The digital mandate

4 key insights for connecting with consumers in the changing world of community banking

Based on findings from the 2021 Banking Impact Report

MANTL

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INTRODUCTION

New guidance in a changing landscape

Community banking is in a state of flux.

Competition is on the rise from players both old and new. Regional bank mergers are at their highest level in years.[1] And consumer behaviors are shifting more quickly than anyone could have predicted, driven by a pandemic that continues to transform almost every sector of the global economy.

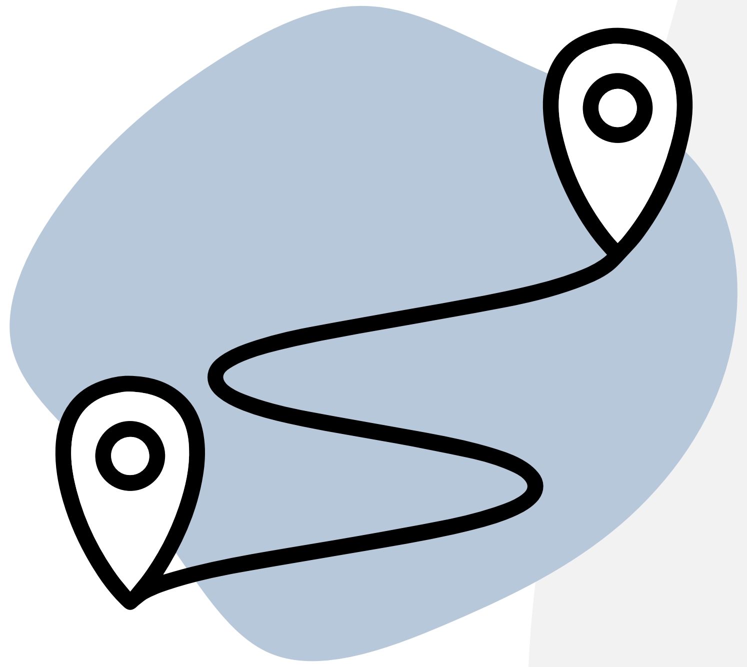
As any leader knows, it's difficult to choose the right path when the ground is shifting beneath your feet.

That's why MANTL commissioned a study to find the signal in the noise.

We spoke with bank and credit union executives, small business owners, and consumers across every demographic to help us understand what's at stake in community banking, and how forward-thinking leaders can help their institutions navigate what's next.

In this white paper (the first in a series), we'll focus on the consumer side of the story.

We'll explore what people really want from their financial institutions (FIs). And we'll offer guidance on how to choose the next right step on your journey to digital transformation—**so you can meet your customers exactly where and how they want to be met.**



About the report

The 2021 Banking Impact Report was conducted by Wakefield Research in August 2021 and commissioned by MANTL to identify how evolving trends impact the local community and the role that community banks and credit unions play in the U.S. financial system.

The report surveyed three key audiences:

- **1,000+ consumers**, aged 18+ with a bank account
- **500 U.S. small business owners** who have a bank account, defined as those with annual revenue of $25M or less, with a 20% quota for $1M+
- **100 community banking executives and 50 credit union executives**, defined as those VP and above, who manage between $500M and $50B in assets

[1]MarketWatch, "Why the Recent Wave of Regional Bank Mergers Is Far from Over—and You Could Profit From It," September 3, 2021.

1. Digital transformation is now a baseline expectation

Consumer adoption of digital banking tools was on the rise long before March 2020.[2] The pandemic simply accelerated that trend, with 35 percent of consumers increasing their online banking usage during the COVID-19 crisis.[3]

> I think the pandemic has taught us that you don't need to come into a branch to do your banking. You can do most things remotely.
>
> **And a lot of our customers have grown accustomed to these new technologies,** and they're realizing that it saves them time to use these digital services instead of visiting a branch in person.
>
> **— Cassie Voight**
> Core Banking Integration Officer, Horicon Bank

Now, nearly two years into the pandemic, expediency appears to have transformed into expectation.

In our survey of consumers, we found that a clear majority of respondents **not only prefer to bank on digital channels, but expect to have digital access to a broad range of features** including mobile check deposits, fraud notifications, and online account opening.

But there's a clear gap between expectation and reality. While 58 percent of consumers say that online account opening (OAO) is a must-have, only 57 percent of community banks and credit unions offer it.

Here's the bottom line: if community banks and credit unions don't deliver what consumers are looking for, then megabanks and neobanks will be more than happy to keep filling in the gap.

The consumer expectation gap

58% of consumers say OAO is a must-have

57% of community institutions offer it

The younger the audience, the greater the demand

If you're still on the fence about digital transformation, time is not on your side. Millennials are currently the largest generation in the U.S. labor force[4] and are fast approaching their highest-earning years.[5]

In our study, **73 percent of Millennials said they wouldn't use a bank or credit union that doesn't offer OAO.** 74 percent of Generation Z agreed.

The conclusion is clear: community banks and credit unions **must act now to meet the demands of an economy that will be fully Millennial-led by 2030**.[6]

[2] Forbes Advisor, "Digital Banking as the New Normal in 2021: What to Expect from Banks," January 11, 2021.
[3] Deloitte, "Realizing the Digital Promise: COVID-19 Catalyzes and Accelerates Transformation in Financial Services."
[4] Pew Research, "Millennials Are the Largest Generation in the U.S. Labor Force," April 11, 2018.
[5] The Wall Street Journal, "Millennials' High-Earning Years Are Here, but It Doesn't Feel That Way," August 12, 2021.
[6] UPCEA, "An Early Outlook of a Millennial-Led Economy in 2030," November 8, 2019.

2. Community FIs lead the way on rates, service, and local impact—but not convenience

As recently as 10 years ago, community institutions were well-positioned to offer both community and convenience. Consumers could bank at a community bank or credit union just as easily and efficiently as they could at a national bank.

Our study indicates that many consumers still prize some of the core value props of the community banking experience: low fees, superior customer service, and deep community involvement. They regard national banks, community banks, and credit unions with approximately the same high level of trust.

We did, however, identify one major area where community banks and credit unions appear to be falling behind—convenience. This finding reflects an emerging reality of consumer expectations in the digital age: *if you're not at people's fingertips, you're too far away.*

As MANTL's CTO Benjamin Conant observes, "The big banks made a trillion-dollar technology bet that slick digital experiences will drive consumer loyalty, even if the products offered are well below market in terms of fees and interest rates. For the most part, this bet has paid off."[7]

For example, during the pandemic—when digital convenience was at an unprecedented premium—consumers flocked to the largest banks, with local and regional banks ranking last in consumer preferences.[8]

→ Taken together, these findings indicate the perilous position of too many local and regional institutions: in an uncertain economic landscape driving massive shifts in consumer behavior, low fees and superior service might not be enough to maintain a strong foothold in the market.

Community banks and credit unions must close the convenience gap or risk obsolescence.

[7] Toolbox Finance, "How Small Banks Can Leverage Open Banking to Close the Technology Gap," July 27, 2021.
[8] The Financial Brand, "Will Regional Banks Survive in the Digital Future?," April 1, 2021.

New consumer behaviors: temporary or permanent?

Would a return to pre-COVID health measures and social conditions prompt consumers to return to old banking behaviors?

We wouldn't bet on it. In one recent study:

- **50 percent of consumers said that COVID-19 had changed how they interacted with FIs**
- **Of those respondents, 66 percent believed the changes to be permanent**[9]

This data aligns closely with research on the science of habit formation. As Brett Holzhauer points out, "It takes 21 days to make a habit and 90 days to stamp it as a permanent lifestyle change. We have far surpassed these date markers during the COVID-19 pandemic."[10]

In short, institutions hoping for a return to "normal" might want to put their eggs in a few more baskets.

"You need to give the customer the power to communicate and connect however they want. **And a lot of community banks don't have the technology necessary to make that possible.**

So more customers are saying, you know what? Bank of America can do this on their app. Wells Fargo can do this. So community banks are losing a lot of people, and we need to find ways to turn that around."

— **Christian Ruppe**
VP of Digital Banking, Horicon Bank

Consumers believe that community FIs deliver:

55%
Greater local impact

44%
More personalized service

41%
More flexibility

37%
Lower rates and fees

But national banks deliver:

33%
A more convenient experience

[9]Citizens Financial Group, Citizens Bank Banking Experience Survey, July 29, 2020.
[10]Forbes Advisor, "Digital Banking as the New Normal in 2021: What to Expect from Banks," January 11, 2021.

3. The chief obstacles to transformation are technical and cultural

With a growing chorus of consumers demanding digital transformation, why do so many community institutions appear to be dragging their feet? We spoke with executives to get answers.

It should come as no surprise that legacy infrastructure is a major factor here, with 45 percent of community bank and credit union executives saying they lack the infrastructure to support digital initiatives.

In fact, according to MANTL's Benjamin Conant:

> Nearly half of community banks and credit unions are still running their core banking services on platforms that were designed with COBOL, **a programming language that is now over 60 years old.**[11]

Many of these core providers are simply unable to keep pace with evolving consumer expectations—leaving community FIs in the lurch.

Internal dynamics play an equally important role in community institutions' hesitation to go digital, with 44 percent of executives saying their leadership doesn't believe in the importance of digital channels. The same number (44 percent) cite concerns around security and risk.

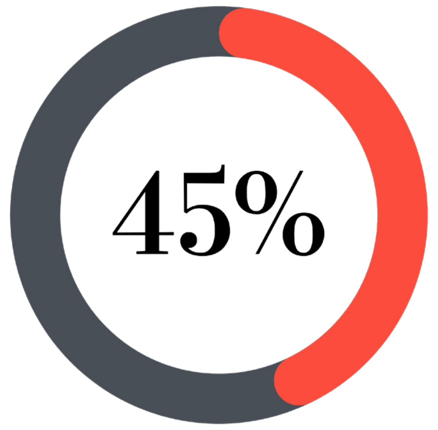
These findings are almost certainly linked to the fact that over one-third (36 percent) of respondents say they've had a negative experience implementing digital banking technologies.

→ In other words, it's not just about creating a clear and compelling business case to get buy-in from senior leadership (essential as that may be).

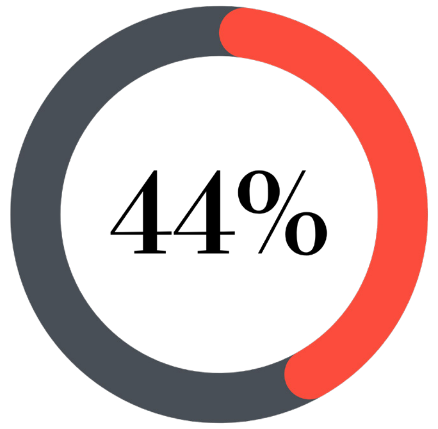
It's also about making every effort to vet and select robust technologies with best-in-class security features to ensure that your digital investments deliver real and lasting value with minimal risk.

[11]Toolbox Finance, "How Small Banks Can Leverage Open Banking to Close the Technology Gap," July 27, 2021.

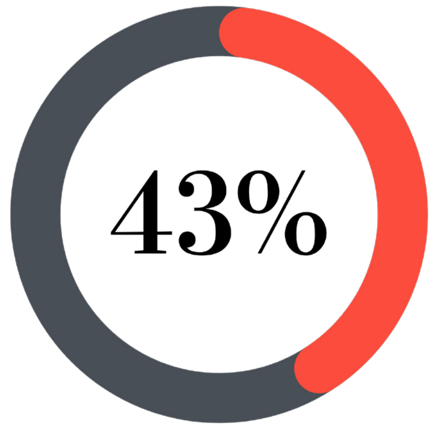
Why community FIs resist digital transformation



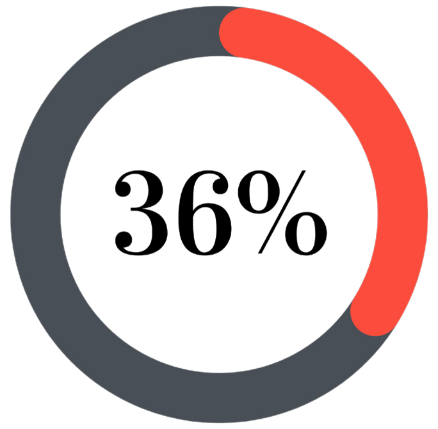
They lack the infrastructure to support it



Their leadership doesn't believe in it



Their customers haven't asked for it



They've had a bad experience implementing new technologies

"Find platforms that are partners—not just vendors. **The digital space is changing so quickly, and you want a partner who will work with you on that evolution.** You might need to pivot really quickly or create a custom solution, and if your vendor isn't willing to be flexible and work with you and share best practices, then you're on your own."

– Grace Pace
VP and Digital Engineer, Quontic Bank

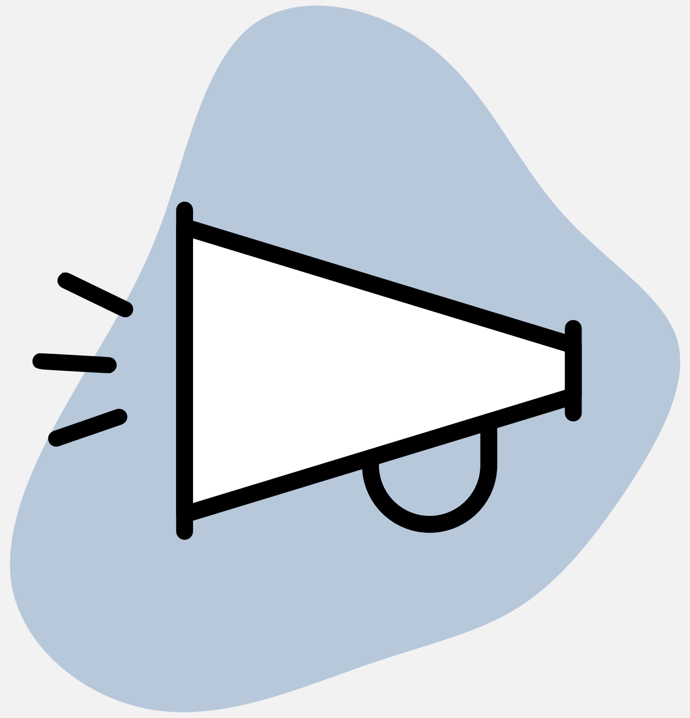
Can you hear them now?

Here's one number that we found particularly surprising: 43 percent of community FI executives say they haven't pursued digital transformation because "customers haven't asked for it."

Given the growing sentiment among consumers who clearly prefer to bank on digital channels—widely documented both here and elsewhere[12]—this finding suggests that some institutions might not be giving customers enough opportunities to voice their preferences.

Worse yet? Some executives might not even be listening.

As you consider the next steps on your digital journey, make sure to keep your ears to the ground. Your customers might be speaking more loudly than you think.



[12]FICO, *Consumer Digital Banking Study*, April 21, 2021.

4. Consumers are wary of neobanks (for now)

Again and again, our study found that consumers want the option to bank on digital channels—but their enthusiasm for digital banking appears to have its limits.

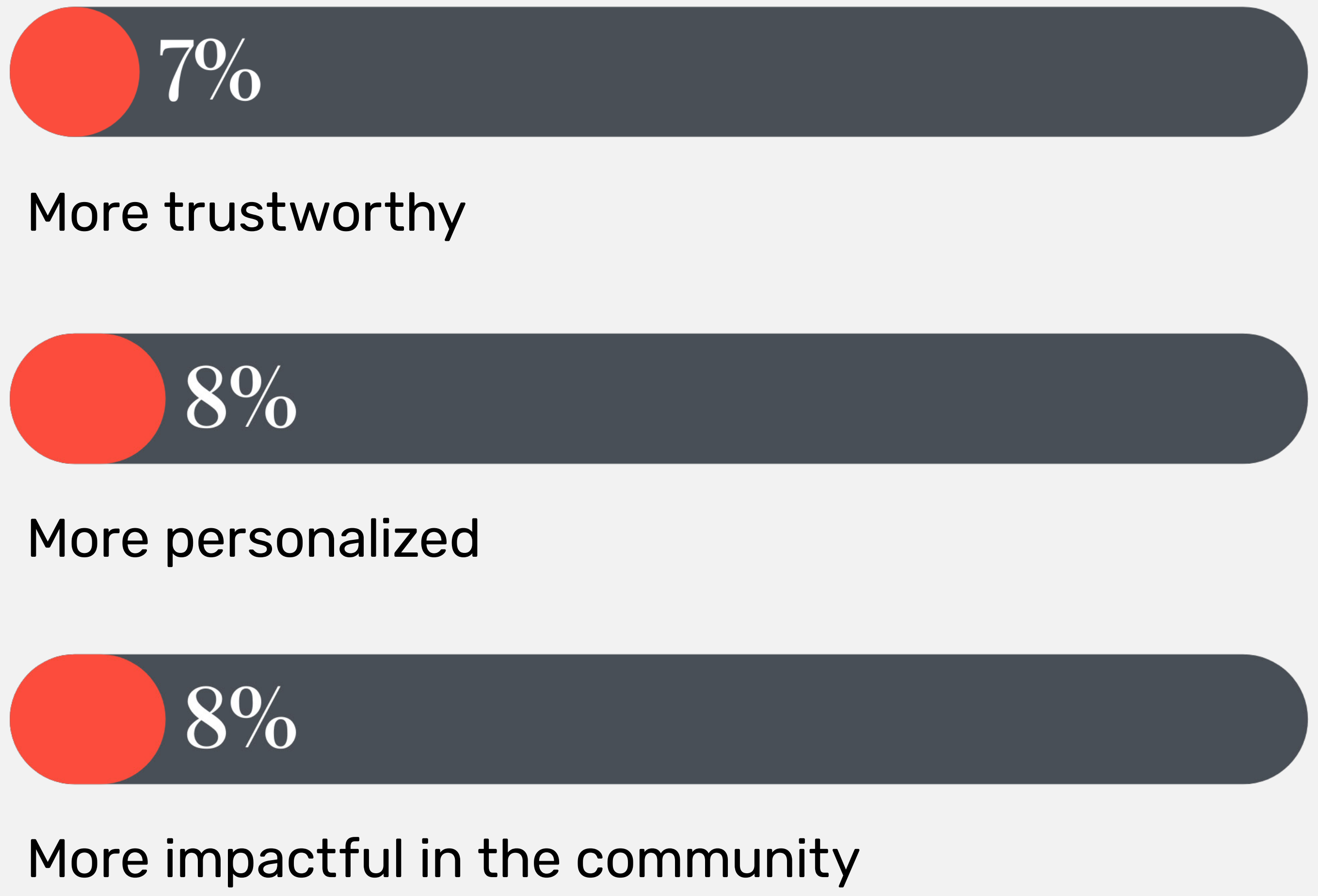
Despite the massive valuations and media attention given to neobanks in recent months[13], only 7 percent of consumers trust digital-only banks more than they trust traditional institutions.

Even so, 47 percent still said they were "somewhat or very likely" to open an account at a digital-only bank in the next 12 months.

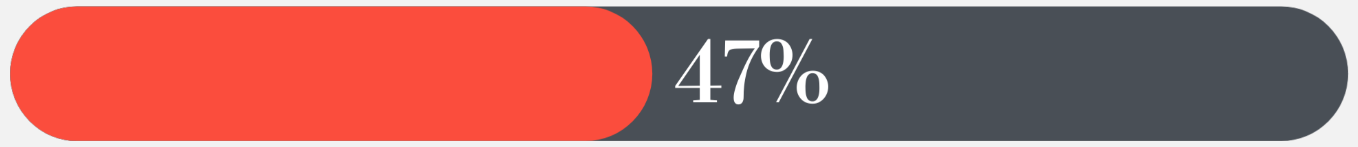
That 12-month window signals a major opportunity for community banks and credit unions to capitalize on consumers' hesitation. Now is the time to recapture their loyalty with digital offerings that rival the convenience of neobanks—delivered on a more solid foundation of institutional trust.

> I think one of the great things about community banking is that we can really interact with our customers and understand their interests on a personal level. We can talk to our customers one-on-one to get a clear sense of what's working and what needs to change.
>
> And if we're really listening and responding to their needs, then we can stay ahead of the curve instead of just being reactionary.
>
> — **Mary McBride**
> VP Digital Experience, Bank of Utah

What consumers say about neobanks (relative to other FIs)



And yet...



47% are likely to open an account at a neobank in the next 12 months

[13] AltFi, "With Its New $25bn Valuation, Nubank Is the Neobank to Beat." January 29, 2021.

A quick guide to digital prioritization

So you're ready to pursue a digital strategy. What should you tackle first?

→ Here's a prioritized list of what consumers want, according to our findings. This list will help you decide what to focus on next.

What consumers want

61%
Mobile transfers and check deposits

57%
Notifications for fraud, bills due, and large purchases

44%
Online account opening

35%
Integration with payment apps like Venmo and Apple Pay

34%
Financial management tools for spending and budgeting

28%
Cardless/mobile access to ATMs

25%
Peer-to-peer payment methods

20%
AI-enabled customer support

19%
Biometric or voice verification

CONCLUSION

Consumers want digital transformation with a human connection

Community institutions are at a crossroads.

Consumers value the role of community banks and credit unions, both in their communities and in the financial ecosystem at large. They regard big banks as trustworthy and convenient, but not particularly connected to their communities or their needs. And while they're clearly curious about neobanks, they're hesitant to trust them.

That's all good news for community banks and credit unions. But given the evolution of consumer behavior since March 2020, local and regional FIs may have a limited opportunity to meet changing expectations before consumers choose convenience over community.

The data is compelling. The mandate is clear. By meeting consumers where and how they want to be met, your institution can deliver an optimal customer experience while maintaining a deep connection to both people and place. **Only then will you be in a unique position to adapt, compete, and thrive in the face of unprecedented competition—so you can embrace the future with confidence.**

> "Going forward, I really only see two options for consumers: a megabank that doesn't know any of its customers and just offers products, or a forward-thinking community bank that knows its customers and helps with their needs. **And if you want to be the latter, you can't keep doing it without technology.**"
>
> — **Christian Ruppe**
> VP of Digital Banking, Horicon Bank

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% faster. These institutions play a critical role in our economy and we're passionate about preserving that. Founded in 2016, MANTL's 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.

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