The State of

Digital Banking in US Retail Banks 2020

New survey reveals that broken digital processes and paperwork are costing banks business

Contents

Executive Summary

Lightico recently commissioned a survey of over 1,000 Americans to learn about their experiences with their banks, particularly when it comes to issues of legacy systems, excess paperwork, and likelihood to churn. The survey included customers of leading prominent banks, including JP Morgan Chase, Citibank, Wells Fargo, and Bank of America.

The survey found that customers are overwhelmingly fed up with their banks' outdated, paperwork-heavy processes. They're tired of having to show up at physical branches during limited hours, wait in line, and fill out stacks of paperwork. While the rest of their lives run on seamless digital services, it's clear that their banking is a painful exception.

In fact, one of Lightico's key findings shows that nearly half of these customers have considered moving to a competitor bank due to customer experience disappointments. In today's digital world, the allure of hassle-free mobile-only banks and innovative fintechs is growing rapidly.

Financial sector executives acknowledge there's a problem: Nearly 70% say that fintechs pose a threat to their market share, and an almost equal percentage are worried about fintechs eating away at their margins.

Yet there is cause for optimism — finally there is clarity around what the key digital intervention should look like: the digitization of customer-facing systems.

Another reason for optimism is that traditional banks have a distinct advantage over fintechs and neobanks, which is a solid existing customer base and a legacy of trust. By adopting seamless front-end technologies, banks have the opportunity to even surpass new alternatives by providing the best of both worlds — digital and physical, a trusted name, and new technology. Current mobile and digital solutions are easy to implement, and meet or exceed hefty compliance requirements — while doing away with hefty physical paperwork.

Part 1

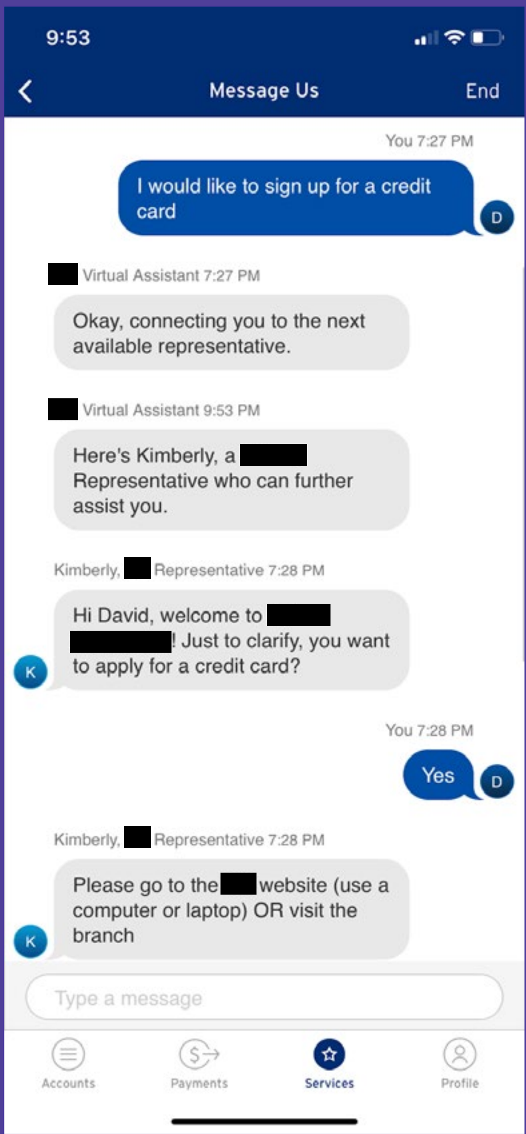
Today’s Customers Live in a Digital World

Let’s take a moment to step into a typical consumer’s shoes.

Imagine a customer named ‘Joe’ who starts his day by scrolling through a personalized news feed on his iPhone that was generated based on his interests. He’s running late to work, and orders an Uber to save time. Back at home in the evening, he orders dinner through the Grubhub app in just a few taps. As he’s waiting for his food to arrive, he realizes he’s running low on toilet paper. He asks his Amazon Echo to order it for him, and two hours later, he gets his delivery thanks to Prime Now.

Suddenly, Joe sees an ad for a national bank offering a benefits-rich account, and decides to sign up. He goes to the bank’s website and tries to find the form, but it’s nowhere to be found. So he hops onto his bank’s Facebook page and sends a message. Unfortunately, the customer service representative directs him to the bank’s website — the original source of his trouble! He calls the customer service number, but now the representative directs him to a physical branch, where he’ll have to fill out paperwork. Thus begins a very circular and frustrating process for a very routine goal: opening a new account.

The Digital Divide: Banks Lag Behind Other Services



A screenshot of an actual customer interaction.

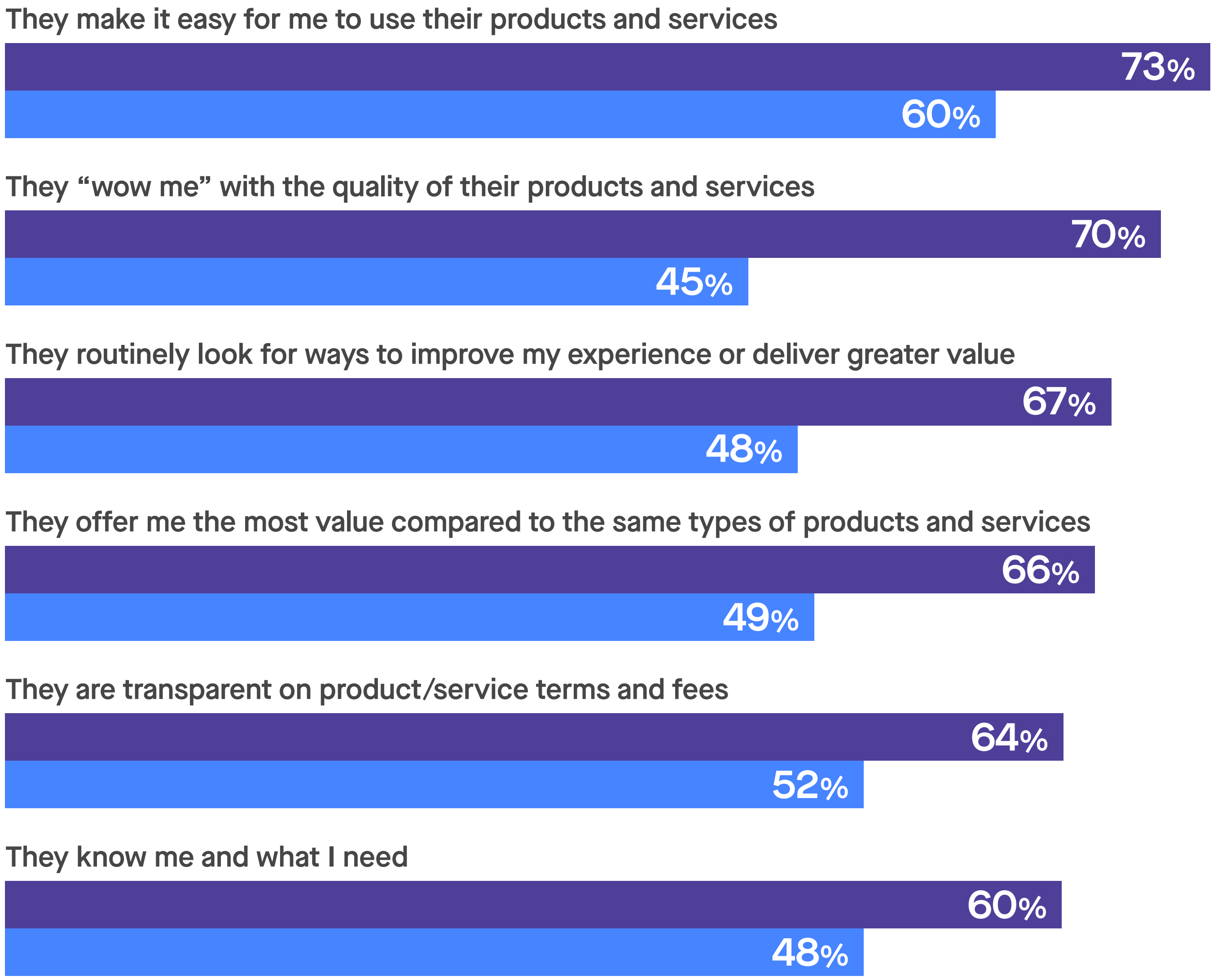
When customers are interacting with banks, they're comparing them to a slew of other consumer services they interact with on a daily basis. Those services are overwhelmingly seamless, digitized, and frequently even delightful. Unfortunately, they can't say the same about many of their banking processes.

This digital divide has not gone unnoticed. Customers expect seamless, digital and mobile interactions, while banks have yet to deliver this.

Customers see Banks as Digital Laggards

How banks compare to favorite brands

Percentage of respondents who agreed or strongly agree | Favorite brand | Primary bank



For each of these questions, the gap between favorite brands and primary banks is between **22%-55%**

As the graph illustrates, the gap between customers’ favorite brands and primary banks is at least 12% on every measure. The reality is that banks are more likely to be a source of customer headaches than of customer delight.

Part 2

Fintechs are Satisfying Customers' Digital Expectations

Customers who encounter obstacles during banking transactions aren't shrugging their shoulders in resignation: they're making moves that actively **hurt bankers' bottom line**.

According to Medallia research, after a negative experience with their bank:

- **Eight out of ten customers take some kind of action: 35% tell friends, family, or colleagues, 30% complain in person, and 16% reduce their use of the company.**
- One in seven switch to a competitor.

After having a **negative experience** with their bank, **1 in 7** banking customers **switch to a competitor.**

Many banking customers will continue to maintain a checking account with their primary bank — regardless of how happy they are with their experience — either due to perceptions of safety in having a traditional primary bank or simple inertia. This reality can create a misleading impression of good customer retention when in fact, customers are shopping around for mortgages, loans, and money transfer services at digital-first banks or specialist non-banks.

These digital providers are all about ease of use, streamlined processes, and digital channels. Their business model is ultra-lean and modern. And instead of squandering budgets on high overhead due to paperwork, they're putting money into their making customers' lives simpler, not harder. In many ways, they are the banking equivalent of Amazon (or any one of the most loved brands out there).

Here are just a couple of ways fintechs are attracting traditional banking customers:

Online mortgage lenders allow customers to go through the entire mortgage application process without ever setting foot in a physical location or filling out paperwork. Customer service and expert advice is just a phone call away, 24 hours a day, 7 days a week (example: Rocket Mortgage).

App-based financial management platforms put technology at the heart of everything they do. They boast an easy and intuitive interface, zero hidden fees, the ability to transfer money globally with minimal fees and no hassle, and handle everything at the touch of a button. Banking is actually made fun (example: Revolut).

Contactless payment systems enable customers to make smart and fast payments with their phones. No credit cards required (example: Apple Pay).

When you consider that consumers are already glued to their mobile phones, it's no wonder that these fintech solutions are a natural and appealing alternative to the heavy processes traditional banks are peddling.

As the chart on the next page demonstrates, banks that offer a seamless digital experience are rewarded with more loyal customers. On the flip side, banks that botch the digital experience or ultimately send customers to a physical location take a hit when it comes to loyalty.

Customers are Loyal to Banks who put their Digital Needs First

Loyalty leaders vs. laggards in the area of money transfers

Loyalty leaders are **1.4X** as likely to offer a digital channel for initial contact.

Loyalty leaders are **1.1X** as likely to offer digital interactions that are completed in the first contact.

Loyalty leaders are **3.5X** less likely to offer a digital interaction that fails to be completed digitally.

Respondents who sent money or transferred funds

While established banks still lead in terms of sheer numbers of customers, digital disruptors see a proportionately greater outflow from customers' primary banks.

And this trend looks only poised to increase: Citibank predicts that by 2025, between one-third to one-half of total payments volumes and investment volumes could go to disruptive fintechs. By meeting customers' convenience needs and providing a delightful experience, digital models are giving traditional institutions a run for their money: literally.

As we'll see in the next sections, while a lack of digitization negatively impacts all customers, Generation Z and low to middle-income earners are especially hard hit. They are also particularly high-value groups for banks.

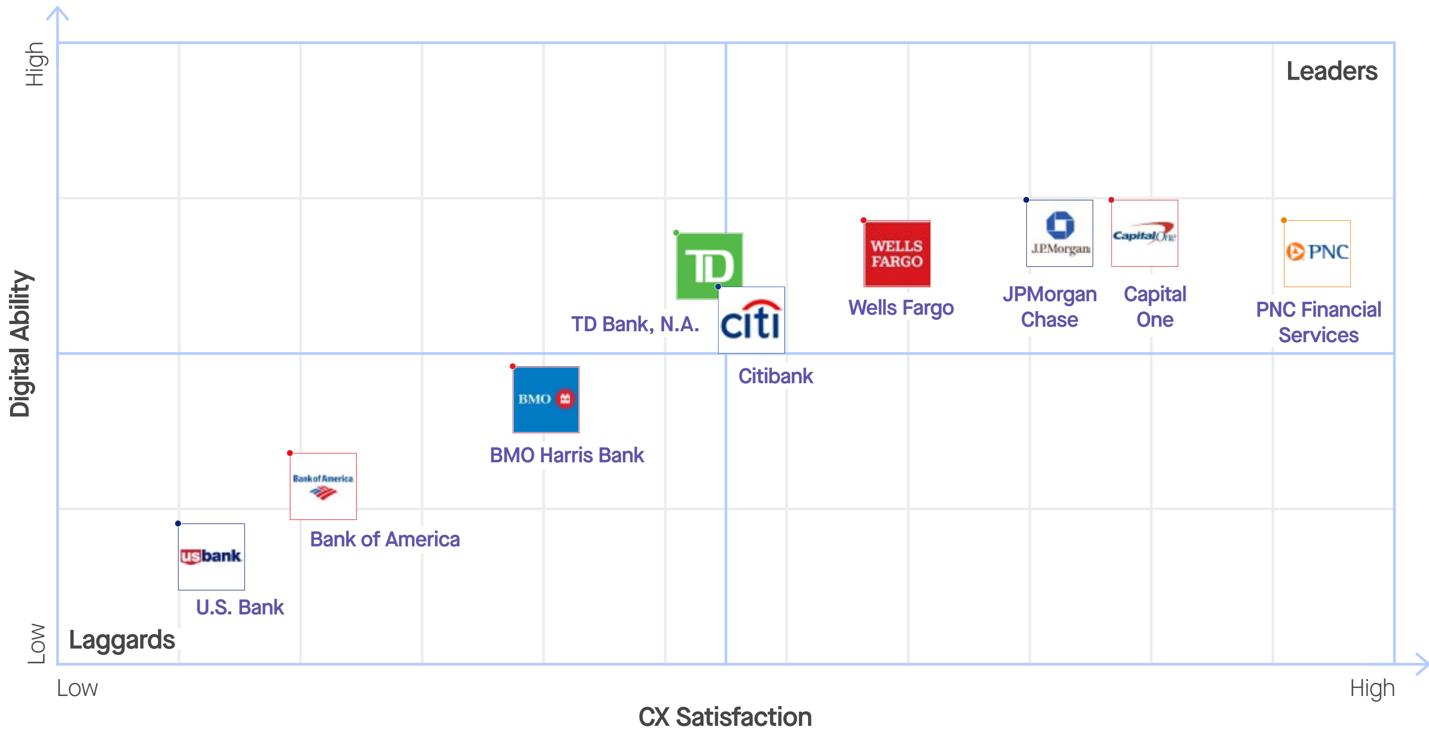
Part 3

The State of Today’s Digital Banking: Leaders and Laggards

Findings from Lightico’s The State of Digital Banking in US Retail Banks reveals the leaders and laggards in digital banking across two core areas: CX satisfaction and digital ability.
CX satisfaction refers to customers' overall satisfaction with the service their bank provides.
Digital ability refers to customers' satisfaction specifically with their bank's digital offerings.
The data showcases where tnine prominent banks stand in regard to these issues.

The below graph shows there is a strong correlation between a bank’s digital abilities and its customers’ satisfaction with their overall banking experience.

Digital Abilities and CX Satisfaction



- Leading the pack are **PNC** and **Capital One**, which are ranked highly for both CX and digital ability.
- Trailing behind are **US Bank** and **Bank of America**, which lag in both CX and digital ability.

This direct correlation between CX and digitization suggests that the two issues are inseparable for banking customers. For them, a positive experience goes hand in hand with the ability to complete more transactions digitally.

Part 4

Critical Obstacles to Digital Banking

Banks have long been heralded as bedrock institutions. After all, apart from the occasional outlier who insists her money is safer under a mattress, everyone depends on their bank to carry out everyday financial business.

And yet, the modern bank is under siege. While banks are pouring millions into advertising campaigns and compliance efforts, customers today ultimately respond best to a seamless digital experience — they're just not getting it from the incumbents.

This survey of American banking customers of institutions such as Bank of America, JP Morgan Chase, and U.S. Bank revealed that 56% of customers report having been directed to a physical branch during an online banking interaction. And 48% say they've been asked to print, sign, and email papers while conducting their online banking interaction. The evidence is clear that banks are failing to provide a fully digital customer journey, and customers are at their wits' end: A whopping 42% of them have considered switching banks due to a poor customer service experience.

A Poor Digital Experience is Hurting Banks' Reputations

- **56%** of customers bounced to a branch
- **48%** of customers couldn't complete online transactions
- **42%** of customers have considered switching banks due to poor CX

Poor Digital Experience is Costing Banks Business

Straight from the customer's mouth

Taylor, a resident of Clearwater, Florida says of his experience with U.S. Bank,

They changed their fax machine without calling or emailing me to let us know to renew the policy at their new fax number. Several customer service reps...told me that they don't call or email in situations like this. They sent two letters in the mail notifying me. I never received those letters.

While customers spend most of their day easily accomplishing all sorts of tasks on their mobile phones, interacting with their banks is quite a different story. Suddenly, customers are forced to track down printers, photocopier machines, fax machines — a whole litany of antiquated equipment that plays little to no role in their ordinary life. Then they have to get through stacks of complex and time-consuming paperwork. And, as is often the case, if a customer has a question while filling out all those cumbersome forms, it'll have to wait until the bank's call center opens. In fact, **42% of customers would leave their bank because of poor customer experiences like this.**

After being forced to contend with legacy systems, a lack of a fully digital interface, and messy paperwork, customers inevitably are left with a bad taste in their mouth. And, more and more, they are choosing to walk away from traditional banks altogether, and towards digital-first competitors that promise a relief from these headaches. This is particularly the case for Generation Z and low to middle-income customers, who have to deal with even greater quantities of paperwork due to endless compliance requirements.

If there is any doubt that these frustrations are a direct blow to a bank's business, consider that the average banking customer lifetime value is $45,600 (for an average customer lifespan of eight years). These lost opportunities add up.

Part 5

Digital Opportunity #1: Generation Z

Generation Z customers put a premium on mobile banking, but just aren't getting it. Generation Z, typically defined as the cohort of adults born after 1997, compose nearly 40% of U.S. consumers, and a quarter of the U.S. population. They represent $44 billion in buying power, thus presenting an enormous opportunity for brands who succeed in winning them over.

Who are these young adults that are taking the economy by storm? While Millennials grew up during the transition to the digital era, most of Generation Z came of age when smartphones were already in the pockets of every American. Digital is their default. And anything else is just a strange and alienating intrusion on their instant, one-click-and-done world.

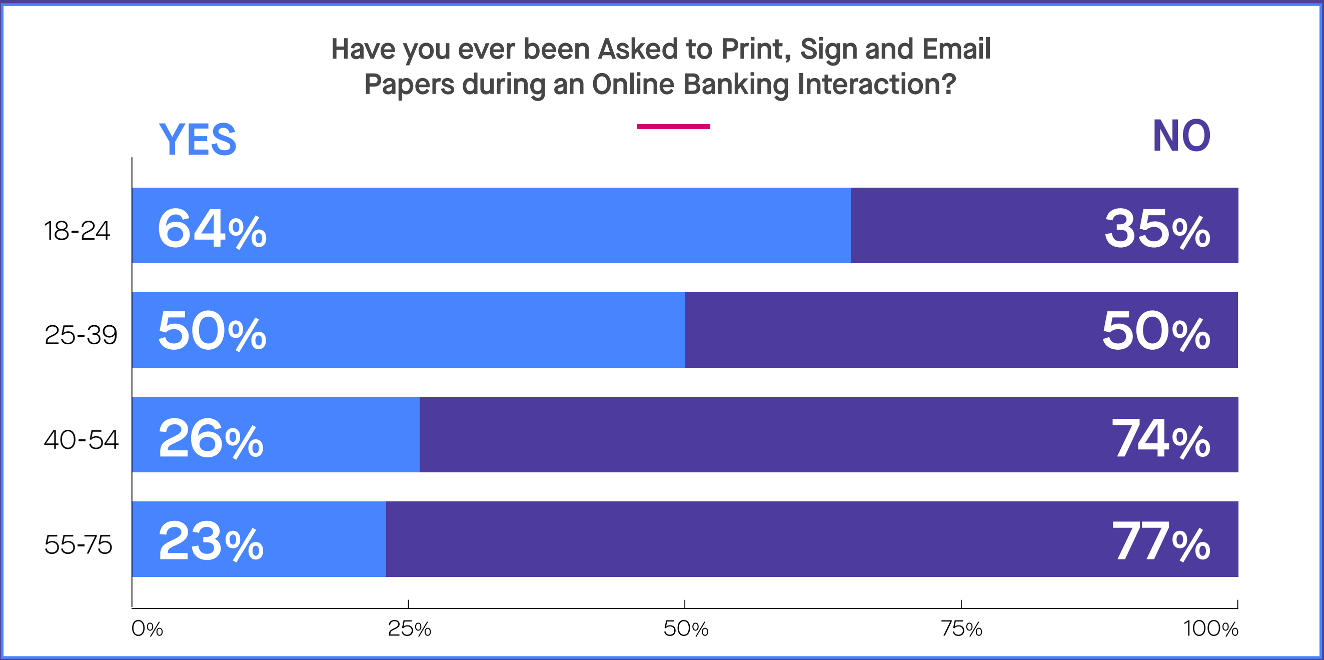
But are banks succeeding in winning over this crucial generation? The survey shows that traditional banking is leaving Generation Z cold. While banks are aware that the younger generation is more digital than ever, a full, satisfying digital transformation has yet to be enacted. By forcing them to deal with banking matters offline, banks are dragging them outside their comfort zone. Ironically, digital convenience is even less available to Generation Z — despite the fact that they put a very high premium on it.

Customers are Suffering from Poor Digital Experiences

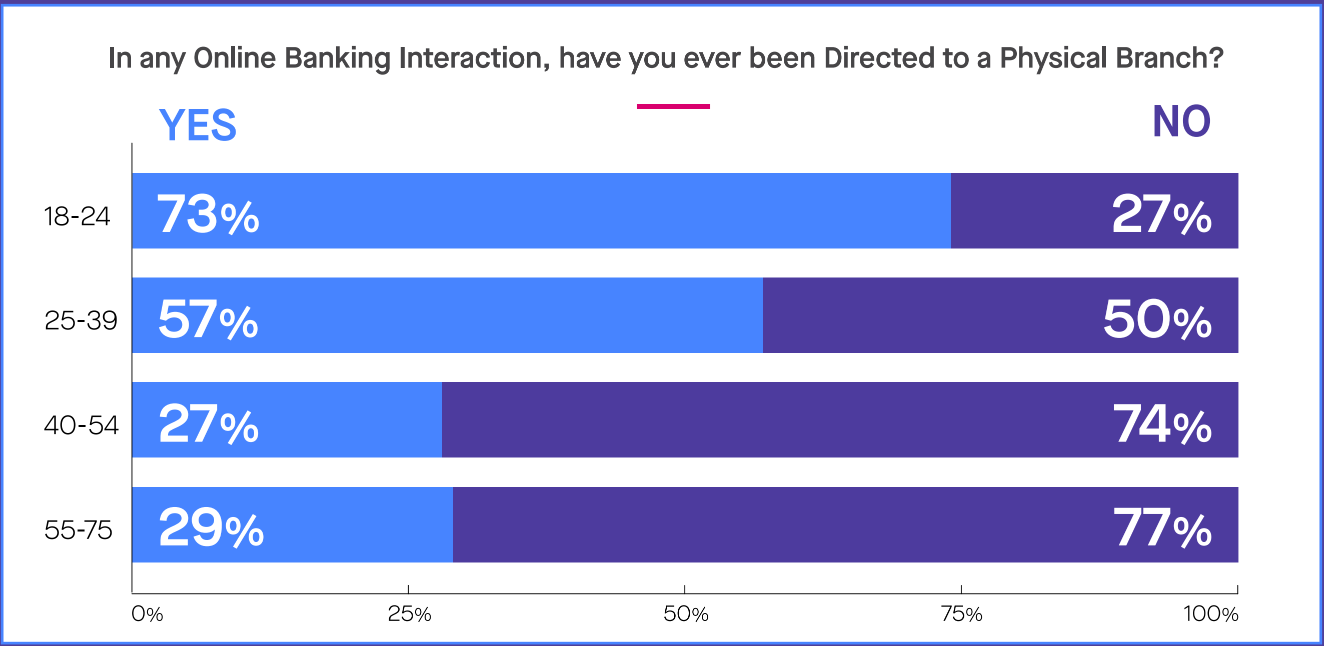
Physical paperwork and physical branches are still widespread

For Gen Z, during an online transaction:

64% have been asked to print and sign paper forms (this is two to three times the rate of other age groups).



73% have been told to visit a physical branch.



It is clear that the biggest frustrations for Generation Z when applying for a new account, credit card, or loan are having to physically go to a branch and fill out excessive paperwork.

Gen Z's top Frustrations in Applying for a Credit Card, Loan or new Bank Account

75% dislike **going to a branch.**

73% dislike the **amount of paperwork.**

43% dislike **a slow app.**

Perhaps most dramatically of all, Generation Z seems to have no qualms about switching banks. In fact, 82% of this cohort claim they would move to a different institution if it offered superior digital services.

What would get Gen Z to Switch Banks?

82% want **a great online** and/or **mobile experience**

VS.

52% want **lower fees.**

Only 28% want more **branches or ATMs.**

One young entrepreneur from Tampa, Florida explains what ultimately led to his decision to stop banking at BB&T:

I opened an account online with BB&T after they mailed me an invitation. It took hours and they still couldn't figure out how to apply a simple coupon code to the checking account. Very poor customer experience and I made a decision NOT to bank with them anymore.

If we take a look back at the digital banking alternatives discussed in the previous section, it's little surprise that younger respondents are far more likely to leave traditional banks and adopt digital-first ones instead.

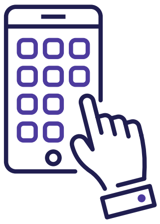
The following Bain findings demonstrate the pull of digital “challenger banks” among a young cohort. While these results are from the UK, we can assume similar trends in fintech apply to equivalent U.S. populations:

Challenger banks in the UK	Overall adoption, all respondents	Adoption by respondents who opened a checking or savings account in the last 12 months	Adoption by respondents age 25-34 who opened a checking or savings account in the last 12 months
Monzo	3%	6%	13%
Revolut	3%	6%	11%
Starling Bank	2%	5%	9%
Monese	1%	3%	7%

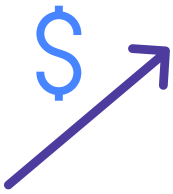
As digital natives, Generation Z (as well as young consumers more generally) have no patience for roadblocks in the services they frequent. Their pace of life is too fast, too digital, and too instant.

The Untapped Potential of Generation Z in Banking

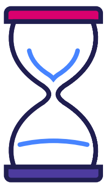
Not only does Generation Z compose nearly 40% of the consumer population — this group has a number of attributes that makes it worth catering to. Consider that they are:



New to banking, but less attached to any particular banks: They're more likely to be swept up by the latest and greatest digital offering. They're glued to their mobile phones, and expect to be able to accomplish anything from them. Banks that offer them a holistic mobile banking experience can become as frequently used as Instagram or Snapchat.



High-value lifelong customers: As young people, they aren't yet taking out hefty loans or mortgages, or refinancing their homes — but they will be in the coming years. Banks should want to be their no-brainer solution once they start making big financial moves. Now is the opportunity to win them over and build a lasting relationship that will turn profitable in the years to come.



Pressed for time: Just starting out in their careers, Generation Z is busy hustling and trying to get ahead. The last thing they need to worry about is a frustrating trip to a bank where they'll need to fill out stacks of time-consuming paperwork.

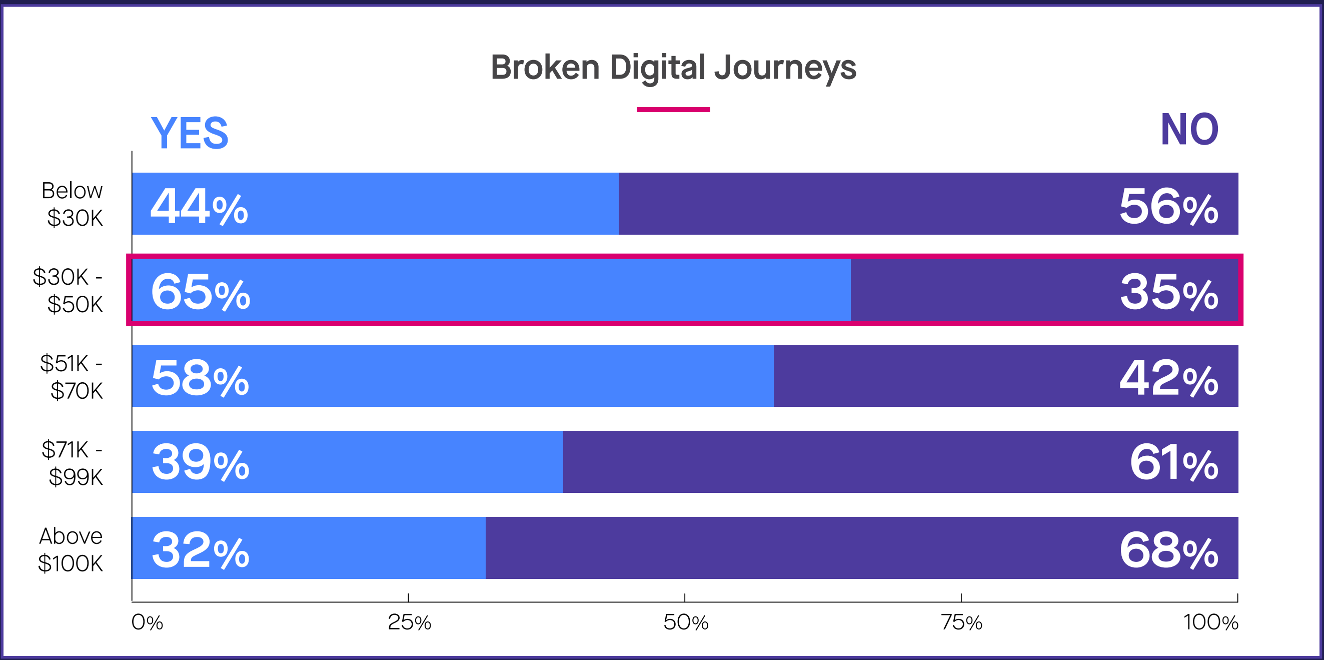
Part 6

Big Digital Opportunity#2: Low and Middle-Income Customers

Low and middle-income customers represent 38 million people in the U.S., a tremendous number. Low and middle-income Americans, defined as those with an income between $30,000 and $50,000, are hurt more than any other group by inefficient banking procedures.

In many cases, Generation Z also overlaps with this income bracket as they are just at the beginning of their careers, and haven't hit their earning potential yet. In any case, this group is distinguished by the fact that unlike the poorest Americans, they are eligible to apply for mortgages and credit cards. But unlike the rich, they have more to prove to compliance-focused banks. Whether it's proof of income, credit scores, or anything else, they are saddled with the most paperwork.

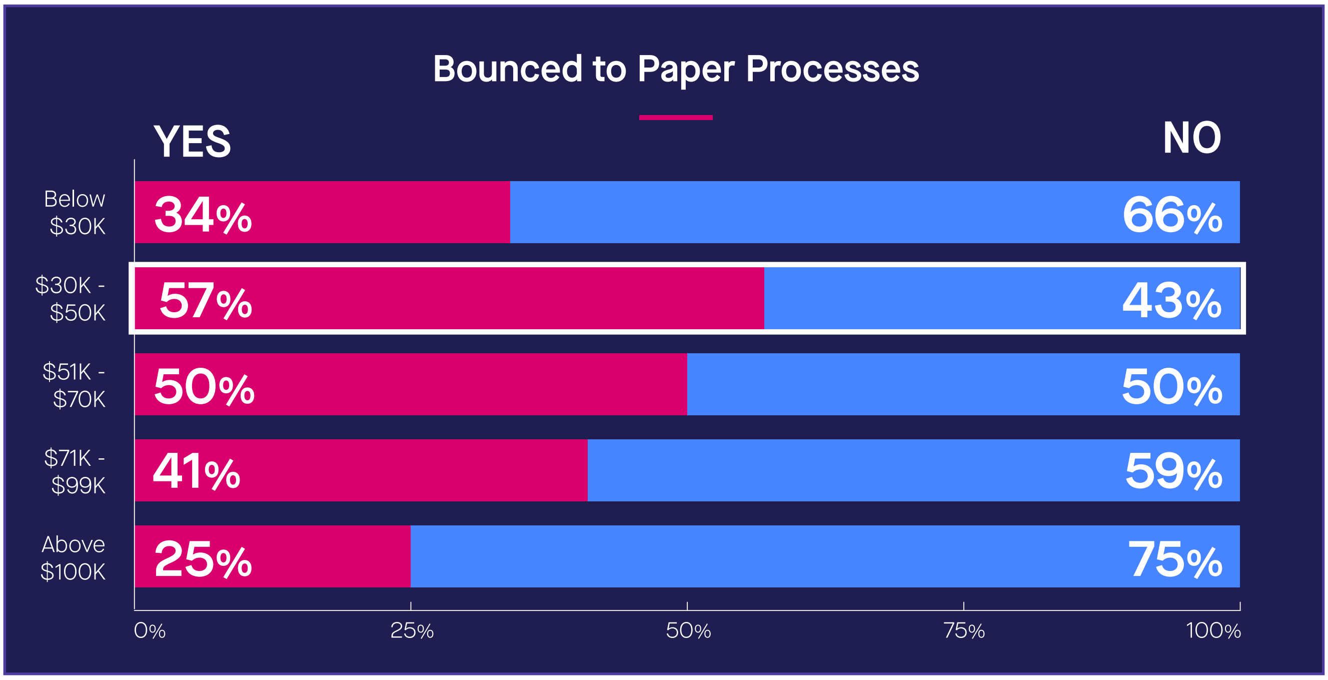
In fact, low and middle-income earners are disproportionately redirected from online banking interactions to physical branches. When 65% of customers report redirection from online to offline activities, it points to a broken digital journey.



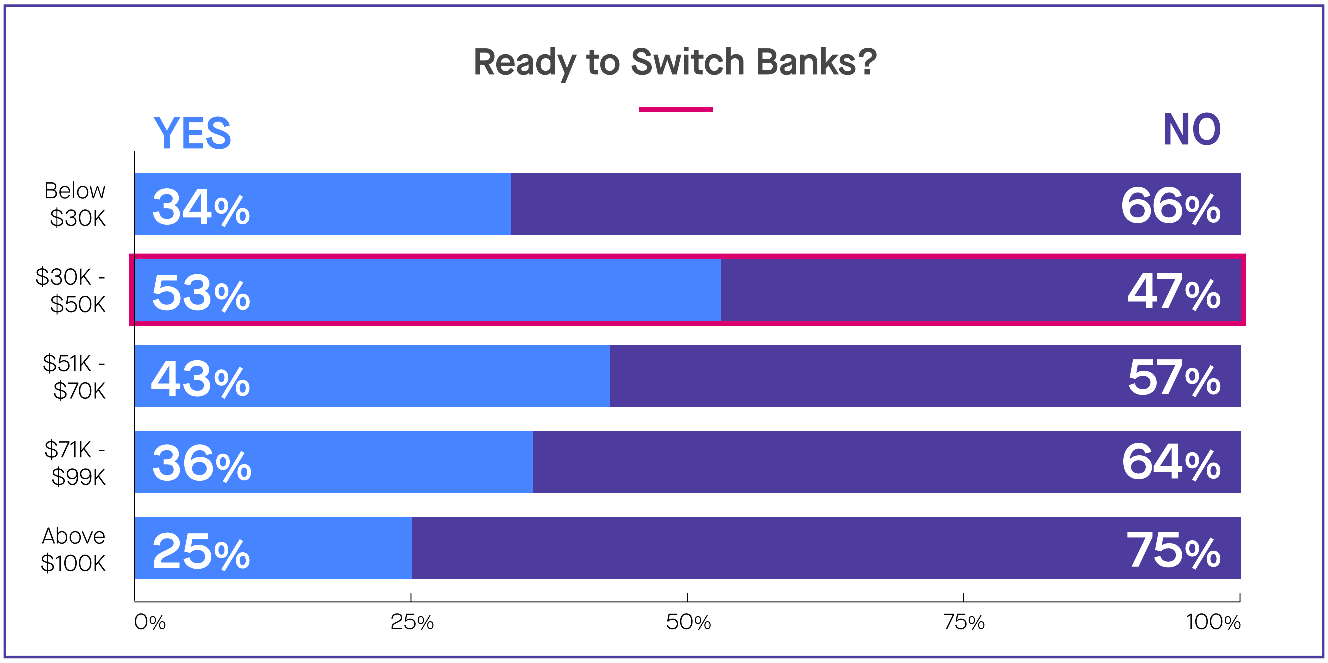
While low to middle-income customers are able to begin banking processes from a mobile phone or desktop, they are rarely able to complete those processes digitally and instantly.

On the flip side, note that the higher the income, the lower the paperwork burden — likely reflecting the fact that that they are considered lower risk.

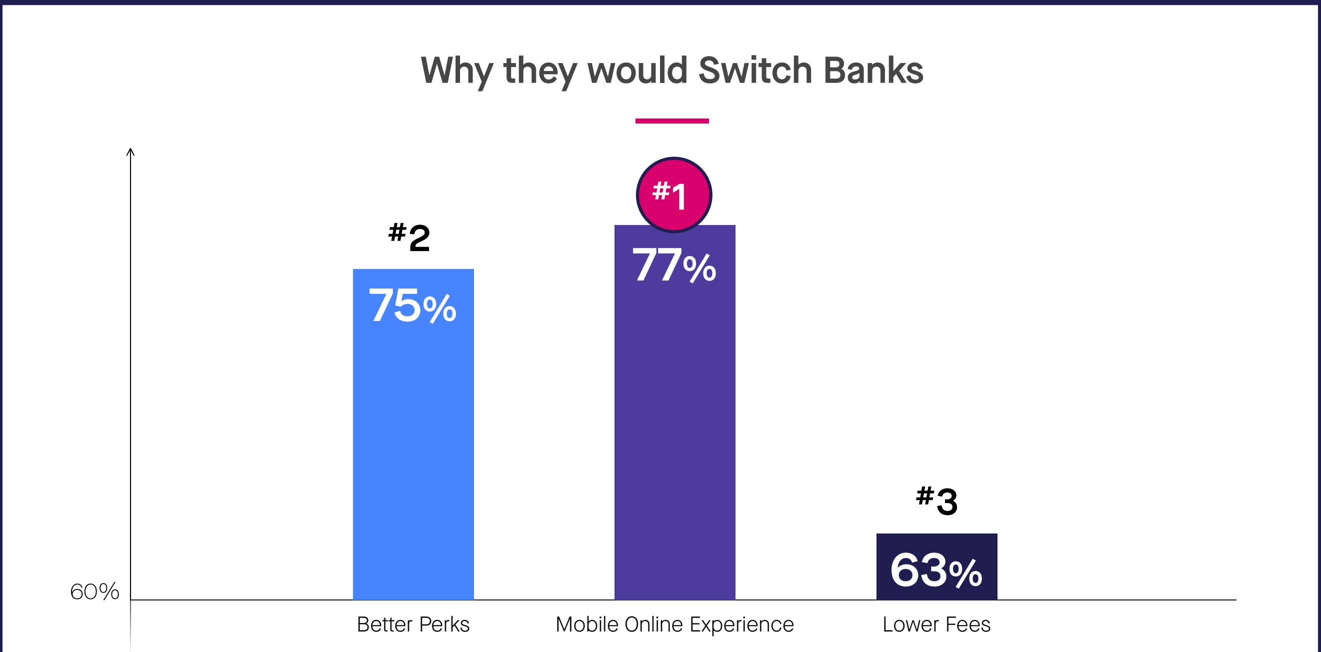
Respondents were also asked whether they had ever been asked to print, sign, and email papers during an online banking interaction. Again, the $30,000 to $50,000 group experienced this frustrating phenomenon more than any other income bracket, at a rate of 57%.



When asked whether they would ever consider switching banks due to a poor customer experience, once again, low to middle-class earners report being unhappier and more open to switching than other groups.



Perhaps most strikingly, an excellent online and/or mobile experience at a competitor bank was cited by 77% of low to middle-income respondents as the number one factor that would push to leave.

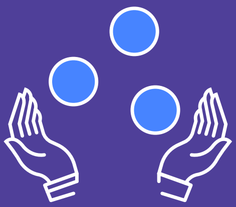


The Untapped Potential of Low to Middle-Income Earners in Banking

Besides the fact that low and middle-income people represent 38 million people in the U.S., there are many other reasons why banks should be committed to turning their frowns into smiles. Consider that they are:

Not going anywhere: And neither is their money. While wealthy Americans can make investments and bank abroad (and in some cases even move abroad), low and middle-income Americans are generally forced to make the American system work. They may switch to a more digital-centric bank within the U.S., and traditional banks have the opportunity to be that for them.

Making financial decisions: Unlike the poorest Americans (defined as having an income below $30,000) who are just trying to get through the month, low to middle-income Americans are still striving for the American dream, which is still very much tied to home ownership. Once they decide to purchase a home, the question is, will their primary bank be their obvious choice for a mortgage lender? Or will a fintech startup be first of mind?



Juggling endless responsibilities: Similarly to Generation Z, low to middle-income earners don't have enough hours in the day. They are frequently shift workers or working more than one job, and may be trying to raise a family at the same time. What if their primary bank could be their hero instead of their villain by offering a seamless mobile or digital experience?

Part 7

How Banks can Step-Change their Digital Capabilities

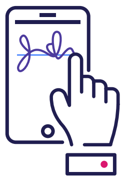
Customers in general, and Generation Z and low to middle-income earners in particular, are suffering from an excessive and painful amount of paperwork.

Physical paperwork was born out of a need to fulfill compliance requirements. On the surface, this may seem like a necessary evil. After all, banks need to make sure that people applying for credit cards or taking out a loan are not going to default. And Generation Z and low to middle-income earners simply have more to prove due to either a lack of history at the bank, or no credit or mediocre credit scores. As fears of fines and litigation grow, there's no choice but to add more and more layers to banking applications. Or so the thinking goes.

Yet thanks to technological innovations, there are multiple ways banks can easily fulfill compliance requirements while providing a fully digital banking experience.

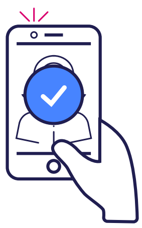
Here are some of the ways to simplify and fully digitize your customers' banking experiences:

Instant, 24/7 mobile solutions: Generation Z and low to middle-income customers often don't have a desktop computer, and they certainly don't have a fax machine. Yet all of them carry a smart mobile phone. Banks can greatly increase the likelihood of them completing applications by meeting them where they are.



eSignatures: With a simple finger swipe, customers can send banks their John Hancock. The document is then locked and stored on the bank's CRM with a fully time-stamped audit trail.

eForms: The best solutions on the market allow banks to convert traditional forms and PDFs to mobile-friendly, pre-populated forms (or auto-fill options in the case of new clients). When new compliance regulations are introduced, it's easy to update the forms.



Digital ID verification: With a snap of a camera phone, customers can take and upload a selfie or forms of ID. Digital ID checks through KBA, OTP, or photo ID verification allow banks to fulfill their Know Your Customer (KYC) and anti-money laundering requirements — while saving customers a trip to the local branch due to a missing piece of ID.

Besides the convenience it brings, biometrics with two-factor authentication and a geotag is more dependable and compliant than a fax machine or Fedex.

The benefits of providing an instant mobile experience are tremendous. It results in significantly reduced customer drop-out during the application process, eliminating the usual bureaucratic barriers to entry. Banking customers will stop drifting towards new fintechs and neobanks, and start using their primary bank for all services, even the complex ones. And the overhead costs associated with maintaining physical paperwork will be drastically reduced.

All this while maintaining — or even surpassing — current compliance standards.

Conclusion

When banks finally provide their customers the type of intuitive, fully digital experience they expect, there is no need to worry about losing them to fintech competitors, or abandoning cumbersome and confusing forms halfway through. Banks that deliver the simplified, digitized customer-facing solutions can rid themselves of the expense of bureaucracy, burden of poor CX and ensure their long term growth.

And, as Generation Z and low to middle-income customers hit banking milestones in their lives, their relationship and loyalty to their primary bank is galvanized.

Customer-relevant innovation is not a matter of adopting shiny new trends: it's a matter of fixing broken customer journeys to secure traditional institutions' place in the future of America's banking system.

Addendum:
Digital Banking Checklist

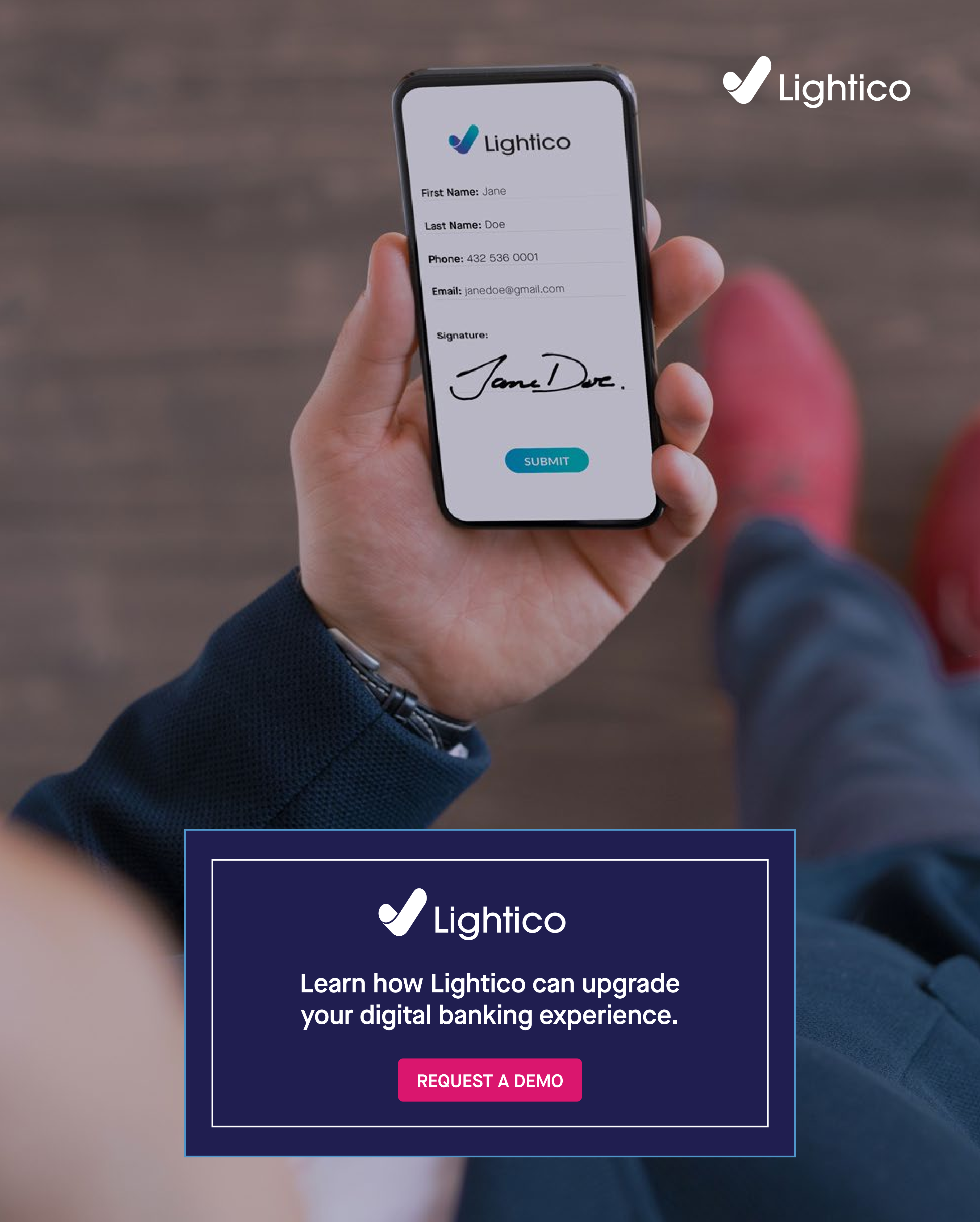
Here are the key processes that should be digitized to meet customer expectations, as well as the features that need to be in place to support the digitization of these processes:

Key processes to fully digitize:

- [ ] Customer onboarding
- [ ] Money transfer
- [ ] Checking account activities
- [ ] Stop payment requests
- [ ] Investment platform
- [ ] Retail and commercial loan applications
- [ ] Loan modifications
- [ ] Invoice processing
- [ ] Overdraft notifications
- [ ] Asset transfer and retirement activities
- [ ] Change of address
- [ ] Internal compliance

Enabling features:

- [ ] Digital forms
- [ ] eSignature
- [ ] Digital ID verification
- [ ] Digital document collection
- [ ] Support for multiple account holders, including multi-sign



Lightico

Learn how Lightico can upgrade your digital banking experience.

REQUEST A DEMO

www.lightico.com • 1-888-252-1440 • info@lightico.com

Lightico

visit: www.lightico.com