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Community Banks Need to Have a Strong Digital Banking Presence

While branchless banking has garnered headlines for at least a decade, there is little evidence that the movement will supplant traditional brick-and-mortar community banking any time soon. Digital banking works best as a channel of a Full-Fledged Bank

Branchless banking is a distribution channel for financial services that does not rely on brick-and-mortar branches. Two competing visions of branchless banking are digital banking services offered by traditional banks and so-called “pure play digital banks” – banks without physical branches. Among potential banking customers, “the pure play” model remains less popular than full-fledged banks. In fact, less than 40% of millennials and less than a third of those over 35 years-old would consider opening an account at a bank without branches.ⁱ Moreover, a 2013 Accenture study found the number one factor for customers when choosing a bank to be – the relative convenience of local branches.ⁱⁱ

For traditional banks, a multichannel strategy which leverages the power of both the internet and physical branches seems to be the best way forward. Indeed, demographic trends favor increased online offerings for full-fledged banks. According to TD Bank, 88% of millennials currently use online banking services and nearly half expect more in the way of personally tailored online product offerings from their banks.ⁱⁱⁱ By 2025, millennials will make up 75% of the workforce versus 40% today and this group will expect a strong online presence from their banks.^{iv}

At the present, however, multichannel banking is the norm and represents 65% of total banking customers.^v Among single channel users, only 15% utilize call or web-based banking. The consulting firm McKinsey argues that as digital banking increases across product offerings, human interaction becomes more important in driving higher-value transactions.^{vi} Thus, banks that take a multichannel approach will be best able to capture the efficiencies of the digital world and the specificities of the human touch benefitting both the customer and the balance sheet.

Incorporating more digital capabilities will be essential for community banks in the coming decade. Those banks which best understand the multichannel approach to counter branchless banking will be more likely to succeed in attracting and retaining bank customers. While millennials are currently among the most underbanked in the nation, their demand for banking services will increase as this generation ages and their economic fortunes stabilize. The banks that are best positioned to compete for their business will be rewarded.

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Community banks should see online banking as a way to retain local bank customers regardless of where they may go. A multichannel approach opens the opportunity for students, travelers, and others to enjoy the advantages of a bank close to home while leveraging the convenience that comes with banking online away from home. Of course, community banks have significant inherent strengths due, in part, to close proximity to their customers' lives and businesses. To this end, physical branches will remain an important part of a community bank's operation. Still, establishing a strong multichannel approach that incorporates digital banking innovations will provide critical incentives toward attracting and retaining future customers.

Sources:

ⁱ <http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture-2014-NA-Consumer-Digital-Banking-Survey.pdf>

ⁱⁱ <http://www.accenture.com/sitecollectiondocuments/pdf/accenture-consumer-us-retail-banking-survey.pdf>

ⁱⁱⁱ <https://mediaroom.tdbank.com/2014-03-10-TD-Bank-Financial-Education-Survey-Finds-Millennials-are-Cautious-Banking-Customers>

^{iv} http://www.brookings.edu/~media/research/files/papers/2014/05/millennials%20wall%20st/brookings_winogradfinal.pdf

^v http://www.mckinsey.com/insights/financial_services/The_future_of_us_retail_banking_distribution?cid=DigitalEdge-eml-alt-mip-mck-oth-1408

^{vi} Id.