How to optimize your bank's product offerings

MANTL

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Guiding principles to enhance your product offerings

The banking industry is at a crossroads. On the one hand, digital banking services are rising to the forefront and drawing increasing interest from customers. On the other, brick-and-mortar banking remains an important way to connect with customers on a local and personal level.

The most successful banks bring these two avenues together to provide the highest-quality customer experience. Yet customizing products and services to fit in-person or online banking processes is key.

For community and money center banks alike, what works in brick-and-mortar branches may not work online. Since expectations differ when it comes to customer experience, products that show a high level of profitability in a physical branch may perform differently in the digital space.

The following are a series of principles and tips to ensure that your bank's products and services translate seamlessly to online banking, while remaining tied to the in-person branch experience.

MANTL's experience has led us to develop several guiding principles that have driven value for our clients. They include:

- **Less is more.** Fewer products to choose from leads to better deposit economics.
- **Simplicity wins.** Simple products are more profitable than complex products.
- **Not all product services are created equal.** Some products just perform better than others—e.g. cards typically perform better than checks.
- **Cross-sell after acquisition, not during.** Be patient to gain wallet share!
- **Geographic pricing doesn't work.** Differentiating product offerings by geography doesn't work when customers can comparison shop online.

In addition to these guidelines, localization remains an important element to consider when making final product decisions. The discovery phase of any implementation should be used to align your institution's existing product offerings and strategic goals to arrive at the best product mix.

Regardless of the initial product offering, flexibility should be a key component to any digital account opening system you implement. For instance, MANTL allows for the addition, editing, and removal of products and rates instantly through our Digital Branch Manager. This feature requires no coding, which enables banks to move quickly and autonomously.

We know that what works today may not work tomorrow. Experimentation and iteration will be key over time to continue to optimize your institution's performance.

MANTL recommends the following product offerings for a bank pursuing two of the most popular online strategies:

	In-Market	National (Savings + CD)
Checking	"Free" checking "Premium" checking	
Savings / Money Market	High-yield savings Money market account	High-yield savings
CD	1 yr, 2 yr	1 yr, 2 yr, 3 yr

Less is more

Smaller, more focused, and simpler online product offerings lead to higher submission rates and a lower overall cost of deposits.

An experiment run with a partner institution found that moving from four checking accounts to two resulted in a 7 percent increase in checking conversion, holding all other factors constant. Too much choice can lead to paralysis, especially when the products aren't sufficiently differentiated or differences are not explained clearly and quickly.

This experience is supported by an analysis of some of the best-performing online institutions (versus money center banks), which shows the principle in practice. Capital One, a longstanding leader in online deposit generation, has two checking account offerings and two savings accounts.

Unique accounts offered online (by category)

Institution	Checking	Savings	CDs	Total	Geo?
Chime	1	1	0	2	No
Current	2	0	0	2	No
Varo	1	1	0	2	No
Lending Club	1	1	3	5	No
Comenity Direct	0	1	5	6	No
Capital One	1	2	3	6	No
Rising Bank	1	1	7	9	No
Marcus	0	1	10	11	No
Wells Fargo	3	2	3	8	By zipcode
Ally	1	2	10	13	No
Citi	2	1	21	24	By zipcode
Chase	5	2	17	24	By zipcode
Bank of America	3	1	125	128	By zipcode

Source: MANTL Analysis June 2020

Simplicity wins

Checking accounts

When presented with a choice between a "free" account (no monthly fees) and a "premium" account (fees with balance required, interest bearing), a greater proportion of applicants will select the "free" account. In fact, avoiding fees is the single biggest determining factor when selecting a checking account.

A much smaller percentage of applicants will carry large checking balances and are therefore undeterred by fees and minimum balance requirements. These will be your highest-value customers.

This trade off is not unique. We see a similar phenomenon in funding, where the highest-value customers will use ACH, but the majority of checking customers prefer to use debit cards. The right decision for most institutions is to offer both funding methods, and the same applies from a product perspective.

Interestingly, the minimum balance requirement on "premium" checking products does not need to be large. Customers either have large balances or they do not; typically only those looking to "churn" accounts for a sign-up bonus will focus on the minimum.

MANTL typically recommends a $500 to $1,500 minimum for a premium checking account as a starting point.

Similarly, tiering interest is popular in the industry, but this adds complexity and does little to impact cost. Regardless, 80 to 90 percent of deposits are always in the highest tier. Especially in a low interest rate environment, consider eliminating tiers in favor of a simpler approach.

→ Finally, and most importantly, **MANTL does not recommend using sign-up bonuses to attract customers.** Especially when coupled with allowing credit card funding, cash sign-up bonuses attract churners who are optimizing their deposits for short-term incentives and will leave your institution after the qualification period. To better understand the sophistication of bank account churners, we recommend you periodically review Doctor of Credit, a popular information source for these individuals.

Savings accounts

Savings accounts share many of these best practices with checking accounts, especially around sign-up bonuses and interest rate tiering.

MANTL recommends automatic cross-selling of checking accounts into savings accounts (and vice versa). This helps increase wallet share, and encourages usage across both accounts.

One of the simplest things you can do to optimize your conversion rate and deposit economics without spending a dollar is to experiment with the naming of your accounts. For instance, a "High-Yield Savings Account" will likely outperform a "Savings Account" without any difference in pricing, fees, or terms.

A key element of a successfully implemented savings account strategy is the net-deposit retention year-over-year. With a highly successful high-yield strategy for example, 0.25 to 0.50 percent off the top national rates, you can reasonably expect a 40 percent increase in deposits on an average account year-over-year. Practically, if an account holder opened an account today and deposited $10,000, you can expect that account to be holding $14,000 in 12 months, $19,600 in 24 months, and so forth. This built-in deposit growth can create powerful cohorts of customers that become very profitable in years two and three.

Certificates of deposit

More than 75 percent of all CDs opened online are a one-year tenor. Maturity ranges of six, 12, 18, and 24 months will account for over 95 percent of CDs opened. Therefore, there is no marginal benefit in offering every tenor of CD online unless there is a specific treasury purpose.

Jumbo CD strategies work very well for institutions that are sensitive to the operating overhead of accounts. They are an effective way to generate large volumes of core deposits that will minimize your ongoing technology costs and operating overhead (call center, statements, mobile and online banking fees, etc).

With a highly successful high-yield strategy, you can reasonably expect a **40 percent increase** in deposits on an average account year-over-year.

Not all product services are created equal

It's not surprising that some product offerings work better than others. For example, debit and ATM Cards have shown to be particularly effective, while fewer and fewer customers are interested in ordering checks.

Cards

Immediately after establishing a relationship with your institution, ordering, activating, and using debit and ATM Cards remains the single most profitable activity a new deposit account holder can perform. It is also the strongest leading indicator from the account opening process that a customer will utilize the new account as their primary account.

Overdraft

Overdraft can be a profitable additional income stream for your institution. For institutions that wish to offer overdraft capabilities, MANTL can facilitate the necessary Regulation E opt-in.

Services like Qualifile or ChexSystems tend to "weed out" potential high overdraft customers, but 80 to 90 percent of overdraft revenue comes from about 10 percent of customers. If your goal is to grow overdraft income, you may need to take more risk with the customers you allow to open accounts, as there is generally an inverse relationship between Qualifile scoring and overdraft profitability.

E-Statements

Nudging new account holders into e-statements is a high-value cost-saving feature for your institution. It can also create greater convenience for customers.

Checks

Check usage is declining by more than 7 percent year- over-year, according to the Federal Reserve Bank of Atlanta. In MANTL's experience, our clients are increasingly forgoing offering checks during the account opening process as a cost-saving measure. Only 7 percent of payment transactions are now using checks and increasingly large percentages (over 90 percent) of online originated accounts will never order a checkbook or write a check, instead favoring electronic funds transfers.

MANTL still recommends allowing checks to be ordered via online and mobile banking and/or other channels to facilitate any long-tail transactions. However, it's important not to distract users from higher-order (and more profitable) activities in the product service realm such as card ordering or e-statements.

Cross-sell after acquisition, not during

Often we hear about applying the "Amazon shopping experience" to financial services. However, in reality, individuals do not browse through bank or credit union websites "window shopping" for different products of interest, throwing them in a basket like they would in a supermarket. Instead, customers tend to make more considered, research-driven decisions when it comes to financial services.

Returning to first principles, accounts are only profitable when used as intended by the customer. Creating a basket of two to three accounts with minimal deposits and no usage can result in loss. Instead, MANTL recommends focusing on driving strong adoption of the first account before cross-selling a second product. On this basis, MANTL's platform focuses on first opening a new account, adding product services (i.e. driving adoption), and finally on cross-selling.

Cross-selling for cross-selling's sake is not effective. There is little to no intentionality in cross-selling CDs to customers opening checking products, and the call to action clutters the customer experience and "cheapens" the additional product offerings because they aren't contextualized.

Cross-selling CDs to customers opening checking products clutters the customer experience.

1. Open a new account

2. Add product services

3. Cross-sell

Geographic pricing doesn't work

As shown in our earlier analysis, virtually no institution outside the money-center banks differentiates products based on geographic location. There are a number of reasons why the industry is seeing less and less geographic disparity in pricing. These include:

It's too easy to comparison shop online

Arbitraging pricing in an online context is significantly harder than in a branch context, because consumers can more easily comparison shop. Specifically, classified and comparison sites such as Bankrate and DepositAccounts make it very convenient to find what banks are charging in other locations.

Geographic pricing creates a confusing customer experience, increasing bounce rate

Asking for a customer's address (to pre-qualify them into products) leads to a higher bounce rate than MANTL's current best practice flow. Just as showing disclosures before collecting applicant information drives a higher bounce rate, so does zip code pre-qualification. Many customers are aware that their information is used to differentiate rates and services and react negatively to "gaming" offerings.

Instead, applicants need to be led through the onboarding flow in a convenient, coherent, and sequential manner.

Geographic pricing creates a confusing customer experience, increasing bounce rate.

CONCLUSION

Making the transition to digital

Banks that follow these guiding principles and incorporate the best practices of online banking are most likely to succeed in 2022 and beyond. What today's customers are looking for in digital account opening is a simple, frictionless experience. Products that are flexible and customized for online interactions appeal to new and existing customers alike, encouraging them to make your bank their primary financial institution.

About MANTL

MANTL is a banking technology firm offering the leading account opening software. Our platform empowers regional and community banks and credit unions to grow up to 78 percent faster. These institutions play a critical role in our economy and we're passionate about preserving that. Our customers have raised billions in core deposits to date. MANTL is a privately held company headquartered in New York with the backing of prominent venture capital investors.

Visit **mantl.com** or contact **sales@mantl.com** to learn more.

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