite the turmoil of the past year, 95 percent of customers said their attitude toward their primary financial services organization is the same or better. But the goodwill only goes so far, particularly among the two younger generations.

Change in Attitude

Percentage of consumers who have better or worse attitudes toward their primary bank since the start of the pandemic.



Gen Z (61 percent) and Millennials (72 percent) would leave their primary provider if they found a bank or credit union with better digital services. Less inclined to make the switch are Gen X (51 percent) and Boomers+ (21 percent).

Consumers said the three best ways financial services organizations can improve digital capabilities for them is stellar 24/7 customer service, turning on or off credit and debit cards, and offering a user-friendly app that allows them to easily check deposits and pay bills.

But there's a disconnect. Financial services leaders' top digital improvement priority is better product and service recommendations followed by 24/7 customer service and better online account opening.

Fear of Fraud Remains a Stumbling Block

Fraud or fear of becoming a fraud victim is consumers' biggest frustration with digital banking. Nearly four in 10 (39 percent) said fraud and security was their No. 1 concern followed by their challenging experiences with bank technology (29 percent) and the account-opening process (13 percent).



Percentage of consumers who say fraud and security are their #1 digital banking concern.

Traditional financial services organizations—those with a branch network—hold a commanding lead over challengers in the perception of best security and safety, which is essential for generating and sustaining business. Only 26 percent of consumers said direct banks—those with no branches—offered the best safety and security and even fewer (9 percent) cited fintechs.

At SouthState, Fiano said "Fraud is not front of mind for our customers, or at least it's something we don't hear very often. The reason is because we are very proactive about communicating not only what the digital services are that we offer but how secure they are. We explain what it is that we are doing to ensure privacy and security."

Consumers are Open to New Banking Players

Eight in 10 Millennials are amenable to banking with nontraditional providers like Amazon, Apple, Google, Facebook or PayPal. And more than half of Gen Z (62 percent) and Gen X (58) said the same. Boomers+ (26 percent) were less open to the idea.

Consumers Would Consider New Players

Percentage of consumers who would consider banking with nontraditional players, by generation.



Gen Z



Millennial



Gen X



Boomers+



When asked why they would consider a nontraditional provider, the top reasons cited were “I like to try new products and services” (32 percent) followed by “They are more convenient” (31 percent) and “They are more innovative” (30 percent).

Despite their willingness to consider a nontraditional alternative, consumers most trust their primary financial services organization, which is primarily defined by where they have their checking account and the most deposit balances. In 2021, 54 percent of consumers said their primary institution was most trusted. PayPal was a distant second at 12 percent followed by Apple at 10 percent and Amazon at 8 percent.



The Evolution of Consumer Trust

How consumers rank financial organizations they trust “the most” to handle their financial products and services, by year.

	2019	2020	2021
Primary	83%	52%	54%
PayPal	5%	19%	12%
Apple	5%	7%	10%
amazon	3%	7%	8%

But trust in the primary institution has fallen sharply since 2019 when 83 percent of consumers said it was most trusted, although it saw a slight uptick in 2021.

More consumers across all generations are seeking the best of both worlds by taking a hybrid approach. For example, in 2020, 21 percent of Millennials said

they will keep a checking account at a traditional organization to have access to branches. But they will consider keeping some accounts at direct bank for better rates. In 2021, that percentage rose 10 points. Gains in the hybrid model came at the expense of traditional organizations.



Conclusion

Digital first was the mantra of most financial services organizations prior to the pandemic. But the digital acceleration brought on by COVID-19 made digital first much more than a mantra. It became the *raison d'être*.

Financial services organizations simply could not operate without effective digital channels. And if they were not effective by the start of the pandemic, they certainly got that way by the time it was winding down.

The digital acceleration brought on by COVID-19 made digital first much more than a mantra. It became the *raison d'être*.

Customers insisted on it; otherwise they were off to another organization with a better mobile app and better digital capabilities. But face-to-face banking in the branches remains an important part of the digital first mix. Many consumers will continue to visit a branch to deposit or withdraw funds, not mention conduct more complex activities such as originating or refinancing a mortgage.

To meet customer demand in the post-pandemic era, banks and credit unions will boost digital investments in the branch and call centers to shift the burden of routine transactions to a digital platform.



Consumers will be the ultimate winners because they will have better digital and digitally enhanced human channels supported by 24/7 customer service to meet their needs. If not, they will look to have their needs met by a nontraditional player.



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