curinos review
Spring 2022
PICK
YOUR
PATH
Six Opportunities As Rates Rise
Digital Solutions for Commercial Banking
Are You Ready for Customer Churn?

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a note from the CEO

Welcome to the Spring 2022 issue of the *Curinos Review*.

We knew the world would look very different from the publication of our last issue, but we had no idea how different. Inflation is now at a 40-year high with no signs of retreat. The COVID-19 pandemic has eased dramatically in the U.S., but there is troubling news of another variant in other parts of the world. And the eruption of crisis in Ukraine has resulted in global international sanctions and devastating loss.

What we did know is that the Federal Reserve and other central banks would start to raise interest rates. But even that brings much uncertainty. How many hikes will be needed to tamp inflation without triggering a recession? Six? Seven? Nine?

This issue of the *Curinos Review* is called “Pick Your Path” because there’s no one-size-fits-all solution to the challenges that accompany higher rates. While financial institutions typically benefit from this environment, the situation is complicated. Large institutions that are flush with deposits may be able to keep betas low, but a burst of lending and competition from other providers could upend that strategy. Smaller providers and new entrants that don’t have a big deposit buffer will likely be forced to woo customers with higher rates.

“Pick Your Path” tackles some of the most urgent issues that financial institutions will confront in the coming months, including six levers that companies can pull to enhance and accelerate their transformations. Should you overhaul your mass-market offerings in an attempt to re-capture some lost overdraft fee revenue or do you want to differentiate yourself as a provider to affluent customers? How can you optimize margins?

We also provide guidance on how to assess the impact of customer churn as rates rise, examine how you can make branches more productive and look at the long-awaited emergence of digital as a crucial channel in commercial banking. And be sure to take a peek at the infographics that rely on Curinos data to showcase the latest industry trends in home loans and business banking.

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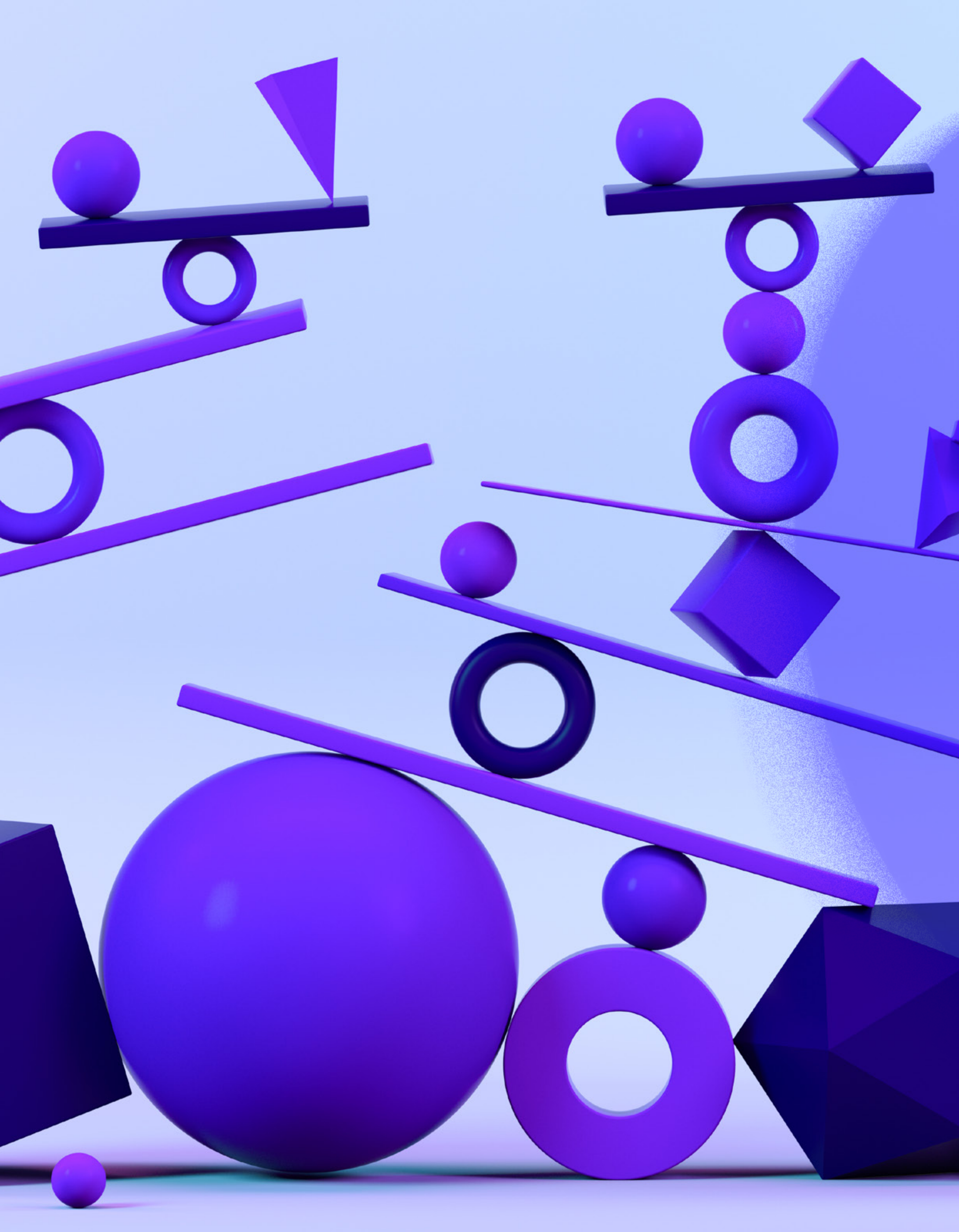


The Six Opportunities As Rates Rise

By Sherief Meleis, Rick Spitler and Pete Gilchrist

It may be tempting to assume that higher rates automatically translate into good news for the banking industry. Loan rates go up, deposit rates lag the hikes imposed by central banks, net interest margins (NIM) expand and banks rake in profits, right?

It won't be that simple this time around. The banking industry looks very differently today than it did when the Fed last started raising rates in late 2015 — not to mention that it already looks different from just a few months ago. Overdraft revenue is dissolving, direct banks and fintechs are much bigger competitors than in prior cycles, big banks are awash in deposits and the recent green shoots seen in commercial and industrial (C&I) lending are driving rate competition for the best credits.

To be sure, traditional financial institutions initially may be able to make hay by lagging rates, resulting in some spread expansion. But chances are that won't be enough — and it probably won't last.

Curinos has identified six opportunities that will allow banks to outperform in the coming months. (See Figure 1.) Not all financial institutions will be able to pursue each path and not each path is right for each institution. For some, a focus on one or two may be sufficient. Others — depending on size and focus — may be able to adopt multiple strategies.

Figure 1: Don't let rising rates delay transformation.

	1	2	3	4	5	6
Lever	Restructure the Mass Market	Optimize Margins & Pricing	Omnichannel Transformation	Lending Growth	Commercial Customer Primacy	Double Down on Affluent & Small Business
Plays	Reimagine the cash management product set and mass market economics	Pricing playbooks and optimization across deposits and loans Customer-targeted pricing (no more mass marketed promotions)	Transform branch operating model Continued branch closures Drive DAO while maintaining quality	Home equity resurgence Unsecured innovation	TM relationship Digital engagement	Value proposition and digital innovation

Source: SNL (2021), Curinos Benchmarks

ONE

Restructure Mass Market

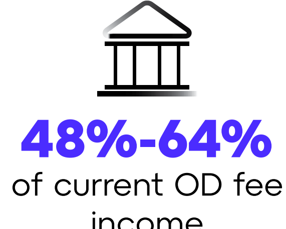
After years of stability, the industry's approach to consumer checking and cash management has been turned on its head. Overdraft policies have been completely overhauled, with big and small providers cutting fees, eliminating them or dropping them altogether. As a result, Curinos estimates that as much as $10 billion in fees may be lost — representing one-half to two-thirds of current overdraft fee income. (See Figure 2.) Smaller banks could feel the effect disproportionately since they have higher concentrations of overdraft fees.

This could be a seminal issue for financial institutions that consider the mass market to be a strategic part of the business. Overdraft fees are very much a part of the profitability of the mass market. The good news is that there is already a growing list of options and banks are adopting them quickly to compete with non-bank providers. These new sources of revenue will likely come at a lower yield than overdraft, but should be more consumer-friendly to pass muster with regulators.

Those providers who don't consider the mass market to be a core strategy may be forced to consider other areas of focus.

Figure 2: NSF/OD moves have removed industry revenue and will be difficult to replace.

loss in NSF/OD fee income is equivalent to...



48%-64% of current OD fee income

7%-12% of pre-tax retail income

Note: OD Fee Income = $15B (adjusted for COVID-19 impact); Excluded banks with <= $1B in total assets; Pre-Tax Income defined as retail income, incl. interest income from deposits and consumer loans

Source: SNL (2021, 2020), Curinos Benchmarks, Curinos BranchScape (2021), Call Reports as of 12/31/21

TWO

Optimize Margins and Pricing

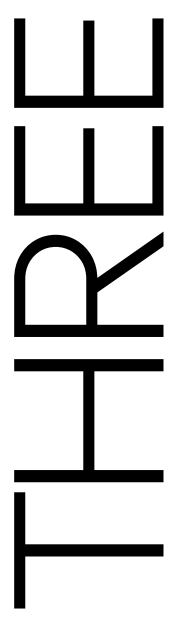
The deposits that poured into banks during the early part of the pandemic are still in the system. As the Fed moves to tightening, some of these surge deposits may leave. More importantly, the surge deposits on many individual bank balances sheets have already begun decreasing, moving from where they entered the system and finding their way into other industry deposit pools like non-operational corporate and institutional deposits.

But nobody knows when or under what circumstances the surge deposits exodus from traditional bank balance sheets will accelerate. Will a burst of C&I loan demand coincide with a depletion of surge commercial deposits or will yield-hungry customers pull out their surge deposits and chase rate elsewhere? Will industry-wide deposit levels decline as the Fed unwinds its balance sheet or will deposits just continue to flow between pools? Are the core deposits claimed by banks across the size spectrum really core? Will the Fed's attempt to squelch inflation propel loan demand or will the green shoots of C&I loan demand be buried by ongoing concerns about the global pandemic and geopolitical risk?

Curinos data reveal that more than 25% of direct banks increased rates on at least one product by an average 15 bp at the end of 2021. That's because many direct banks without checking bases don't have the luxury of overflowing deposit coffers and need to be aggressive in wooing new deposit customers. Many of these targeted new players didn't even exist the last time around. When these players start to pay above the 100 bp "handle rate," Curinos expects that appeal of yield to start to be more palpable for consumers.

Given this uncertainty, it will be critical for financial providers to identify customers who are elastic, "partially elastic" or completely inelastic and ensure they keep the best of the different segments. Further, institutions must identify customers who represent primary or potentially primary relationships; higher rates may be needed to maintain a fair value exchange. This is especially critical for commercial customers, many of whom asked for increases in their deposit rates before the first Fed increase. It is time for individualized treatment of the portfolio of customers. Only then can you create customer-level treatments around rate actions as you determine which customers are worth keeping.

Different dynamics are at play in lending where, for example, mortgage is once again shifting to a purchase market and price competition is intensifying with expected reduction in revenues. In home equity, the market is coming back, but the question is how to drive the most profitable growth. Banks can improve lending margins (by as much as 5-10 bp) through more sophisticated optimization of pricing by market, product and other relationship and credit attributes. This can occur across thousands of pricing "cells," leveraging accurate market pricing data and price elasticity analysis. Similar opportunities are available across all consumer and small business loan categories.



Ongoing Omnichannel Transformation

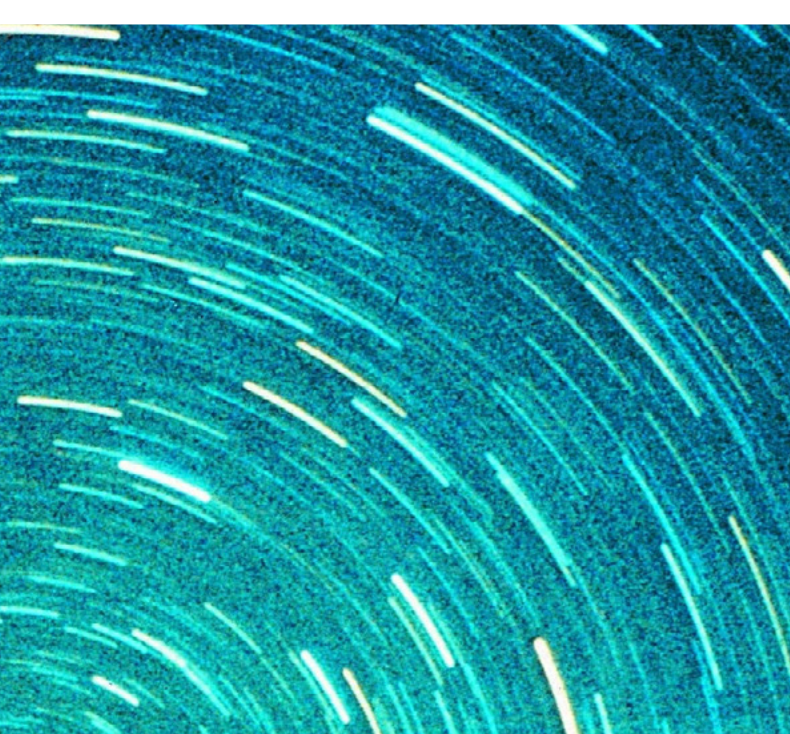
Everyone knows this has to continue. Transformation to digital channels isn't a one-and-done effort. It also doesn't mean that branches are going away anytime soon.

That being said, branches still aren't being used as effectively and efficiently as possible. There are still too many of them. The latest annual tally from the FDIC shows that the pace of net decline in branches doubled to 3.8% between June 2020 and June 2021, with many of closures coming from the largest providers.

That means there is an urgent need to transform the branch operating model and revising the roles within the branch.

Meanwhile, financial institutions need to continue to expand digital servicing and drive digital account openings. The trick is to ensure that you get high-quality customers and keep them engaged as digitally as possible.

The downside of the omnichannel transformation is that technology budgets and advertising/marketing expenses must grow in order to compete. That demands careful expense reallocations and productivity focus.

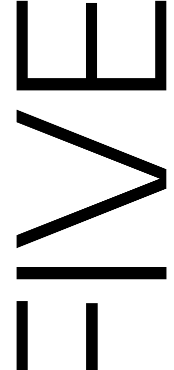


FOUR

Focus on Lending Growth

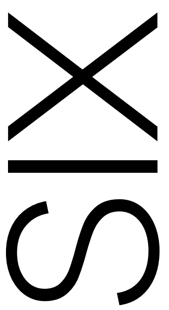
The need for loan growth is at the top of most CFO agendas. As rates rise, the long boom in mortgages appears to be tapering off. The circumstances favor consumer loans outside of mortgage. Home equity and adjustable-rate mortgages — both of which have seen a long period of contraction — look promising. Consumer credit lines and credit card loans continue to boom. In all cases, digital channels will be increasingly important.

C&I loans showed promise in the fourth quarter and commentary on pipelines throughout the first quarter have remained very positive. However, C&I spreads are under pressure from heavy competition and covenant negotiation is increasing as well. Meanwhile, commercial real estate loans haven't shown the same rebound in terms of new volume.



Promote Commercial Customer Primacy

Corporate balance sheets have been expanding, inflating the deposits that companies hold with banks. As the pandemic has worn on, we have seen little signs that those excess cash reserves are declining. While banks intuitively understand that holding a company's surge deposits or providing a PPP loan as a single service doesn't mean that the customer is primary, many bank metrics define these customers as if they were. True commercial customer primacy is almost always accompanied by a significant treasury management relationship and high levels of digital engagement from the company's treasurer's office. As companies deploy their excess funds and seek new borrowing, there is a unique opportunity for banks to defend existing primary relationships and to build primary relationships with current customers and prospects. Prior periods of economic expansion and rising rates have presented the greatest opportunities to increase commercial primacy and we expect the same this cycle.

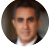


Small Business and Mass Affluent

The small business segment and the mass affluent segment associated with small business have long been underserved. The cost and complexity of relationship coverage for this segment has never really been viable. The good news is that these segments welcome digital banking and place the capabilities of digital banking at the top of their bank consideration criteria. Digital banking for these segments may finally address the economic and operational challenge of serving a segment that historically have been catered to by relationship managers. Banks need to identify new models for connecting with these customers (whether in person or remotely), accessible servicing and advice by phone and video. To be sure, some branch presence will be required as well, though not at traditional levels.

NOT EASY, BUT ESSENTIAL

Curinos believes these six opportunities can unlock sustainable advantage in a rising-rate environment and can lead to net positive new account growth. Not all of them can be tackled by every institution. All must take stock of their capabilities and franchise to determine which of the six can produce the best result with the least investment. But some combination will almost certainly be needed by every provider.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How to Manage Customer Churn

By Zachary Kaplan and Adam Stockton

Marissa is a loyal primary customer with checking, savings and a mortgage at your financial institution. She hasn't cared about receiving pennies of interest on her savings because she knows that rates are at rock-bottom levels.

But now she has read that the Fed is raising rates and she will soon start wondering if she can get a better offer elsewhere — maybe even at one of those "new" online banks that keep running commercials on TV.

Do you want to keep Marissa as a customer or should you let her go?

Rising rates will impact the industry in many different ways compared with prior cycles, including customer churn. While consumers typically switch to higher-yielding accounts when rates rise, Curinos believes that customers are more elastic this time around because the sophistication of digital channels make it easy to move. As a result, switching will occur at a faster pace, especially as rates above 1% become available.

Fortunately, there have been significant advances in customer-level analytics since the last time rates increased. Deposit holders have new tools to track customer behavior and determine which are the right customers to retain and acquire — and which should be let go.

MORE CHURN IS LIKELY

There's little doubt that customer behavior will shift as the Fed continues raising rates. Some economists predict seven increases or even more this year.

When the Fed last raised rates, churn from savings and money market deposits into higher-rate accounts doubled over the course of the 2015-2018 cycle. This churn was seen both internally (with customers switching from standard rates into promotional rates or higher-rate CDs) and externally (with direct banks being some of the biggest beneficiaries of new customers).

There was a lag at the start of the last rising-rate cycle before churn picked up. In fact, it wasn't until the Fed passed 1.00% and top-of-market rates passed 1.50% that churn increased. This indicates that some amount of time may pass before churn starts building this time too.

Many factors suggest that overall levels of churn may be higher in this cycle:

- **Aggressive Pace of Increases** — In the last cycle, the Fed increased rates around 0.25% per quarter, a slower pace than the previous rising-rate cycle of 2004-06 when the Fed increased by 0.25% at 17 consecutive FOMC meetings (representing nearly 0.50% per quarter). The most aggressive end of today's expectations could result in an even faster pace of increases than 2004-2006 — some 0.50% moves may be possible. With larger moves making a bigger splash, customers may look for higher rates more quickly than in the past.

- **Lower Starting Point** — At the start of the last rising-rate cycle, standard MMDA rates were in the 0.10%-0.25% range and many banks were running periodic promotions as high as 1.00%. Today, most rates are under 0.05%, with almost no banks running promotions. Combined with more aggressive Fed increases, customers may perceive their rate as below market earlier than they did last time.
- **Digital Competitors** — There are many new direct banks and fintech players today that will be competing for deposits. The pandemic helped them because more people are now comfortable opening accounts online. More competition, ease of moving money and better availability of rate information may increase external churn to these alternative providers.

Figure 1: Deposit Strategies in Rising-Rate Environment

	BANKS THAT HAVE A PRICE-ELASTIC CUSTOMER BASE	BANKS THAT HAVE A LESS PRICE-ELASTIC CUSTOMER BASE
BANKS THAT NEED DEPOSITS	**Use rate to grow** Standard rates increase at pace with market to boost retention Broad promotions to gather new money Targeted retention offers after promotions end	**Bifurcate the book** Lag standard rates to increase margin Aggressive targeted offers to build balances Potential online or out-of-footprint play
BANKS THAT DON'T NEED DEPOSITS	**Thin the base** Lag standard rates to allow money to run off Target retention and cross-sell offers to more valuable customers	**Manage for margin** Lag standard rates to increase margin Target non-rate offers, focused on primary customer growth

Source: Curinos Analysis

CHANCE OF LOSING VALUABLE DEPOSITS

The flood of deposits that entered the system during the pandemic will also impact churn. Most institutions can likely maintain necessary funding levels even while ignoring increased churn and delaying pricing actions for the first few Fed increases.

Those delays, however, may result in losing valuable deposit relationships that will have to be re-acquired at much higher costs later in the cycle. Instead, winning institutions will use customer-level deposit analytics that capture both churn and deposit value. This will enable banks to keep betas down while retaining their most profitable relationships.

CUSTOMER SEGMENTS WILL RESPOND DIFFERENTLY

Though overall churn is expected to increase, there will be notable differences in response by customer segment. Many institutions are already deploying analytics that capture customer-level drivers of balance movement. These banks will avoid costly portfolio repricing by identifying customers who are most likely to switch institutions or products. These customers can then be targeted with either proactive or reactive offers, depending on the customer's expected long term value and the bank's funding needs. Targeted strategies will enable banks to retain the right balances without significant increases to posted rates.

Effective analytics capture the following drivers of deposit balances to determine the right treatment for each customer.

- **Discretionary Liquid Balance** — how much of a customer's balances are for day-to-day cash flow versus excess savings that are more likely to be shopped
- **Price Sensitivity** — how will a customer respond at a given offer rate
- **Balance Persistence** — how much of a customer's balance will remain
- **Shopping Behavior** — how likely is a customer to augment balances

STRATEGIES WILL NEED TO ADAPT

Ultimately, the response of each bank will depend on both the need for deposits and the characteristics of the customer base. Every bank will need to think about both broad-based actions using standard rates and how to target the specific segments of customers with different behaviors. (See Figure 1.)

Importantly, these strategies will need to be dynamic as conditions shift. Banks may begin in one quadrant and find both deposit needs and customer behaviors shifting over time, necessitating strategic changes. Banks will need to carefully track the customer behaviors to understand when targeting and changes in offers will be required to maintain progress against objectives.

Financial institutions will certainly face significant challenges as rates begin to rise because they won't be able to rely on previous cycles of behavior. Still, providers that closely track customer behavior and respond rapidly will be ahead of the game.

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The Long-term Appeal of **Short-term Liquidity**

By Suraya Randawa, Ken Flaherty, Olivia Lui and Hank Israel

Consumers have more access to short-term liquidity programs than ever before, but providers don't always make it easy or efficient for them to tap these options. Furthermore, financial institutions often don't take advantage of the treasure trove of data in these programs that can offer valuable insights about their customers.

There's little doubt that short-term liquidity products are being created and overhauled at a rapid pace. From overdraft to "buy now, pay later" (BNPL) to an anticipated resurgence in home equity, financial institutions, fintechs and

Figure 1: If customers could see all short-term liquidity options, what would fit best?

	Customer Challenge	Which products solve their challenges most effectively?			
ESSENTIAL SPENDING	Cash shortfall and need to cover day-to-day spending	**Get Paid Early** No charge	**Paycheck Advance** with fee	**Overdrafts**	**Small Dollar Loans**
	Unexpected bills, emergency spending or medical costs	**Bill Deferral**	**BNPL** Deferring payments until payday	**Post-transaction installment Plans**	**Multi-transaction installment plans**
OPTIONAL SPENDING	Desire to make a big purchase, but lacking in savings	**Bill Deferral**	**Post-transaction installment Plans**	**Multi-transaction installment plans**	**Installment Loan**
	Desire to maintain deposit balances and build/maintain savings	**BNPL** Split/deferred payments – no interest	**BNPL** Split/deferred payments – with interest	**Credit Card**	
PLANNED-SPENDING	Necessary homeowner expenditures – both planned and unplanned	**BNPL** Installment plans – with interest	**Installment Loan**	**Credit Card**	
	Large purchases, tuition expenses and debt consolidation	**HELOC/HELOAN**	**Refinance + Cash-out**		

Higher Volume of Transactions → Higher Value Transactions

Source: Curinos Analysis

retailers are ready to offer alternatives for consumers who need cash quickly. (See Figure 1.)

Curinos believes that lenders can still catch up on missed opportunities that deepen customer relationships and provide fresh potential for non-interest income. Indeed, we see three (sometimes overlapping) strategies for lenders:

- Provide a buffer to avoid incidental overdrafts and set a starting point for fees
- Reduce overall basic fees
- Develop new alternate credit products

OVERHAUL YOUR OVERDRAFT

If you haven't overhauled your overdraft program yet, there's really no time to wait. The biggest names in financial services already have grabbed the headlines and even smaller banks and credit unions are being creative. First National Bank of Texas, which has less than $4 billion in assets, launched a feature that automatically refunds customer overdraft fees within 24 hours (if the account balance isn't overdrawn by more than $12 at the end of the next day). And Chicago's Alliant Credit Union eliminated overdraft fees completely.

Consumers now expect limited-to-no OD/NSF fees at all from their current banking provider and/or the banking institution they are considering. In fact, Curinos research has found that this expectation is even apparent among the mass affluent segment, with more than half of mass affluent consumers saying they believe it is important that their checking product doesn't have overdraft fees.

Curinos research has also found that many consumers still think it is important to have overdraft abilities as an option. In many cases, that's because overdraft provides immediate access to funds.

Banks and credit unions can pursue three actions to remain competitive in this fast-moving environment.

- **Modernize the Checking Suite**: Restructure your checking suite and fee schedule to maintain competitiveness and to fend off attrition without upending the balance sheet.
- **Maximize Value with the Current Base**: Given the major pressure on both sides of the traditional banking U-curve, the importance of driving higher value with current customers/members is greater than ever before.
- **Innovate**: As the fee-friendly and overdraft space becomes crowded, the next act of differentiation is up for grabs. The level of differentiation is contracting across the industry (including for neobanks). This is a key opportunity to develop

the next-generation products and experiences to build a competitive moat for acquisition, engagement and quality retention.

> Lenders can still catch up on missed opportunities.

BNPL EVOLVES AT RAPID PACE

The breakneck speed of the overdraft revolution shouldn't be overshadowed by the proliferation of BNPL programs that provide consumers with another option for short-term liquidity. And the line between types of providers is blurring as more financial institutions enter the fray.

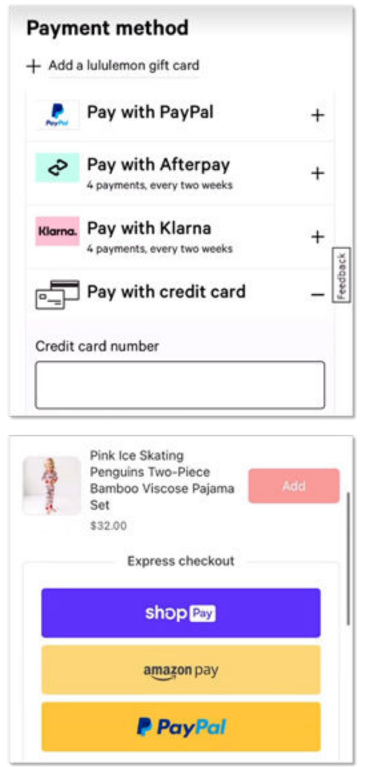
Mastercard, for example, has announced a BNPL program in which financial institutions or fintechs can offer installment plan options that are separate from the merchant infrastructure. And a recent study by Visa, which is also partnering with banks and fintechs on BNPL, found that 42% of global consumers expressed interest in installment financing that is offered on a credit card.

But financial institutions can do more to make customers aware of this option. New interfaces enable customers to more immediately view the range of options, but this often still takes place only at the point of purchase. (See Figure 2.) For those considering post-purchase installment solutions, why not showcase the product on home screens and transaction feeds for customers whose transactions indicates they may be interested in the product? This can include leveraging transactional data to provide personalized messages to customers who have used a merchant-backed BNPL solution or offering installments following a large purchase.

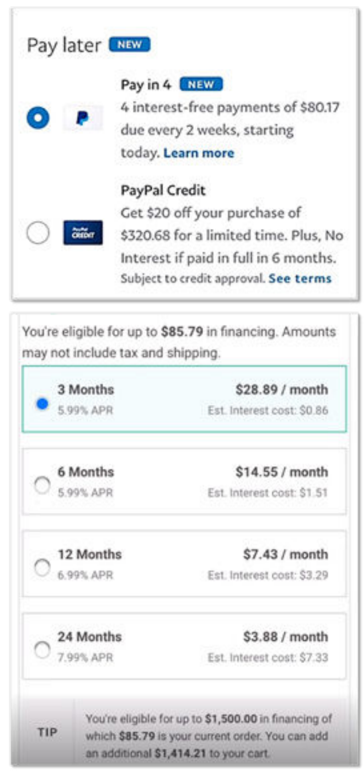
Lenders also need to keep close watch on potential regulations. The Consumer Financial Protection Bureau is already collecting information from five BNPL companies and has expressed concerns about debt accumulation, disclosure and data collection. And the U.K.'s Financial Conduct Authority (FCA) recently ordered BNPL providers to simplify and clarify language in BNPL agreements on issues like contract cancellations.

Figure 2: New interfaces help customers to more immediately view the range of options.

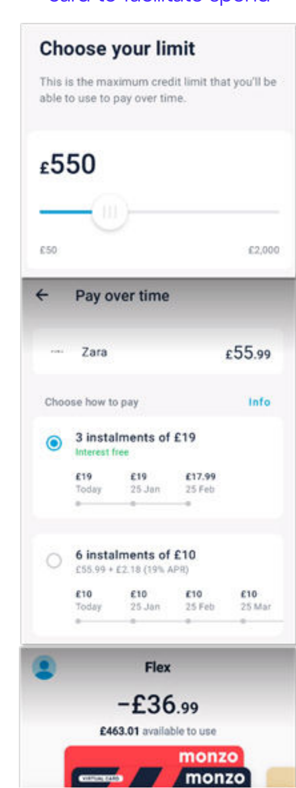
RETAILER POINT OF SALE
Gives customers a choice of providers based on the different challenges they may each face



PAYPAL & BREAD (U.S.)
Enables users to select from range of installments or credit at POS

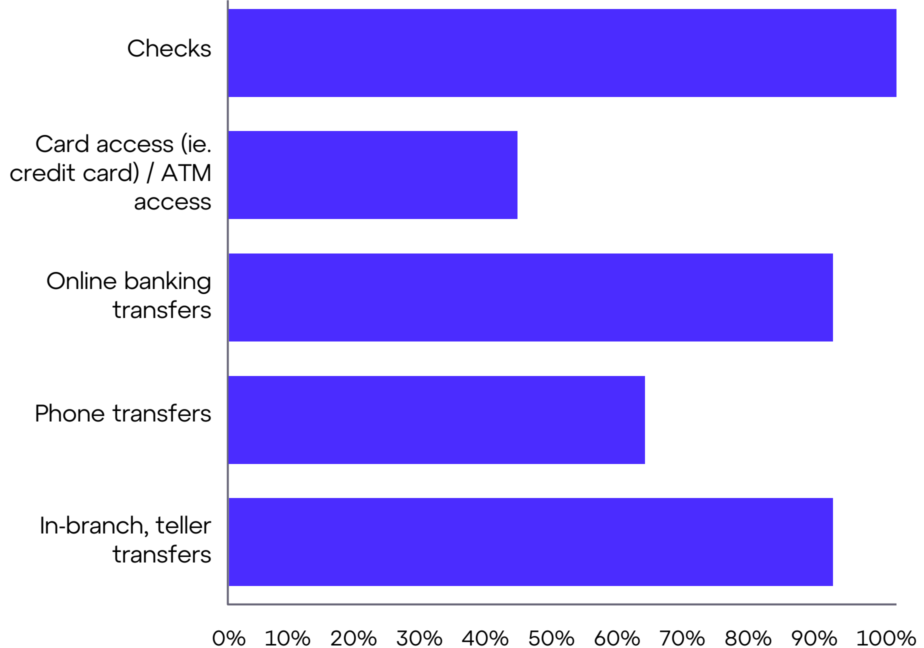


MONZO (UK)
Allows users to choose their limit and installments per purchase and sets up a virtual card to facilitate spend

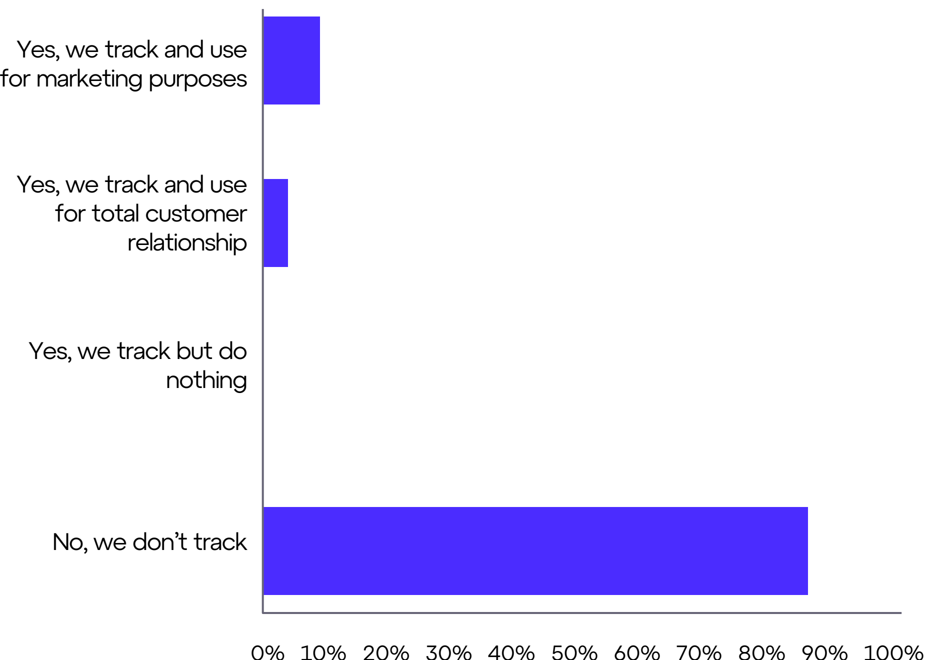


Source: Curinos Analysis

Figure 3: Home equity lenders have little insight about how their customers use the funds.



Do you track how HELOC customers use their funds once they've drawn on their credit line?



Note: n=21 HELOC providers, CBA Home Equity Committee
Source: Curinos survey of 21 home equity lenders

NEW OPPORTUNITIES FOR HOME EQUITY

Rising rates should create new opportunities for long-slumbering home equity offerings, but lenders need to update their processes to make the product viable and efficient in today's fast-moving market. With homeowners sitting on enormous equity due to rising home prices, home equity can help to partly offset an anticipated slowdown in mortgage lending that will accompany higher rates.

Historically, it has been very challenging for consumers to access home equity loans or lines of credit. Although interest rates are usually competitive, the process to actually get the loan can take upwards of 60 days. It is also inefficient, often forcing customers to drive to a branch to complete the process.

Lenders also don't typically track how their customers are spending the funds once they are transferred to a checking account. (See Figure 3.) Are they spending the money at Home Depot or using it to pay college tuition? Knowing a customer's needs can help build a relationship and develop potential cross-sell opportunities down the road.

Fintechs are already seizing on the gaps exposed by traditional lenders. Some have started using automated valuation models that can provide an appraisal in an hour. Although regulators are already sounding the alarm about potential algorithmic bias, the new entrants are clearly ahead of traditional players in this area.

There's little doubt that consumers will continue to embrace new products that provide short-term liquidity. And lenders need these products to replace revenue that is being lost from traditional overdraft programs. But it is no longer viable for lenders to offer just one or two solutions as the lines between essential and optional spending continue to blur. ■

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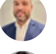
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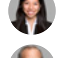
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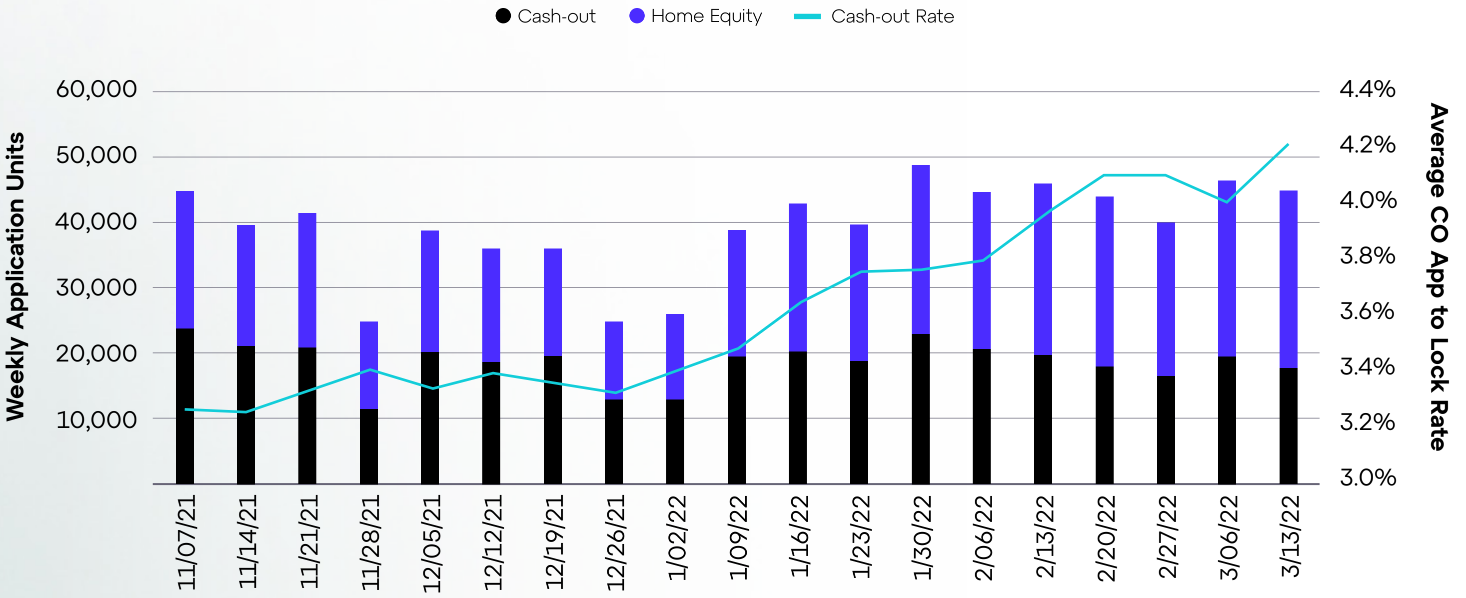
Home equity is on the move...

The appetite for home-equity products began increasing even before the Fed raised rates on March 16. Curinos expects these trends to continue, putting pressure on lenders to meet the growing demand and keep the competition at bay.



Source: Curinos LendersBenchmark

...and adjustable-rate home loans are coming back.

Rising rates are also expected to trigger a return of the long-slumbering adjustable-rate mortgage (ARM). But these aren't your father's home loans.

The ARM has changed dramatically over the years. The initial frequent adjustment periods have largely been replaced by initial fixed-rate period of five, seven and 10 years, making them more consumer-friendly. Curinos is already seeing growth in ARM product lending and a contraction in fixed-rate lending.

So how can lenders position themselves for this potential market shift? For banks and credit unions, it is crucial to understand the market "buy box," or risk parameters, and determine how that relates to the institution's own risk appetite. Insight and market intelligence about pricing for risk attributes (such as loan purpose, borrower credit, loan-to-value, etc.) is equally important.

Mortgage bankers who must sell loans (since they generally don't have the ability to retain loans in their portfolio) need to develop relationships with banks and credit unions that have an ARM appetite. Of course, those relationships are best built when it isn't already a hot market for the loans. Otherwise, the mortgage bankers will find themselves in competition for investors.

The Digital Transition in Commercial Banking

By Peter Serene and Jennifer Sypal

It took a while, but the digital transition to commercial banking is finally here. And there is a growing recognition that digital channels can drive the acquisition and retention of primary relationships.

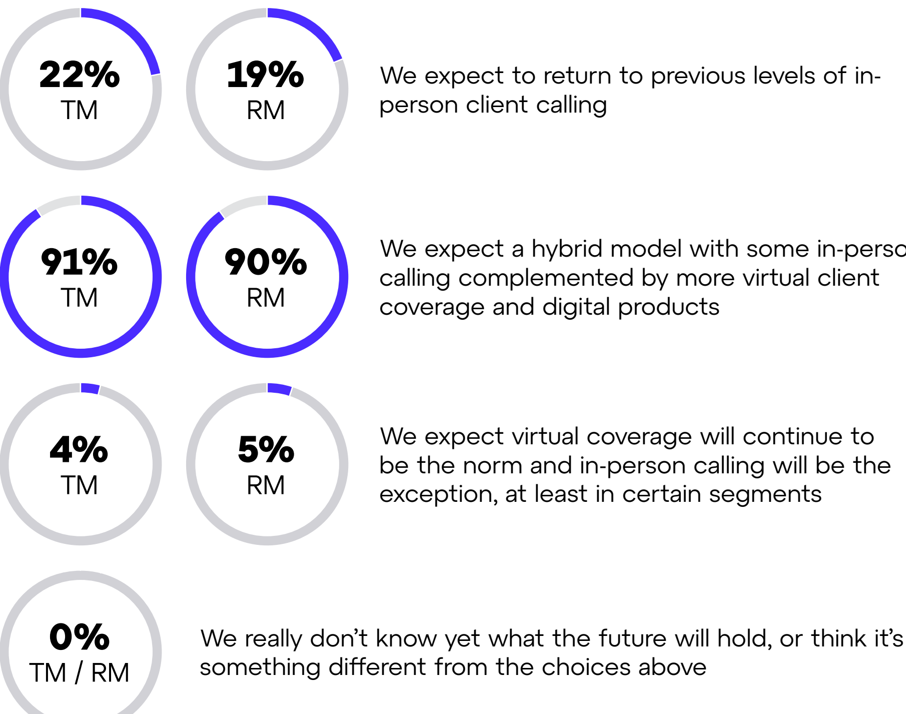
Some of the most promising potential, however, remains untapped by many players. This is despite the fact that the power of digital marketing analytics will be increasingly important to provide client solutions and drive outsized growth in fee revenue and stable low-cost operating deposits.

Curinos believes there are significant areas of opportunity where financial institutions can pull ahead. This "white space," which includes everything from dashboard customization to marketing automation, will be valuable spots for investment as more banks recognize the potential of the digital transformation.

A SLOW START

We all know that the transition to digital in commercial has lagged other lines of business, but that is now changing. Finally, commercial customers and business leaders alike are embracing the value of

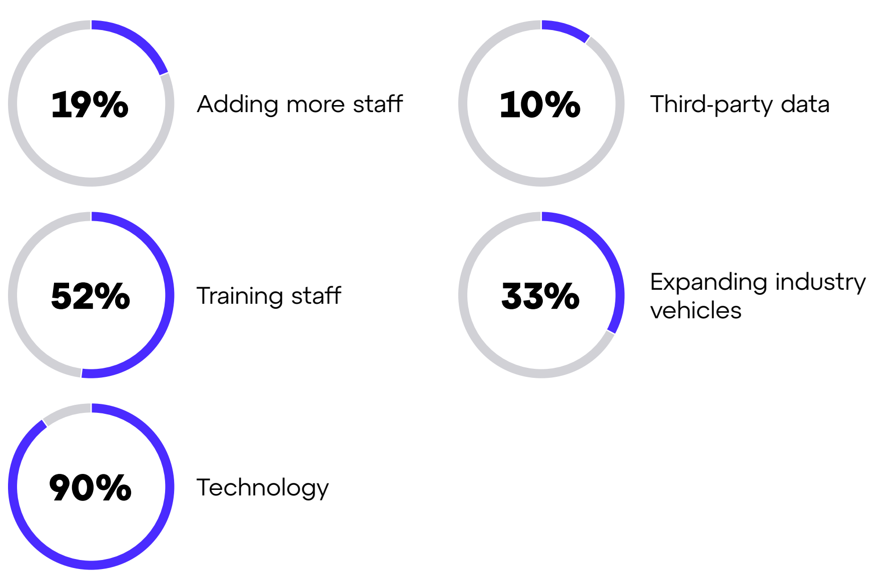
Figure 1: Banks expect a hybrid (virtual and in-person) coverage model to be the new norm.



Note: Some banks indicated they expect both a return to previous levels of in-person calling and a hybrid coverage model
Source: Curinos CDA

Figure 2: Banks are investing in technology to adapt to new client-coverage models and are training staff.

In which of the following areas are you investing to adapt to evolving client coverage models?



Note: Some banks indicated they expect both a return to previous levels of in-person calling and a hybrid coverage model
Source: Curinos CDA

doing more digitally. As in other areas, the pandemic forced banks and businesses to adapt; many of them had to play catch-up on features such as digital account opening, real-time payments and e-signing.

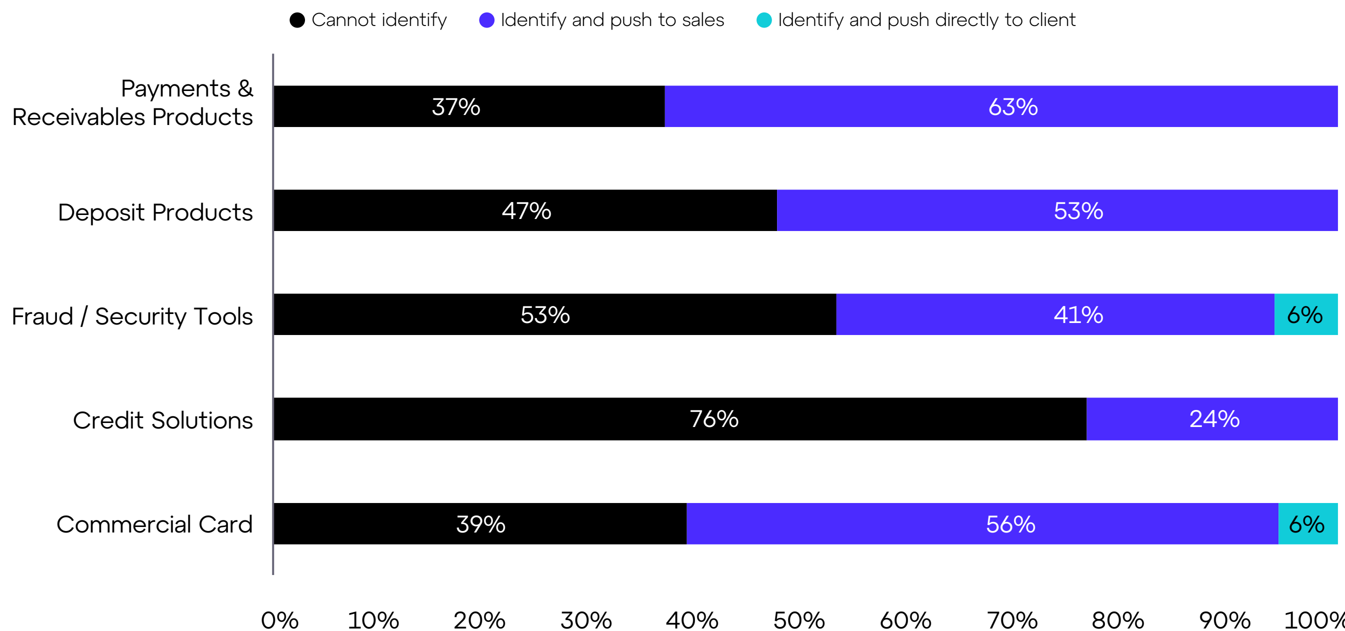
As banks continue to invest in digital, the focus has shifted from the channel being considered as merely an alternative to traditional channels to one that is the preferred channel and revenue driver. The Curinos Quarterly U.S. Commercial CDA Executive Summary has found that 90% of banks believe the future of client coverage will be hybrid, with a combination of traditional in-person coverage and a broader array of virtual and digital solutions. (See Figure 1.) Only about 20% expect a return to previous levels of in-person client calling.

To support that shift, banks are investing in both people and technology as they also simplify products and extend solutions deeper into the customer value chain. (See Figure 2.)

But there are challenges. While the digital channel can drive cross-sell

Figure 3: More than half of banks use tools to identify and push digital leads into the sales channel.

Which of the following opportunity types do you systematically identify through your digital platform, and how is the lead advanced?



Source: Curinos CDA

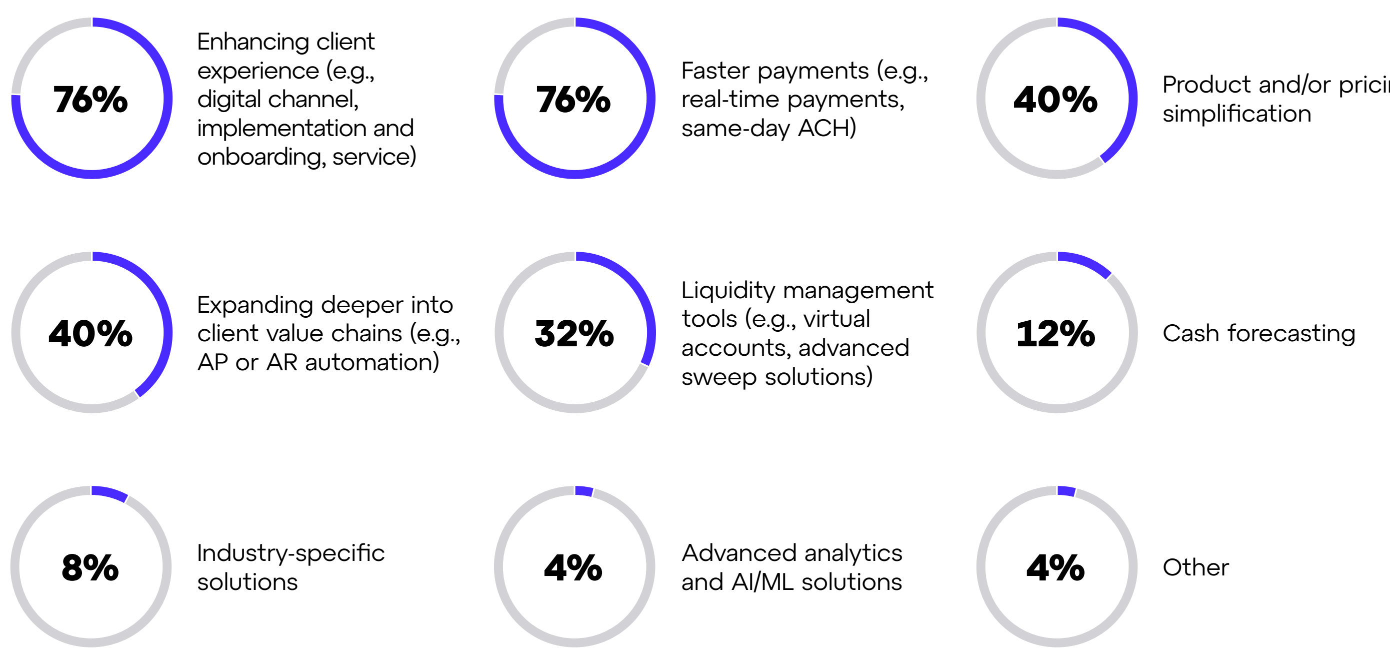
opportunities in consumer businesses, it is more complicated in commercial lines of business where most cross-sell transactions occur after a conversation between a banker or treasury salesperson and the corporate client. That's why the CDA Executive Summary has found that more than half of banks now have tools to identify and push digital leads for payments and deposits products into the sales channel. (See Figure 3.)

AREAS FOR INVESTMENT

There is still great opportunity for providers to expand their digital presence, including:

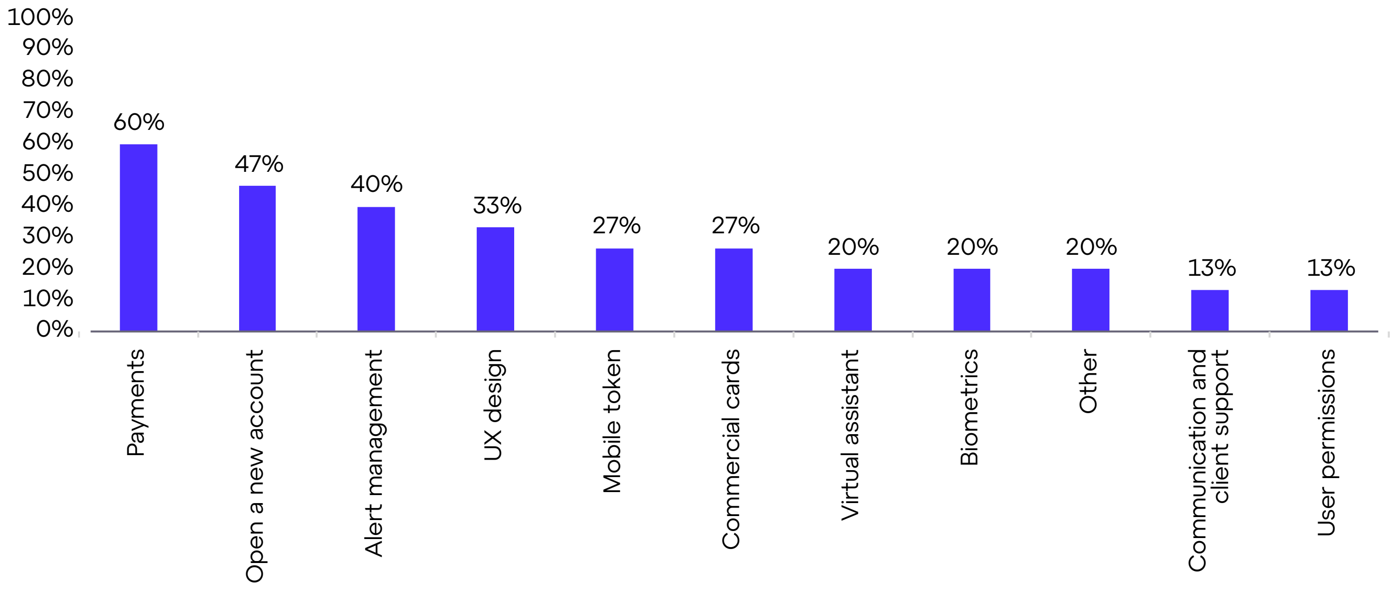
- **Onboarding:** Three-quarters of banks are investing in digital on-boarding in 2022. (See Figure 4.) The ability to make the process faster and intuitive is particularly important in commercial line of business where the complexity of migrating cash management operations can be an impediment to winning the primary payments account.
- **Dashboards:** The power of the dashboard goes beyond its modern design, easy navigation and on-demand data integration. After logging in, the dashboard is the single most important client interaction within the digital experience. Financial institutions are rightly examining what this means for their clients — which features and functions are immediately accessible on the dashboard for users based on their roles at their organization. The latest dashboards show relevant data that can translate from insight to action in near real-time. For example, typical dashboards provide key access to common servicing features such as account balances, payment activity and access to time-sensitive transactions. Leading dashboards provide these key features, but also include analytics and insight into cash forecasting for the organization.
- **Digital Marketing:** Even though the channel is digital, banks can still take a human approach to marketing that helps guide the customer journey. The design of a successful digital marketing strategy can play a pivotal role in customer attention, satisfaction and adoption of new products. Cross-selling and adoption of new services is successful when the right products are positioned in front of the users who need and can benefit from them. This approach replaces the traditional engineered system-centered and function-centered design approach that relies on the process and requirements of the system instead of the user experience. Ultimately, this digital approach facilitates the growth and retention of primary clients.
- **Mobile:** Few banks are investing in key mobile authentication and direct support features such as biometrics,

Figure 4: Digital innovation and faster payments top the investment agenda for commercial banking.



Source: Curinos CDA

Figure 5: Mobile payments and account opening capabilities are attracting investment.



Source: Curinos CDA

Digital solutions can generate revenue and drive differentiation.

virtual assistant and direct messaging. High-usage mobile features such as payments, account opening and alert management continued to be at the top of banks' mobile investment priorities for 2022. (See Figure 5.)

THE VALUE OF PARTNERSHIPS

There is a growing list of third-party providers dedicated to digital advancement that provide services and tools to integrate seamlessly into core banking systems, with little lift from the bank. This can be especially valuable to smaller banks that don't have the resources on their own to compete with larger players.

These services span all treasury solutions and provide the opportunity to be more agile with digital offerings — from basic account data reporting to real-time payments. Cloud infrastructures that are specific to data storage provide more efficient opportunities for data security and a win for clients.

A combination of development, partnerships and white labeling can result in leading solutions across new and emerging electronic payments types such as RTP, virtual cards and Zelle disbursements that are available on desktop and mobile channels.

MORE REVENUE AND CONSIDERATION

Curinos believes commercial digital solutions can generate revenue and can drive differentiation in overall business performance — a trait that is essential to remain at the top of consideration for primary relationships.

Those with leading digital solutions will pull ahead in the race for primary customers, driving outsized growth in fee revenue and stable low-cost operating deposits. And the impact on business bottom lines will be measured in percentage points, not basis points.

Winning the space will require thoughtful strategies as the largest players enjoy significant scale advantage and fintechs operate with speed. For the largest banks, the challenge is in seeing far enough ahead to defend their dominant position. For regional players, the challenge is in achieving targeted scale by investing in the capabilities that are most important to their clients. ■

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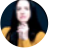
Jennifer Sypal | Digital Lead
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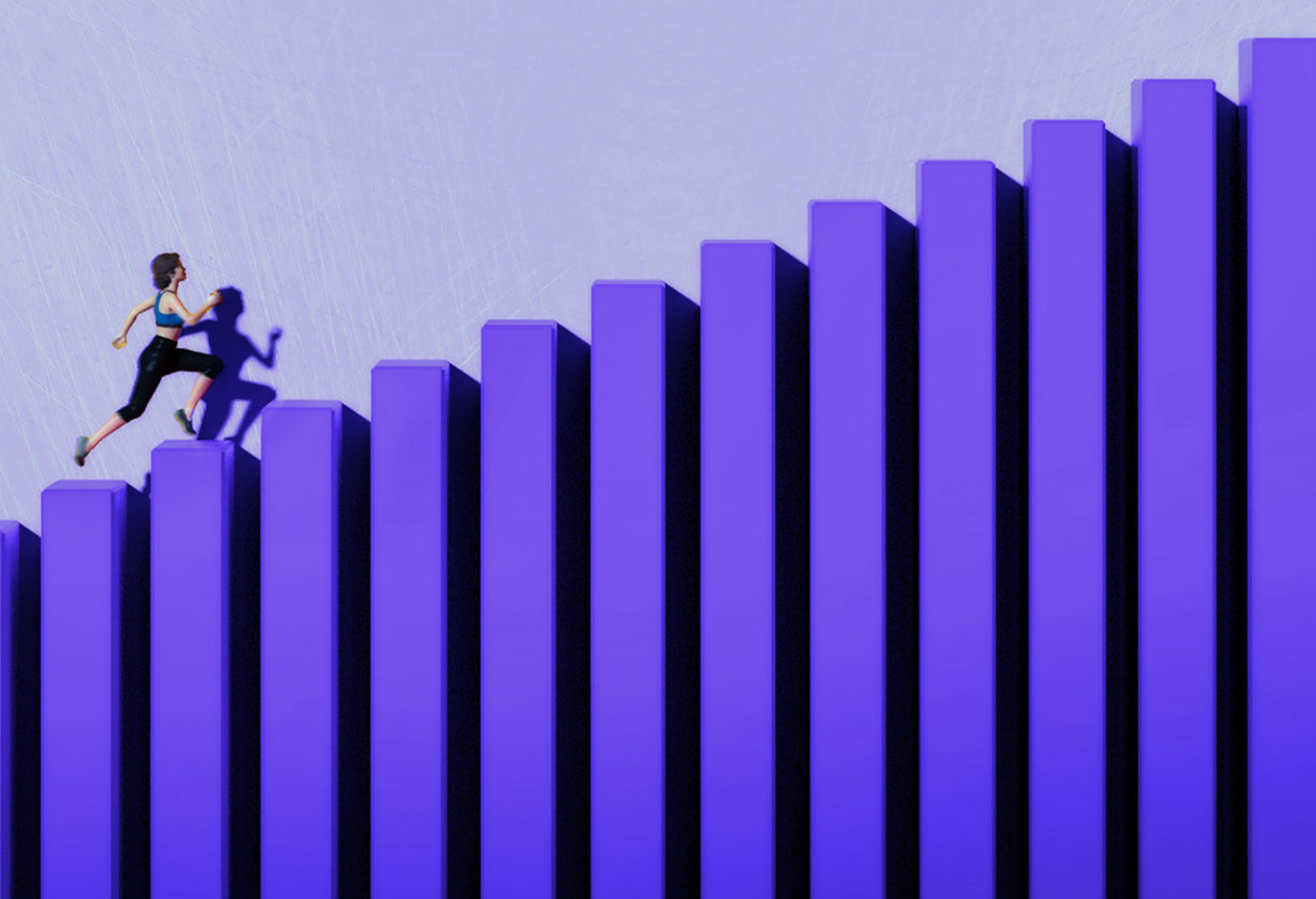
How to Improve Productivity **at the Branch**

By Andrew Hovet and Steve Sutker



If you want to find one of the biggest conundrums for the financial-services industry, look no further than the bank branch.

The pandemic has driven more customers to digital channels and there's growing evidence that branch transactions and sales volumes aren't ever coming back to pre-pandemic levels.

So why not just shut down more of them? Efficiency ratios are too high and banks need the cost savings.

The trick is that branches still count. They are the brand billboards that drive unaided awareness — a key component of all-important future growth that isn't easily replicated in digital channels.

So how can banks afford a local presence? The solution is to change the fundamental way the branch operates by reducing costs and making the workforce more productive — especially the sales and support staff.

PRODUCTIVITY ON THE DECLINE

It is of little surprise that banks have been slow to respond to changes in branch behavior by customers during the pandemic.

Much of the focus has understandably been on improving digital prowess as lockdowns and work-from-home policies pushed customers to online channels. Branch priorities, meanwhile, were aimed at keeping customers and employees safe.

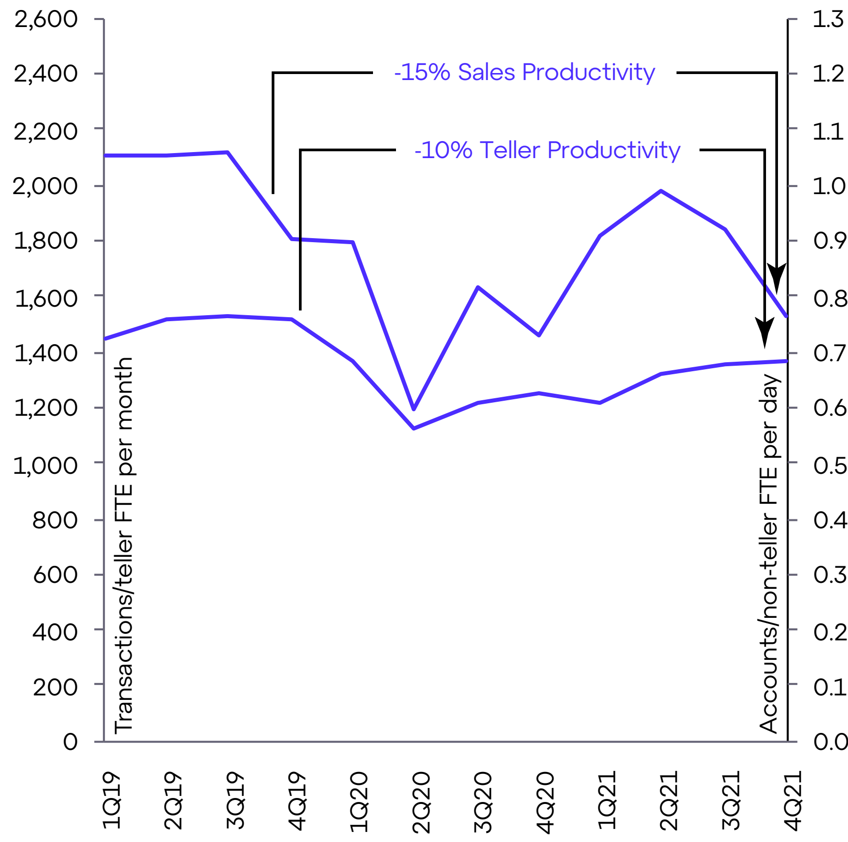
The result is that productivity rates have declined at alarming rates. Curinos estimates that sales productivity dropped 15% between the end of 2019 and the end of 2021, with teller productivity down 10%. (See Figure 1.) Super regionals saw the biggest drop in sales productivity, while large regionals experienced the biggest decline in teller productivity.

The declines in productivity correspond to a drop in branch activity. For example, teller transactions per branch per month fell 25% from 2019 levels by the end of 2021. Super regionals led the way with a drop of 27%. (See Figure 2.)

Many banks have responded to the decline in teller transactions by cutting staff, but that isn't the case in the rest of the branch. Curinos research has found that teller full-time equivalent (FTE) is down 14%, but levels among non-teller sales and administrative staff fell by only 1% between 2019 and 2021. While reductions have been constrained by minimum staffing requirements, the numbers clearly show that banks aren't staffing the branch in accordance with the reduced customer demand.

The key, then, is to make the sales and service staff more productive while also overhauling the role of the teller.

Figure 1: Sales and teller productivity rates are down from 2019.



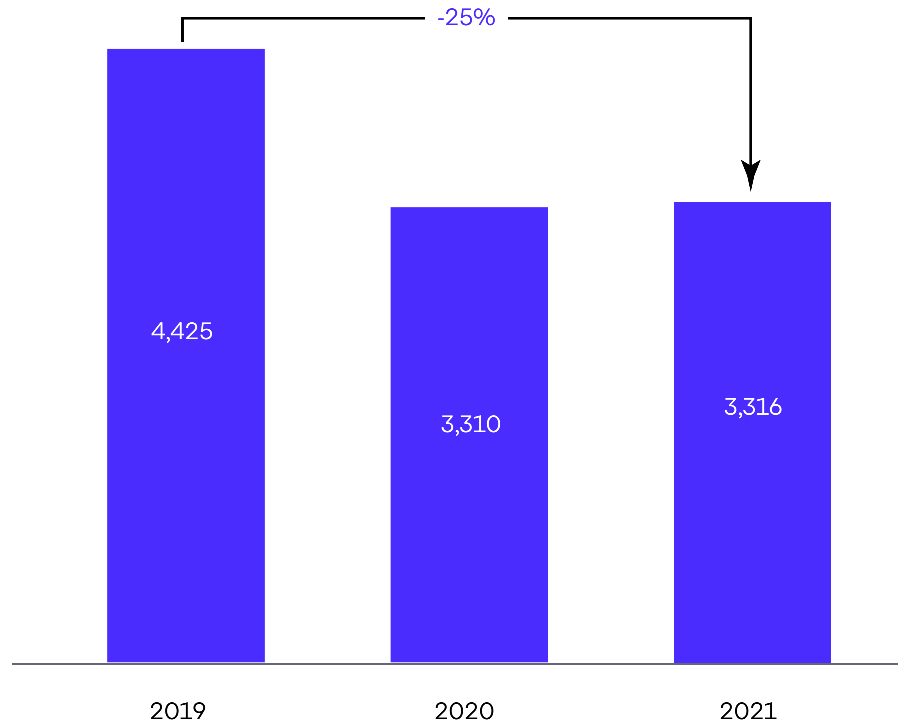
Note: All Branches = both in-store and traditional. Average per branch per month averages are straight averages of monthly data. Includes both small business and consumer accounts
Source: Curinos SalesScape

HOW TO IMPROVE PRODUCTIVITY

Curinos sees four ways in which banks can improve productivity while retaining the sales engine and pivotal presence in the community. This new model can transform the branch into primarily a sales and service outlet from its transactional roots.

Reduce Hours of Operation: Many banks were forced to modify branch hours during the pandemic. As restrictions have eased, however, most banks have returned to their traditional hours of operation. More creative strategies are needed. Australia's Commonwealth Bank last year announced that 10% of its branches would close their doors at

Figure 2: Monthly teller transactions continue to decline.



Note: All Branches = both in-store and traditional locations.
Source: Curinos SalesScape

lunchtime and shift staff to other duties. While this is an extreme example, banks should evaluate their policies and have different hours in certain locations. These strategies can be complemented by technology like virtual tellers that can extend the traditional capabilities of an ATM. Banks can also eliminate the dominant position of teller windows and focus the branch on sales and problem resolution. These solutions may initially create friction with some customers, but they will eventually adjust.

Retrain Staff: If the branch will continue to handle teller transactions, it is time to provide new opportunities and responsibilities for workers who have idle time on their hands. They can work the contact center or provide research to help the back office. They can be trained as notaries or can strengthen digital relationships by working the chat lines or helping customers with onboarding.

Engage Customers: Branches are still an important tool to drive customer growth, so cross-selling is essential. It is difficult to acquire new customers through the branch and attrition is at an all-time low, but there is still room to deepen relationships. Are your customers aware of all the bank's products? How about developing new ones that don't cannibalize existing balances? Proactive outreach will be key. Make outbound calls, schedule appointments, send emails and reinforce the digital enablement of customers with a personal touch.

Community Staffing: With the exception of some use of 'float staff,' banks have largely assigned the same team members to the same branches. When branches had large staffs, this made plenty of sense. But when the average branch consists of one manager and four team members, the spans of control no longer make sense and there is "trapped" capacity in each location. Creating larger teams aligned around multiple branch locations will increase flexibility in staffing.

SATISFIED AND MORE PRODUCTIVE

Finally, this is the time to think about how to help employees feel satisfied at work. We have all heard stories about The Great Resignation and bank employees are no different. The branch workforce has been on the front lines of the pandemic, forced to deal with changing corporate policies on masks and social distancing and the uncertainty of temporary branch closures due to COVID-19 exposure.

As a result, banks are challenged to maintain enough workers to keep branches staffed at minimum levels. The historical transaction-focused nature of the branch model has supported relatively low-wage, clerical and repetitive work — exactly the types of roles that are experiencing high levels of attrition during the Great Resignation. A recent study quoted in Forbes found one of the most significant factors that attracted people to a new job was "more meaningful work." Do job postings for teller positions really fit the bill?

The next generation of branch workforce is especially attuned to providing a positive impact on the places where they live and work. That means more than just sponsoring the local Little League team. The ability to provide customers with advice about their financial health can help achieve that goal — leading to more job satisfaction, better productivity and more loyal employees. ■

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Ways to Pump Up ROI with AI Marketing Technology

By Sarah Welch and Katie Mockler

Congratulations! You've made the decision to invest in technology that is going to help you anticipate customer needs and deliver on the personalization those customers now expect. Chances are you have already recognized that humans just can't analyze customer behavior quickly enough or at the level of detail to truly personalize and adapt to changing patterns. Taking advantage of the new technology — as with any technology innovation — requires a rethink of the underlying processes. Instead of the traditional batch-and-blast marketing model, your new platform allows for a continuous learning environment. The trick now is to reconceptualize your entire marketing process so that you are taking advantage of the new capabilities.

So how do you make the most of the technology?

ONE

Don't try to make a square peg fit into a round hole; redesign your campaign process

The traditional campaign process was created when marketing campaigns were still executed manually. It follows a linear path and has very specific rules. It was logical, thoughtful and practical for the time, but it no longer applies.

Instead of just bolting on the latest technology, marketing leaders should step back and redesign the campaign process from the ground up. The key is to use today's technology to automate repeatable tasks in a way that best leverages the marketer's judgment and expertise. Marketers set the goals and provide the messaging content, but the remaining tasks in the process can be automated and built into a closed loop.

Suddenly, the marketer is released from the back-breaking mechanics of setting up journeys and has a new day-to-day role of consuming insights and ideating.

TWO

Throw out the vanity metrics in favor of CLV-driven KPIs

Cutting-edge marketing platforms will automatically optimize campaigns for whichever goal you select; they can move the needle quickly and dramatically. But goal setting is an art. The best KPIs are those that strongly correlate to customer lifetime value (CLV). When you optimize for a CLV-correlated campaign goal, you can learn things quickly that would otherwise have remained hidden.

Take this example: to encourage loyalty members to take full advantage of their benefits, a client optimized their campaign for increasing free content downloads. And it worked. Download numbers grew, but revenue numbers declined and retention remained unchanged. It turned out that being really good at getting loyalty members to pay attention to free benefits meant that a subset that typically paid for content was now opting for the free stuff. The campaign goal was being met, but it was creating an adverse result for the organization at large. Oops.

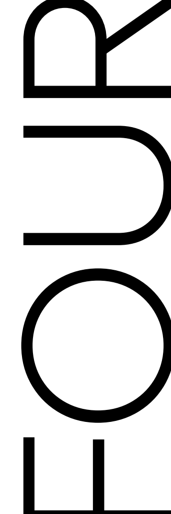
Before you kick off a campaign, spend the time to choose KPIs that will truly drive value for your organization.

Build a robust and scalable message library

One of the advantages of new technology is that the identification of additional customer segments, selection of appropriate messages and management of sound experiments and campaign execution are all automated. This allows the marketer's role to shift away from the mechanics of campaign execution towards content ideation and variation.

And not to fret: 10,000 micro-segments does not mean 10,000 messages. Building a robust content library is much easier than it initially sounds. A single creative permutation may be highly effective with many unique micro-segments. And with all the elements of a message that you can vary — tone, imagery, offer, subject lines, etc. — your one base message can multiply rapidly.

With a limited amount of work, you can quickly build a robust message library that contains enough variation to appeal to each micro-segment.

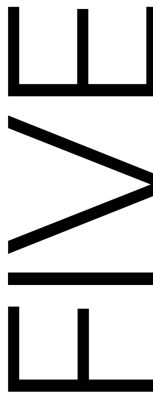


Let machine learning and AI discover the what, how and when of campaign execution

In this age of personalization, marketers are realizing improved performance by testing a variety of creative content across smaller and smaller segments. It only makes sense that preferred delivery times for marketing messages will also vary by customer — whether it's email, push notifications, SMS or any other scheduled outbound messaging channel.

The holy grail for marketers today is "always-on" messaging that is achieved with machine learning and AI technology. Batch-and-blast tools alone or with added send-time optimization won't get you to true personalization. It is still making broad, albeit educated, assumptions about what, how and when your customer segments want to hear from you. In the "always-on" space, a wide variety of evergreen message campaigns with the same end goal are all active at the same time.

For example, a financial institution might have a goal of improving cross-sell into a new savings account. A wide variety of campaigns could contribute to that — educational messages, announcements of the new product, rewards available, etc. In the "always-on" world, these campaigns are at the ready each day and are automatically selected and sent out based on the probability that a specific message paired with a specific customer will achieve the cross-sell goal. Marketers set guardrails to define the boundaries for each campaign — things like ensuring new customers aren't eligible for welcome-back messages — and then digest the learnings. The technology does the rest.



Keep experimenting to find the right answer

You have a new campaign design, CLV-oriented goals to track, a robust library of messages and the "always-on" technology has released the evergreen campaigns into the wild. You're done, right?

Wrong. One of the other benefits of "always-on" technology is the constant learnings and insights that are generated. With an automated, closed-loop AI system, marketers have a tool that simultaneously optimizes and experiments, which means real-time insight into what's working and what's not and most importantly, the ability to react.

Traditional experimentation cycles are linear and slow. From the time the hypotheses are created to when the campaigns are out the door and insights are being generated is upwards of a few months. And you end up with learnings that become static "truths" even when customer behaviors change.

In the "always-on" world, experimentation becomes a living, breathing lifeform. Marketers can intervene quickly if they see adverse results — and more accurately pinpoint the source. Maybe the tone is off, maybe there was a huge market event, maybe the incentive is too low. In a matter of days, and without stopping progress, you can be up and running new experiments.

Now *that's* using technology to make a difference.

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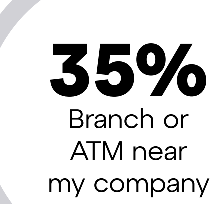
The Evolution of Business Banking

Just like other segments, business banking is moving toward a digital-first paradigm. Curinos is pleased to present key results from our Business Banking Shopper & White Space Research which was conducted in the fourth quarter of 2021 and included 2,400 respondents.

Physical locations are becoming less important.

2018
Drivers of Convenience



35% Branch or ATM near my company

37% Strong digital (online/mobile) capabilities

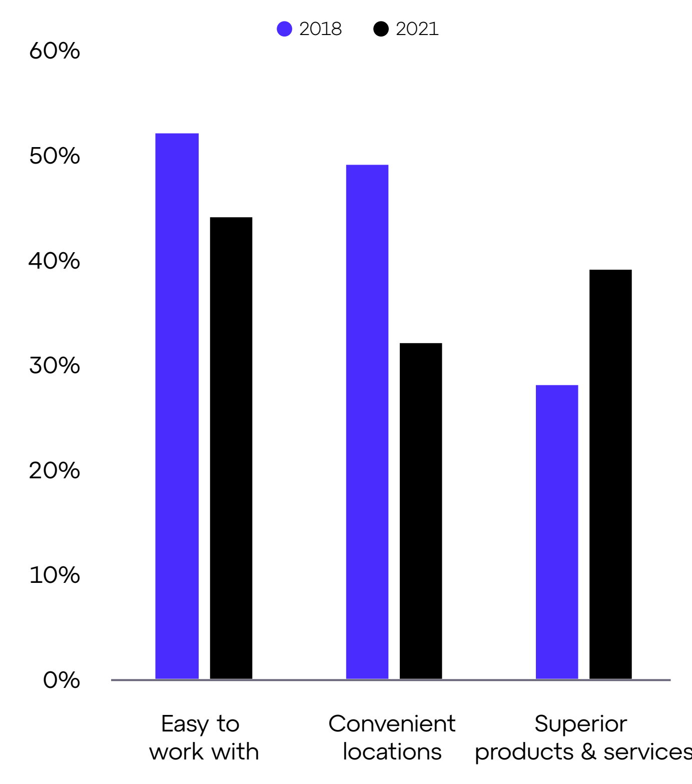
2021
Drivers of Convenience

26% Branch or ATM near my company

45% Strong digital (online/mobile) capabilities

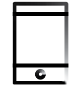
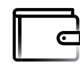
With the shift toward digital channels, businesses are looking for...

Most Important Attribute for Primary Bank



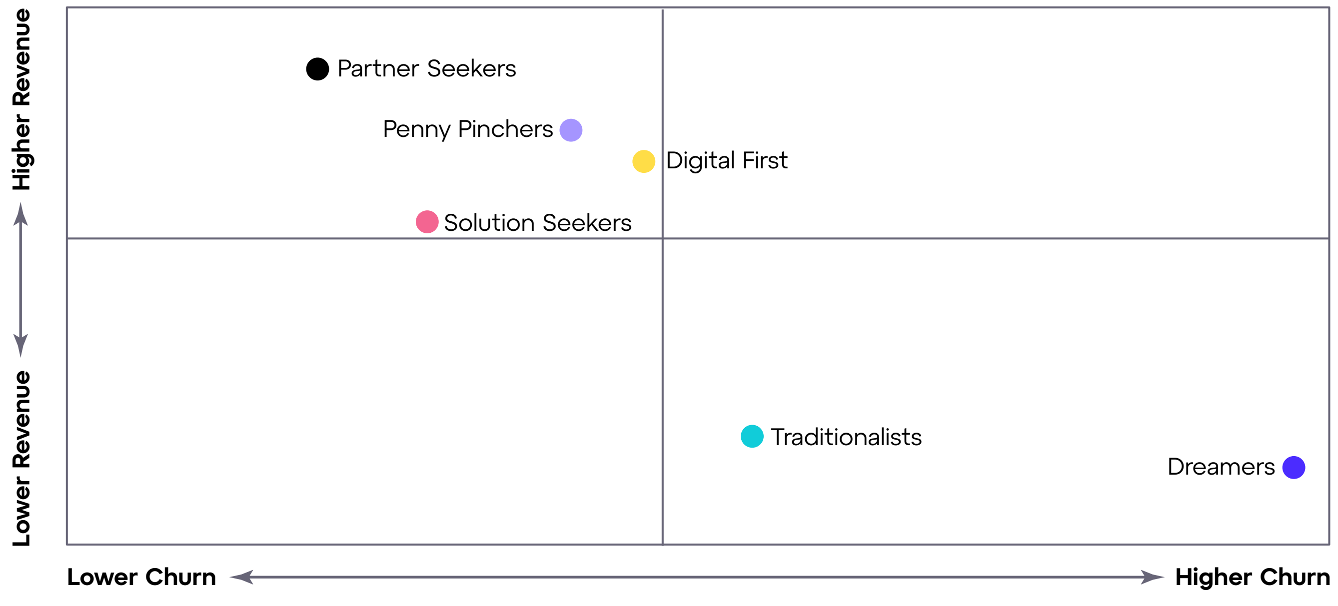
Curinos has identified six segments of businesses that have distinct needs.

Segments of Business Customers and What They Want

					
Dreamers	**Traditionalists**	**Solution Seekers**	**Digitally Inclined**	**Penny Pinchers**	**Partner Seekers**
Tools to support business as it grows	Omnichannel experience is a priority	Seek best-in-class solutions, regardless if they are from a bank	High digital expectations	Constant shoppers for best prices and simplicity	Look for a partner in their bank
Meaningful guidance and insights	Simplicity to stay on top of cash flow	Growth-oriented with digital needs	Data keeps business informed	Feel left behind in today's economy	Find value in advice and seek value exchange from their bank

As a result, the strategy for each segment should be distinct.

Business Banking Segments by Relative Size and Churn 2021



Financial institutions can deliver true partnership for business customers.

The business partner – understanding the needs of the individual client

Aggregation and centralization

Enhancing controls and business solutions

Supporting product needs and management of finances

Partner

Ecosystem Facilitator

Controller

Supporter

Banker

Lender

Business Needs

At the Podium with Curinos

We are delighted to have resumed some live events in the past few months as we also continue participating in virtual events. Here is a sampling of them. Please reach out to the session leaders or *Curinos Review* Editor Robin Sidel if you missed any of these events and would like to know more about the content that was presented.

Randy Rosen, vice president for benchmarking and applied analytics, joined the Bankadelic podcast on Jan. 13 to discuss what it will take for credit unions to stay ahead of the curve in 2022.

Sarah Welch, Curinos' managing director & head of marketing solutions, joined Jim Marous' "Banking Transformed" podcast in January to discuss how advances in data, analytics and applied insights is transforming financial marketing.

Curinos VP of Client Success **John Sayre** joined The Chrisman Commentary Daily Mortgage News podcast in February to speak on mortgage industry trends.

Brandonn Dukes, head of real estate and consumer lending, discussed the impact of rising rates on the mortgage market and other home-lending topics in a February podcast hosted by Rich Swerbinsky and Rob Chrisman of The Mortgage Collaborative.

Ken Flaherty, senior consumer lending market analyst and **John Sayre,** head of customer success for real estate lending, discussed home equity lending in an ACUMA webinar on Jan. 20.

Directors **Adam Stockton, Peter Serene** and **Brad Resnick** discussed past and future trends in efficient deposit gathering in a Jan. 27 webinar.

Directors **Rich Martin** and **John Holste** discussed effective margin management during a Feb. 9 webinar hosted by The Mortgage Collaborative.

Suraya Randawa, head of omnichannel experience, **Ken Flaherty,** senior consumer lending market analyst and **Yvan De Munck,** director of client success, presented a webinar called "Consumer Credit & Access to Cash" on Feb. 16.

Eric Edwards, head of partnerships and data licensing, joined executive vice presidents **Brandonn Dukes, Pete Gilchrist** and **Brandon Larson** at the Credit Union National Association's government affairs conference on March 1 to discuss five key factors that will impact the future of credit unions.

Directors **Richard Martin, Agusta Patton, Peter Serene** and **Adam Stockton** joined executive vice president **Andrew Frisbie** in a Q&A webinar on March 4 about how to navigate rising rates.

Executive Vice President **Andrew Frisbie** and Director **Hank Israel** spoke about "Driving Customer Value During Market Redefinition" at CBA Live on March 7.

Director **Olivia Lui** and principal digital analyst **Rory Pennington** hosted a March 8 session at CBA Live about the evolution of the business banking experience.

Managing director **Sarah Welch** and **Raj Manocha,** executive vice president at Methodify, presented a CBA Live session called "Giving Customers More Tools — Thinking Beyond the Bank" on March 8.

Director **Rich Martin,** Chief Innovation Office **Shaun Richardson** and **Ken Flaherty,** senior consumer lending market analyst, hosted a CBA Live session about the home equity market on March 8.

Ken Flaherty, senior consumer lending market analyst, and **John Sayre,** vice president of client success real estate lending, spoke about home equity in a CBA webinar on March 23.

Rutger Van Faasen, head of product and market strategy, moderated the "Tales from the Frontline — How Financial Institutions Can Deliver Outstanding Omnichannel Customer Experiences" and "Buy Now, Pay Later: A Great Product for Customers or a Debt Trap? How Is This Exploding Market Going to be Regulated?" panels at Finovate Europe on March 23.

News you may have missed

A snapshot of relevant developments in recent months

January

The Consumer Financial Protection Bureau began soliciting public comment on "junk fees" charged by financial-services firms. The agency likened the fees to "resort fees" and "service fees" charged by hotels and concert venues. ■

H&R block launched a fintech mobile banking platform called Spruce that is aimed at Americans who live paycheck to paycheck. The tax-prep firm sold its banking charter in 2015. ■

The Federal Reserve issued a paper that examines the benefits and risks of a central bank digital currency. The paper, called "Money and Payments: The U.S. Dollar in the Age of Digital Transformation," didn't back any policy outcome. ■

U.S. adults typically hang onto their primary checking and savings accounts for about 17 years, according to a survey from BankRate. ■

Santander is introducing a buy now, pay later service (BNPL) called Zinia across Europe, expanding last year's launch in Germany. ■

February

American Express launched a rewards checking account in the U.S. Benefits include rewards points on debit-card purchases and an annual percentage yield of 0.50%. The account has no monthly maintenance fees or minimums. ■

BNPL provider Zip formed a partnership with Swappa to offer short-term financing options on the digital marketplace for used technology products. ■

Northern Lights Acquisition Corp., a special purpose acquisition corporation, agreed to buy Safe Harbor Financial, a banking platform for the cannabis industry, from a subsidiary of Partner Colorado Credit Union. ■

Former FDIC Chair Sheila Bair wrote in the Financial Times that the Fed "must restore (the industry's) stress tests to their former rigor, and include scenarios that assume steep increases in interest rates, persistent inflation and major corrections across all markets." She also wrote that "reckless derivatives speculation remains a part of the market landscape." ■

The Consumer Protection Bureau announced an initiative aimed at preventing bias in home valuations that are made by computer algorithms. ■

March

President Biden signed an executive order about central bank digital currencies, saying that the U.S. "has an interest in responsible financial innovation, expanding access to safe and affordable financial services, and reducing the cost of domestic and cross-border funds transfers and payments, including through the continued modernization of public payment systems." The order, which includes the commissioning of a report on the future of money and payment systems, also says "we must take strong steps to reduce the risks that digital assets could pose to consumers, investors, and business protections; financial stability and financial system integrity; combating and preventing crime and illicit finance; national security; the ability to exercise human rights; financial inclusion and equity; and climate change and pollution." ■

The Securities and Exchange Commission proposed new rules about cybersecurity for public companies, including requiring periodic reporting to provide updates about cybersecurity incidents. The proposals also would require reporting about a board of director's oversight of cybersecurity risks and management's cybersecurity policies and procedures. ■

Arizona Federal Credit Union agreed to acquire Horizon Community Bank of Lake Havasu City for $91.4 million, representing the credit union's second bank purchase since 2019. ■

The U.S. Government Accountability Office issued recommendations that federal agencies develop performance measures of their efforts to increase banking access to consumers after determining that "some regulators lack outcome-oriented measures of their efforts to increase banking access or their measures do not cover all their key initiatives." ■

Entrebank, Minnesota's first de novo bank in 14 years, will focus on small businesses and entrepreneurs. ■

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