curinos review

Winter 2021

RE-EXAMINING Conventional Wisdom

2022: A Year for Product Innovation

What You Need To Know About Buy Now, Pay Later

Is Home Equity On Its Way Back?

4 | Cover Story
Product Innovation is Key Driver for 2022

8 | Prime Your Bank for Primary Retail Deposit Customers

11 | Deposit Download

13 | Getting Ready for a Comeback in Home Equity

16 | Commercial Primacy Comes into Focus as Higher Rates Loom

18 | Competition Drives Overdraft Overhaul

23 | Buy Now, Pay Later: Opportunity or Headache?

25 | The Importance of Deposit Due Diligence As Rates Start to Rise

27 | The Digital Transition

28 | Financial-Services Marketers Face Unique Hurdles in Adopting AI-Driven Automation

30 | At the Podium with Curinos

31 | News You May Have Missed

a note from the CEO

Welcome to the Winter issue of the *Curinos Review*.

We chose "Re-examining Conventional Wisdom" as the theme for this issue because that will be an important mindset for financial-services institutions in 2022. While it's cliché to speak about uncertain times, we do know with certainty that this upcoming year will be very different from those we have seen in the past. And we at Curinos believe there will be plenty of opportunity in the financial-services industry.

What are the certainties?

Innovation took hold in 2021 and we expect to see far more of it in 2022. One of the biggest examples of this has been in overdraft. Companies threw out decades-old policies in 2021, crafting new strategies and products like Buy Now, Pay Later. Fintechs and other new entrants are nipping at the heels of traditional players in this area; new players are expected to introduce more products in 2022. Traditional providers will be under pressure to overhaul their product lines and fee structures.

The shift to digital channels will continue for corporate and retail customers at a pace that has been accelerated by the COVID-19 pandemic. There's no going back as consumers and businesses alike grow increasingly comfortable working, shopping and engaging remotely. That means providers will have to pump up investments in digital strategies and technology to ensure engagement with new customers and retain the current ones.

Meanwhile, the Fed has accelerated plans to raise interest rates and is now signaling three hikes next year. Financial-services providers will need to reconsider the old definitions of primacy as they determine how and when to raise rates and for which customers. Higher rates have big implications for the home-lending market as well, likely making home equity more popular than it's been in years. M&A will also be impacted by higher rates as prospective buyers conduct due diligence on the deposit portfolios of their targets.

The next year will also be significant for Curinos as our newly-combined organization works to create new products and services for our clients around the globe — national and regional banks, credit unions, fintechs and more.

We wish you a happy and healthy holiday season.

Sincerely,

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Product Innovation is KEY DRIVER for 2022

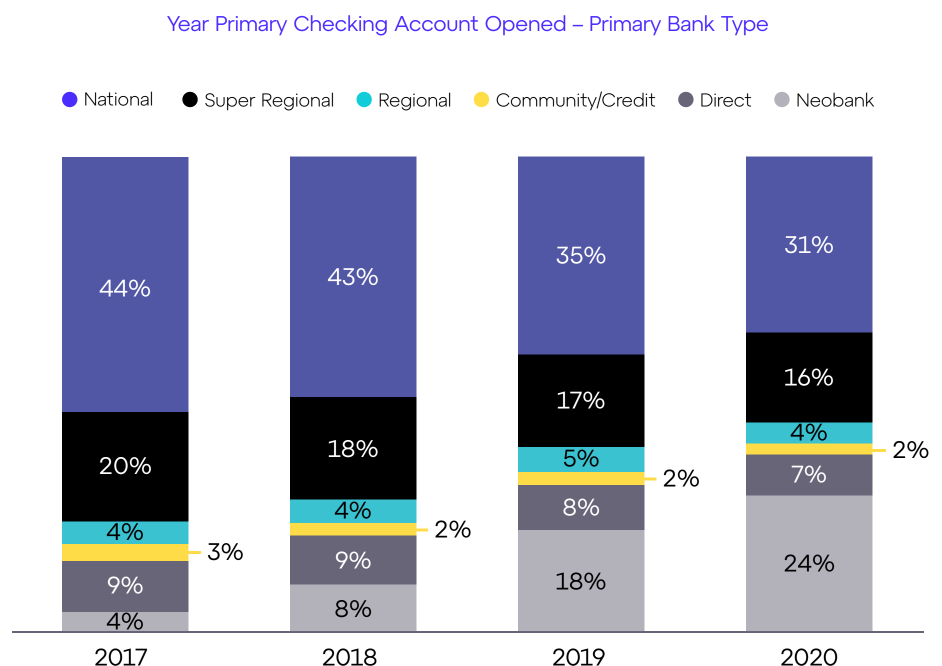
By Olivia Lui and Brandon Larson

The relentless surge in deposits, a collapse of overdraft revenue and competitive pressure from new entrants means that banks will be grappling with reduced fee income for much of 2022.

Many retail customers won't accept traditional fee hikes on basic products, especially when fintechs are wooing them with creative features. And commercial customers, already frustrated by a system that boasts thousands of price points, are looking for greater simplicity. At the same time, financial institutions must be highly attuned to regulatory flags that could result from heightened government oversight.

Curinos believes that product innovation that overhauls fee structures can help drive revenue in 2022. This strategy will succeed, however, only if banks understand the very different payment and liquidity needs of their customer segments and provide a broader range of more personalized (and fenced) offerings that fit those needs.

Figure 1: Neobanks are gaining ground in checking accounts



Q10: In which year did you open your primary checking account (the checking account you use the most today)?
Direct Banks include: Ally, Discover, USAA, Capital One (Direct) and Charles Schwab Bank
Source: Curinos Customer Knowledge | 2020 Shopper Survey

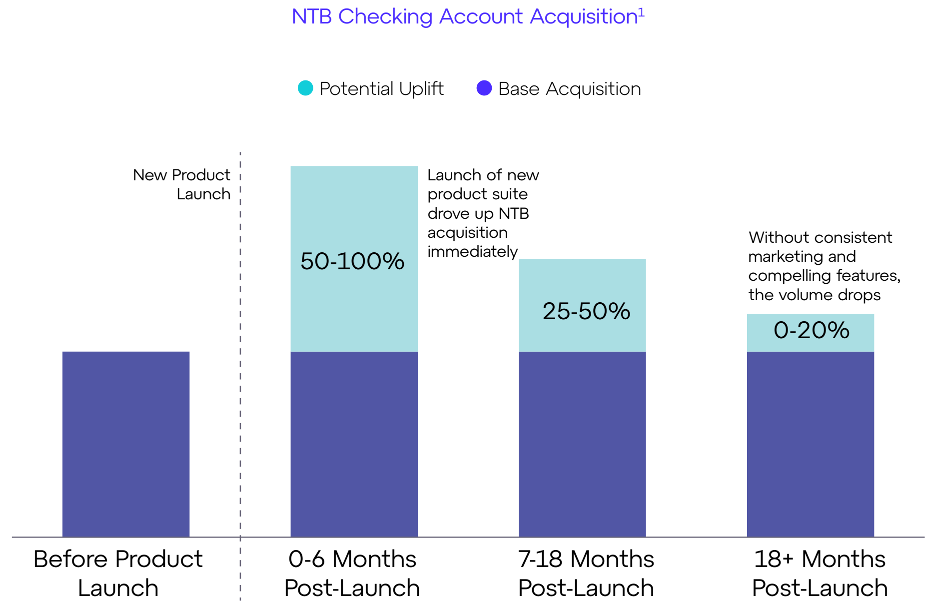
TRENDS BOLSTER NEED FOR INNOVATION

There is little doubt that the traditional days of branch-led customer acquisition are fading fast, replaced by data driven, marketing-led strategies for new products and services.

Nowhere is that more apparent than at neobanks like Chime. Such neobanks overcome their lack of local presence with massive advertising and the use distinctive product features to scoop up a bigger share of new checking accounts. (See Figure 1.)

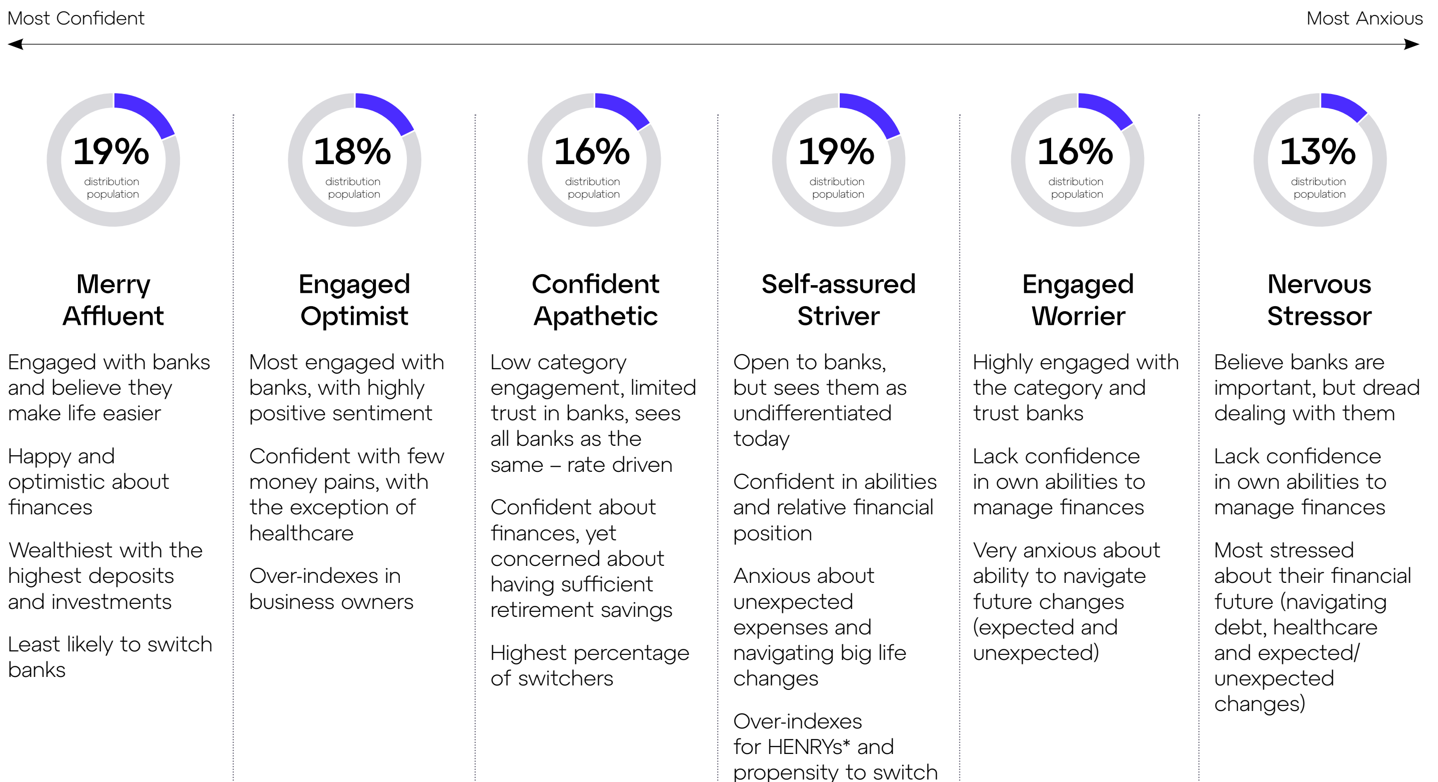
The COVID-19 pandemic has only highlighted (and accelerated) these challenges. Additional branch consolidation is a front-burner issue at many institutions because customers just aren't flocking back to the branch even when pandemic-related social distancing policies are loosened. As a result, the appetite for better

Figure 2: Segment-driven marketing and positioning can drive growth



[1] Indexed to March 2016
Source: Curinos PriceTek CDA

Figure 3: Understanding customer segments is critical to fees and innovation



*Acronym for "High earners, not rich yet"
Source: Curinos Customer Knowledge (Curinos Value Proposition White Space Research)

digital capabilities is only increasing, particularly as consumers and businesses are demanding different solutions for cash management, emergency savings and overall financial management.

CONSUMER PRODUCT AND FEE INNOVATION

The industry is beginning to respond with new ideas for the same old products: creative providers are trying to incorporate savings behaviors into payments and cash management products. This is a prime space in which banks can segment their approach by customer type, creating products with different levels of complexity.

Several banks have also introduced programs in which they waive fees or provide other incentives for customers who open multiple accounts at the same time. Others are beginning to develop "super apps" that integrate savings, investing and savings behavior.

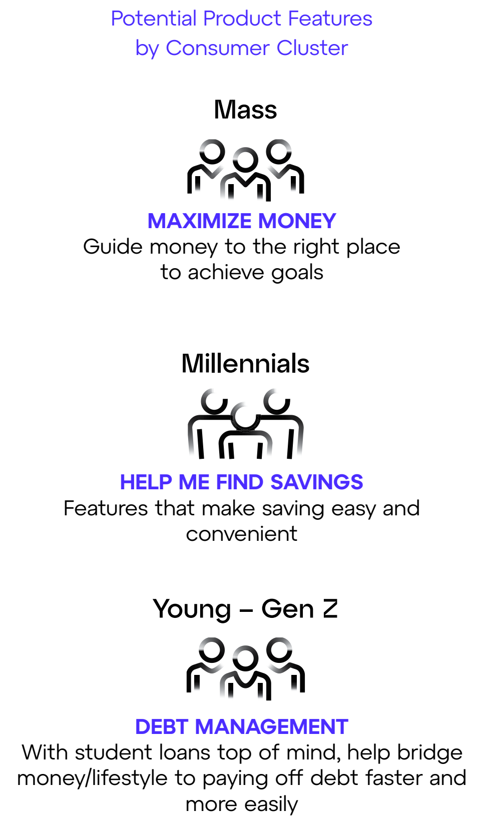
Finally, Curinos has found that loyal customers may readily respond to rewards and innovations other than fees.

A focus on personalized offerings can help identify the fee sensitivity of customers and what they are willing to trade off against different fee treatments. Curinos research and experience has found that the right product positioning and packaging based on segment-driven insights can drive a 20% lift in resonance and consideration. (See Figure 2.)

To that end, Curinos has identified at least six types of cash management consumers based on "engagement" level—an attribute that can be key to gauging the acceptance of new fees and products. (See Figure 3.) One such customer type is "Engaged Worriers," who trust banks but aren't confident in managing their own finances and cash flow. These customers may accept fees on new products that help them manage day-to-day spend while encouraging savings.

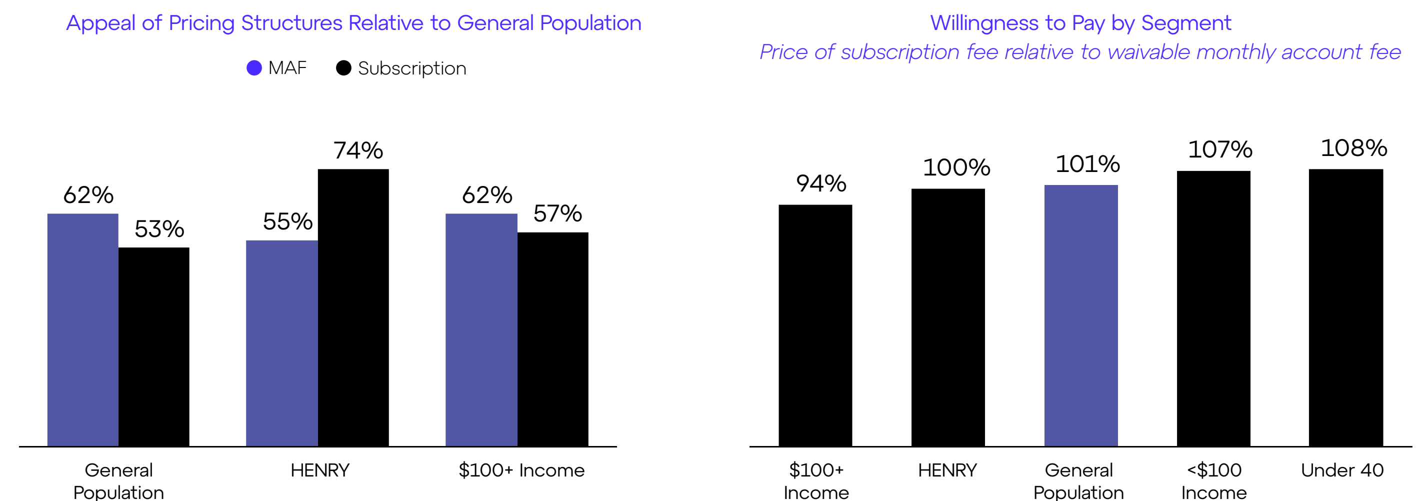
Generational segmentation also helps banks to design products for specific groups of consumers with unmet needs. (See Figure 4.) Indeed, subscription pricing can be more effective with certain age groups than others. (See Figure 5.)

Figure 4: Different age groups have different unmet needs



Source: Curinos Analysis

Figure 5: Subscription pricing is an innovation that helps drive fee income



Among HENRYs, subscription pricing is more attractive than a waivable monthly account fee

Younger and lower-income segments are willing to pay a higher fixed subscription price than a waivable monthly account fee waivable monthly account fee

Source: Curinos Product Research Insights

COMMERCIAL PRODUCT AND FEE INNOVATION

There are also opportunities to drive innovation in commercial banking. Although fintechs haven't made as many inroads here yet, banks can front-run the future competition by optimizing their fee structures and products by customer type. Since commercial banks canceled or scaled back price increases during the pandemic, the industry today has an ideal opportunity to tailor packages of price increases that better meet different needs of corporate customers.

The customers who received discounts or fee waivers last year or small increases in 2021 should be presented with tailored increases — versus across-the-board increases.

HOW MUCH IS TOO MUCH?

Simply matching fees on the way down isn't an effective option for banks in the face of competition from new entrants.

Digital transformation of an industry often drives prices lower. But most customers are willing to pay even higher fees for a product that better fits their needs. Digital transformation opens up those kinds of opportunities.

New entrants in the banking industry are winning checking accounts because traditional providers haven't been paying enough attention to their customers' need for better products. Some banks may justify the departure of customers by saying they weren't profitable anyway. This ignores the value they contribute to the overhead or the possibility that an offering that can meet their needs and turn them into profitable customers.

Banks that don't create new products and fee structures given the onslaught of fintechs will find that they will lose their connection to customers and merely be the omnibus repositories for deposits. ■

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Smaller Providers Can Innovate Checking Products Too

By Randy Rosen

Small providers (especially those with less than $10 billion in assets) face challenges when it comes to product innovation, but here are some strategies to help them find their footing and maintain profitability in the fast-changing industry. The adoption of such strategies can improve profitability by as much as 20%, according to Curinos estimates.

- **Optimize Existing Product Suite.** Some small banks and credit unions lack the analytic capabilities to manage the product suite. As a result, many offer too many products that their customers just don't want or need. Chances are that even the bankers aren't selling all of them. Simplicity rules in today's market, so focus on those products that are best for most customers.
- **Be a Fast Follower.** You don't have to re-invent the wheel to maintain momentum. It may make sense for some to merely emulate the movers and shakers, responding quickly to the new strategies. That doesn't necessarily mean you need the lowest fees, but you need to show your customers and prospective customers that you are keeping up with the times. As the saying goes, "you don't have to outrun the bear, you just have to outrun the person next to you."
- **Restructure Product Line.** This option is the most comprehensive because it requires the creation of distinctive and innovative products. This can be a safety-net product to steer customers away from overdraft fees or a subscription service. The challenge is that these innovations take a minimum of six months to bring new products to market.
- **Innovate Overdraft Features.** If you can't tackle the whole product suite at once, pick a place to start. Overdraft is going through an industry-wide overhaul, so now's the time to develop new features and fees based on what consumers want and need. Furthermore, you will be at a competitive disadvantage if you don't.

There's no doubt that consumers are changing their behaviors and expectations. Large and regional institutions, neobanks and fintechs have pounced on their willingness to try new features and products. Some small institutions already have eliminated overdraft fees altogether. But it's not too late for smaller institutions to make their mark. If they don't, they will continue to fall behind the pack.

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Prime Your Bank for Primary Retail Deposit Customers

By Michael Jiwani and Adam Stockton

Don't dismiss the value of primary retail customers even if your institution is awash in deposits. Chances are that these customers will become even more valuable soon — and it will be more expensive to find them.

But the traditional ways to identify which customers are primary, such as assessing direct deposit behavior, just aren't as reliable as they used to be. And they also don't help you determine how to improve customer relationships. These dynamics will create a challenge for banks, particularly when rates start to rise.

Curinos believes that banks can use a combination of traditional metrics and advanced segmentation analytics to better gauge primacy and propel customer growth. By adopting these analytics now, they will be better positioned in the future.

A VALUABLE BUNCH

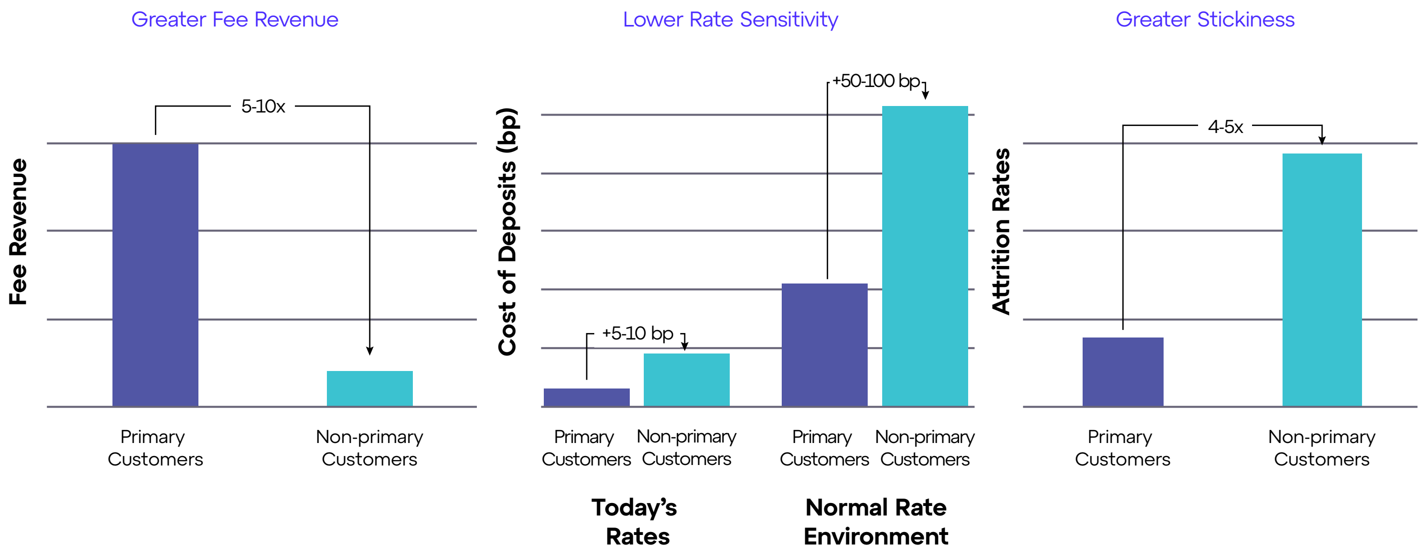
There's no doubt that primary customers are the lifeblood of banks. They keep deposit coffers full, provide more fee revenue than other customers, stick around for years and don't haggle over rate. (See Figure 1.)

In the current rate environment, however, that benefit has diminished. The rate advantage primary customers provide is compressed, and banks can't put all of their excess deposits to work due to anemic loan growth. As a result, Curinos estimates that the traditional benefits of primacy have temporarily diminished by about half — and even more at some banks.

Indeed, more than half of the participants in a recent Curinos webinar hosted by the Consumer Bankers Association said their institutions were investing the same amount or less on acquiring and growing primary deposits than they did when rates were higher.

Those who invest in primary customer growth now may find that primary customers are "on sale." As these banks continue to build a stable of primary customers and sticky deposits, they will

Figure 1: Primary customers are the lifeblood of a bank for many reasons



Source: Curinos research and analysis

likely find it easier to lag upcoming Fed moves while retaining balances.

And those who didn't invest in primary customer growth may find themselves needing to pay more to get customers and deposits later.

> Those who invest in primary customer growth now may find that primary customers are "on sale."

STARTING NOW

Banks can start attracting and retaining primary customers today through a combination of technology, incentives and old-fashioned sales strategies aimed at the products and services that mean the most. That means pumping money into digital capabilities that make the funding process easier and create a better customer journey.

Some banks are already amping up cash offers to reel in new customers. While most regional banks typically offer a few hundred dollars for a new checking account, some offers are as high as $1,500 for a new mass-affluent checking account.

But while new customers may seem great at the outset, how do you know which ones are really going to stick with you versus those who will bolt when a better offer from another bank hits their inbox?

HOW TO MEASURE PRIMACY

Banks have traditionally taken a binary approach to assessing primacy that measures direct deposits and a certain number of qualifying transactions. Nearly 60% of the recent webinar participants said their institutions use the method.

The problem is this approach doesn't account for the entire customer relationship, including attributes such as usage and duration of balances, customer depth and share of wallet. It also doesn't consider underlying customer behaviors around shopping and price sensitivity. The binary approach also provides bankers with little information around treatment strategies to improve customer relationships, and ultimately lifetime value.

Take, for example, a customer who receives a direct deposit every month, but who spends the funds via a combination of an off-us credit card and Venmo, transferring any excess monthly savings to a high-rate online bank. While this customer may be considered "primary" under the traditional binary measurement approach, he or she isn't providing significant value to the bank.

Instead, the bank would benefit from combining traditional measurement techniques with a more sophisticated approach that segments customers to determine the best treatment strategies aimed at increasing primacy.

Curinos has identified seven such segments (and corresponding actions) — taking into consideration a multitude of customer behaviors — that can help drive

Figure 2: Customer primacy segments and potential treatment strategies

Customer Primacy	Description	Potential Treatment Strategies
Full Relationship / Engagement	Appear to have full deposit relationship with bank	No treatment needed to keep happy
Long-Term Relationship Builders	Highly-engaged, may have wallet elsewhere, but don't exhibited rate sensitivity	Cross-sell and direct marketing offers for new money
High-Potential Quality Builders	Large wallet, aren't fully engaged	Incentivize to increase engagement (e.g., bonus for activating checking)
Sticky Margin Builders	High-cost, low price sensitivity	Reprice
Short-Term Cash Buyers	Rate sensitive, with large balances elsewhere	Rate offers if banks needs liquidity
Low Relationship / Engagement	Limited wallet and engagement	Try to activate and/or cross-sell
New To Bank	Started bank relationship within last 6 months	Customer outreach and onboarding

Source: Curinos research and analysis

primary customer growth. (See Figure 2.)

For example, a segment that Curinos identifies as "Long-Term Relationship Builders" are highly-engaged customers who also appear to have wallet elsewhere. They may be responsive to cross-sell offers and, since they haven't exhibited rate sensitivity in the past, a simple nudge (and not a high interest rate) may be all they need to move balances over.

One advantage to the traditional, binary approach to measuring customer primacy is that metrics are prevalent in the industry, meaning that ample benchmarks are available. Increasingly, more advanced segmentation approaches can be benchmarked to industry peers as well.

This enables banks to understand where to focus efforts to improve future primary customer growth: is the bank lagging peers in acquiring new primary customers, cross-selling existing customers or are primary customers becoming disengaged?

Curinos estimates that better customer primacy measurement approaches can drive one percentage point of greater primary customer growth annually. Even acquiring two to three additional primary customers per branch per year will go a long way to increasing long-term value, especially as we return to a more normal deposit and rate environment.

And there's plenty of room to grow: Curinos estimates that only 50-60% of deposit customers at the typical regional bank are fully engaged. Meanwhile, only about a quarter of webinar participants estimated that more 50% of their customers have a full deposit relationship with the bank.

There's only one direction for interest rates to from here: up. Banks that focus on capturing primary customers today will find it less expensive to do so now than in a higher-rate environment. And they will continue to reap the benefits long into the future. ■

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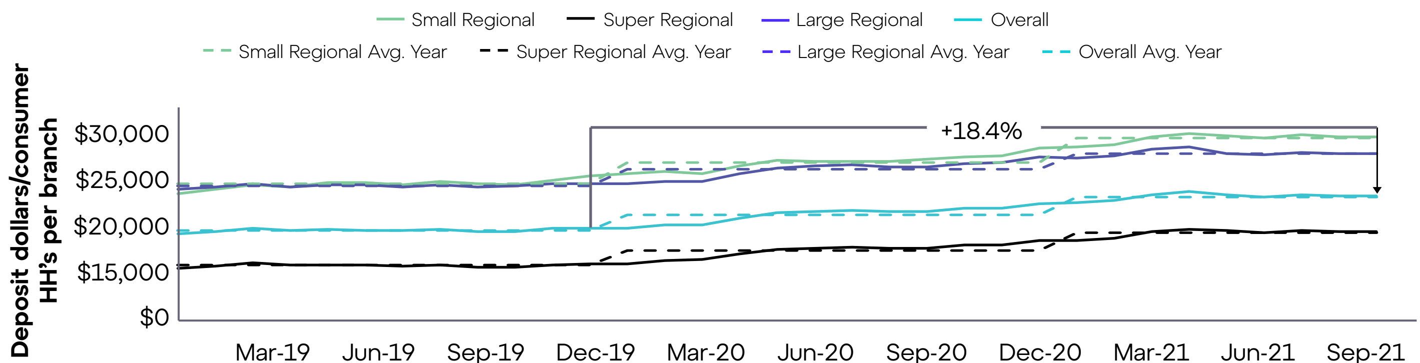
The state of U.S. deposits remains one of the most important and tricky issues for the banking industry today. Financial-services companies remain awash in deposits as loan demand remains lackluster and consumers are cautious about spending.

DEPOSIT DOWNLOAD

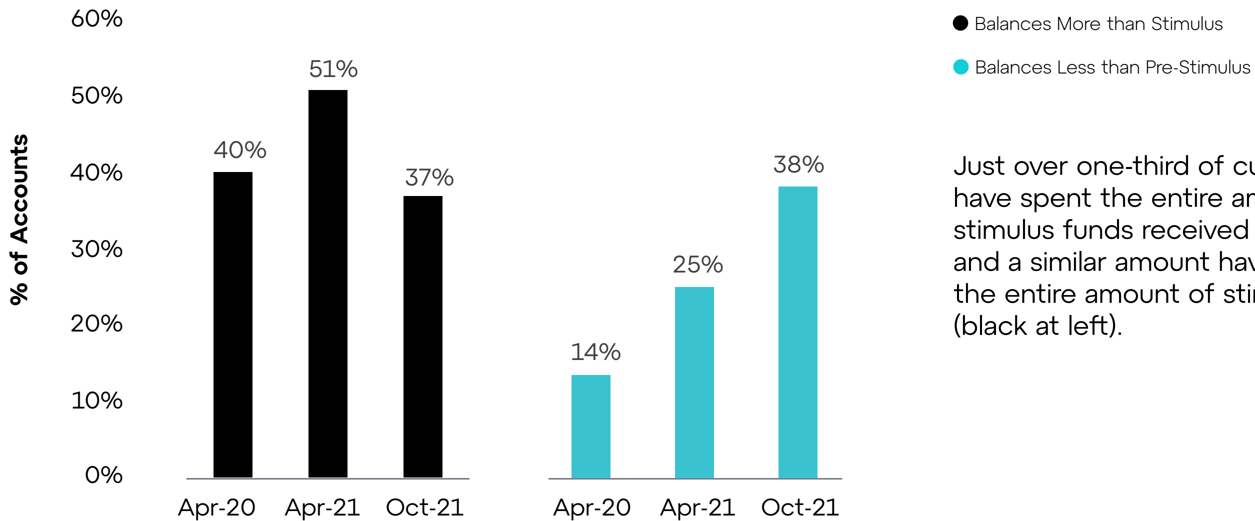
Deposit data will be especially important as the Fed begins to raise rates next year. Deposit-rich providers will be in a good position if loan growth improves as rates rise. If loans are anemic, deposit-rich providers will have to determine which deposit customers are worth keeping in a higher-rate environment. Those that need deposits will face pressure to pay up to attract new money, especially if loan growth increases.

Our latest data show that deposit balances per consumer household are up 18.4% from 2019 averages.



Source: Curinos SalesScape™ Comparative Analytics | Includes 18 SalesScape participants. Small regional banks under 500 branches, large regional banks 500 — 1,000 branches, super regional over 1,000 branches,

Bank coffers also still hold a large of stimulus funds that were deposited into customer accounts earlier in the year.



Just over one-third of customers have spent the entire amount of stimulus funds received (teal at left) and a similar amount have saved the entire amount of stimulus (black at left).

Looking ahead, there are multiple potential deposit scenarios for 2022.

Aggressive Runoff Case

60–70%

Consumer surge runoff relative to 2021

- Virus (incl. variants) are contained
- Minimal economic restrictions
- Government programs expire as currently scheduled
- Temporary spending spike (likely spring or summer '22)
- A growing number of workers return to the office, with many on a hybrid schedule.

Remaining Unknowns

- Fed Funds rate and Fed balance sheet position
- Inflation – temporary or permanent?
- Longer-term changes to savings patterns – more people continue to build a cushion?
- Permanence of Biden budget policies (e.g., child tax credits, rent forgiveness measures)
- Unemployment rate, labor shortages and redistribution impacts

Conservative Runoff Case

0–10%

Consumer surge runoff relative to 2021

- Continued challenges with variants and vaccination rates
- Repeated but temporary restrictions (e.g., mask mandates, school closures)
- Extension of government programs (e.g., extended unemployment benefits, rent pause)
- No spending spike, potential foregone spending if additional restrictions imposed

Source: Curinos Comparative Deposit Analytics (CDA) Database, Oct '21 | Simple average used to protect participant anonymity

Getting Ready for a Comeback in Home Equity

By Ken Flaherty and Brandonn Dukes

Home-equity loans have taken a back seat in the mortgage industry in the last several years. Some big lenders stopped offering the product as low rates drove customers to refinancings and cash-out mortgages. And even fintechs were focused on other financial products.

That may be all about to change.

Higher rates will likely drive homeowners back to home-equity products for their cash needs and away from the refinancings that have been dominating the industry.

But is your bank ready to meet the coming demand for more home-equity loans? Curinos believes this is the time to start preparing new home-equity strategies for the branch, digital channel and back office.

HOME EQUITY POISED TO GROW

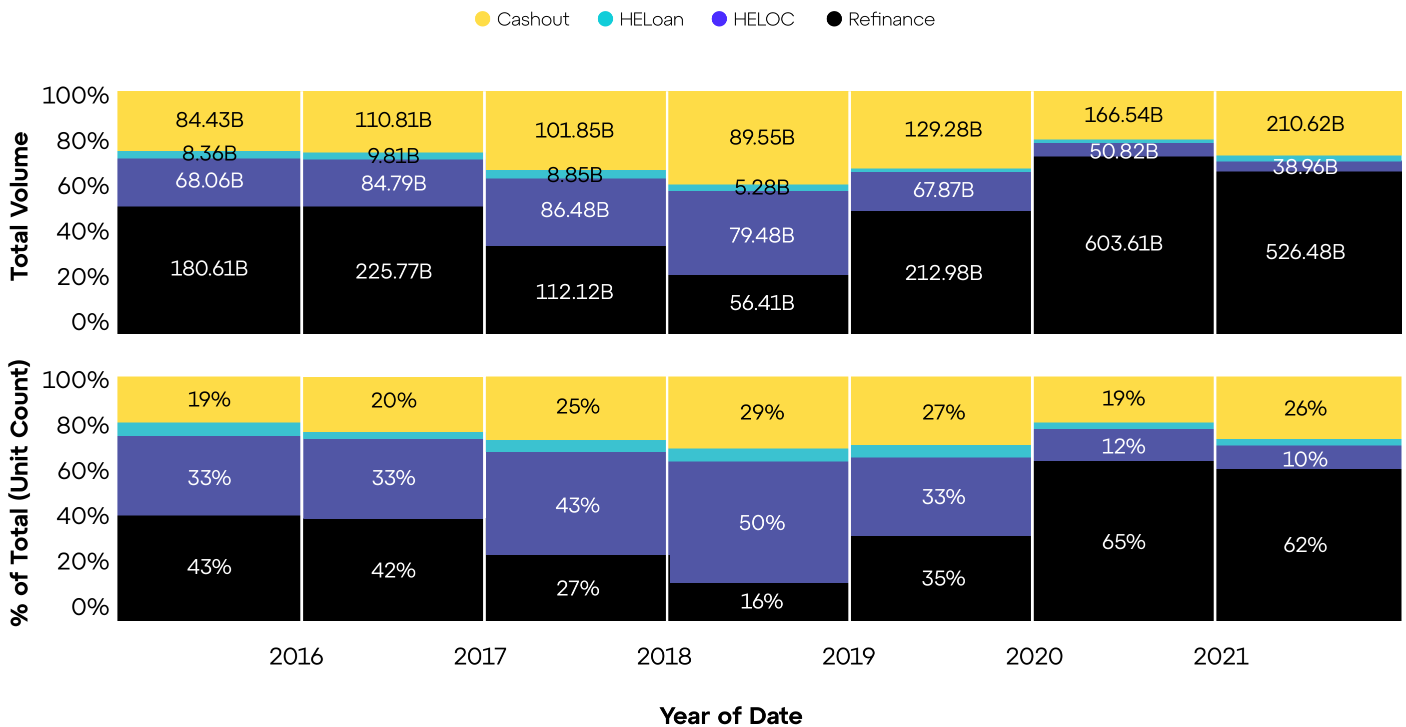
Mortgage volumes set records in 2020-21, mostly fueled by refinance activity as homeowners raced to take advantage of historic low rates. The refinance volume is poised to retreat in 2022 as rates rise; economists at Fannie Mae project rates will increase roughly 15% next year as the Fed takes action to tamp inflation.

Meanwhile, the total home-equity market has been contracting. Home equity, including HELOCs and loans, represented about 12% ($58 billion) of the retail mortgage market in 2020-21, down from 39% ($85 billion) in 2018. (See Figure 1.)

The prolonged period of extremely low rates means that most homeowners have already taken advantage of positive market conditions for mortgage cash-out vehicles as they sought to make capital improvements at home during the pandemic. As a result, lenders will be looking to subsidize a large portion of their expected drop in mortgage refinance volume and revenue with home-equity balances.

Furthermore, the run-up in housing prices means that homeowners are sitting on a mound of equity in their homes. About 40% of U.S. homes with mortgages were equity-rich (equity of at least 50%) in the third quarter, up from 28.3% in the year-earlier period, according to ATTOM. Fannie Mae, meanwhile, projects housing prices to grow by as much as another 16.6% next year.

Figure 1: Home Equity vs. Retail Mortgage Market Volume by Product Type



Source: Curinos' Consortium Data

PREPARING FOR HOME EQUITY

Curinos has identified three areas that bankers need to address as they prepare for the next home-equity cycle.

THE BRANCH. Chances are that your branches haven't sold a home-equity loan in a long time. And given the high levels of turnover, it is quite likely that some of your branch bankers haven't ever talked to a customer about a home-equity loan.

What to do: Training will be critical when customers start asking about home-equity loans. Because consumers typically buy home-equity products from the bank that holds their primary checking account, it will be important for the banker to discuss the customer's holistic financial position, including savings, borrowing and investing. That includes conversations about the logic of using home equity to pay for large purchases or home improvements rather than tapping savings or liquidating investments.

> **The run-up in housing prices means that homeowners are sitting on a mound of equity in their homes.**

DIGITAL CHANNELS. The pandemic has accelerated the transition to digital channels and customers are more comfortable making important decisions online. That also means they are skilled at shopping around. Home equity historically has been an inelastic product, but that may change this time around especially if fintech providers woo consumers with snazzy features and tools that traditional lenders haven't created.

What to do: Lenders that want to pump up home-equity volumes should expect to run regular marketing promotions, including short-term rate offers and cash bonus offers to help attract new and existing business. This is an area where fintech providers typically excel, so traditional banks will need to be nimble. The home-equity product hasn't changed much over the years and is still typically a 10-year draw on a 30-year note. This may be the time to test new products on the digital audience.

PROCESSING CAPABILITY. The average size of a mortgage cash-out loan today just over $300,000 while the average home-equity loan is a mere $136,000. That means banks that want to make up lost mortgage volume with home equity

will have to boost their capacity to process those applications.

What to do: Banks should allocate money in the 2022 budget to prepare for a surge in applications. This means investing in better processing technology, developing new models (especially for providers who have been out of the home-equity business for a while) and considering pipeline management, costs to originate and operational risk that could also affect the bank's reputation.

It may be several months before the consumer appetite for home-equity products becomes apparent. Demand for home improvements (a typical reason why consumers tap home-equity products) remains high, but some of the actual work is being hampered by supply-chain shortages. Consumer balance sheets are in good shape: Americans are taking on new debt (home equity loans are often used for debt consolidation), but the personal savings rate is also high.

Despite this uncertainty, the shift toward more home equity is likely coming soon.

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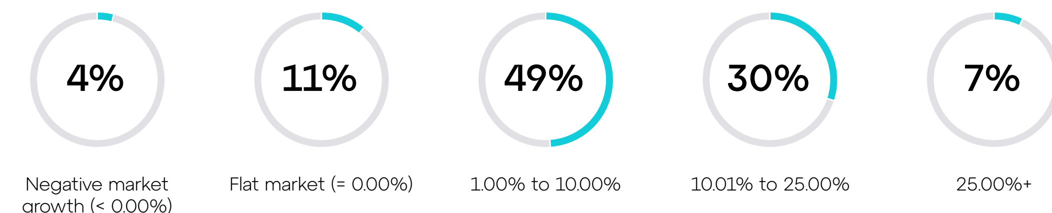
Webinar Wrap-Up

More than 70 attendees recently participated in a Curinos webinar hosted by the CBA called *"Lending Inflection Point: Are Lenders Poised for a Resurgence of the Home Equity Market?"*

As part of the webinar, Curinos polled the attendees on issues related to home equity. Here are the results:

1 What will be the tipping point for mortgage cash-out volume to shift to home equity?

2 How much do you think the home equity market will grow in 2022?



3 Which takes longer as of October 2021?

Commercial Primacy **Comes into Focus as Higher Rates Loom**

By Peter Serene

The case for primacy has never been stronger in commercial lines of business. But the definition of what makes a primary customer has changed, shifting from credit to payments for many corporates. This puts new pressure on banks to identify, acquire and retain these customers before rates start rising.

Curinos believes that banks should intensify their efforts now to cement primary relationships among existing corporate clients and also identify those who can become primary in the near-term.

A strategy that incorporates clearly defined and ingrained approaches to primacy will be essential as banks navigate the challenges of identifying which balances to defend with rate and which to lag aggressively.

THE EVOLUTION OF PRIMACY

Just like in retail banking, commercial primary relationships bring a litany of benefits, including an outsized share of stable through-the-cycle, low-cost operating deposits and fee income. Indeed, Curinos research has consistently shown that banks with leading approaches to commercial relationship primacy generate 25% more fee income than the average bank. They also have more pricing leverage with primary customers because those clients would face high costs if they migrated complex payments relationships to another providers.

In another example of the benefits, betas on ECR DDA portfolios (which typically comprise primary cash management deposits) were a mere 7% through the last rising-rate cycle compared with 57% for commercial MMDA portfolios. (See Figure 1.)

It used to be that commercial customers were considered to be primary when the bank obtained a significant position in the credit. But providing credit is no longer a differentiator at a time when banks have ample capital and liquidity to grow assets and a proliferation of alternative funding sources, including non-bank lenders, are also extending credit.

Instead, banks and corporates alike have started defining primacy as the point when the bank takes on management of the customer's payments.

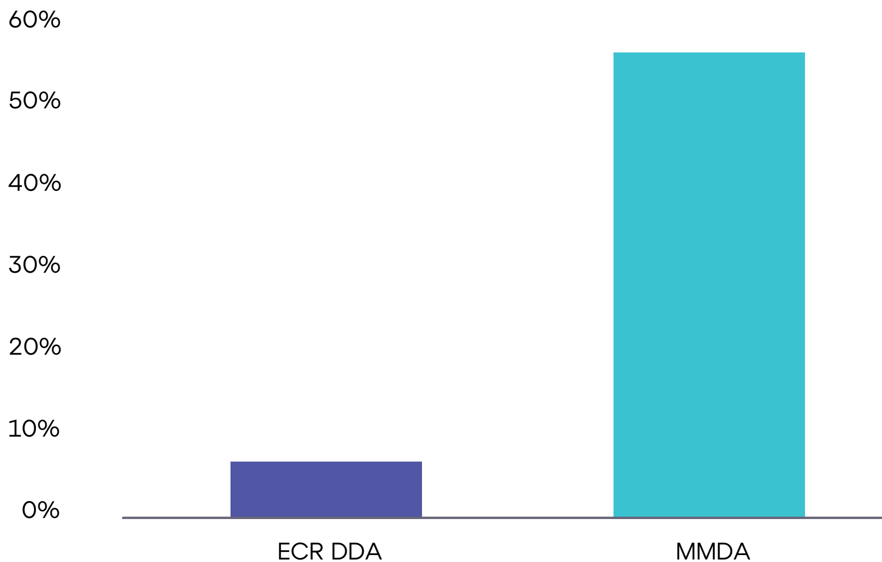
This transition has accelerated as the pace and complexity of payments is increasing, prompting banks and fintechs alike to innovate products that extend the value proposition of their offerings deeper into companies' cash conversion cycle.

Moreover, investments in digital innovation are creating additional layers of differentiation between market leaders and all others across the bank and payments fintech arena.

There are also other reasons today to focus on acquiring primary relationships and developing advanced approaches to measuring primacy. First, banks are starved for high-quality commercial assets. The average bank has grown deposits by more than 30% since March 2020 while the commercial loan book is flat to down. This is especially true when looking at core C&I. The primary bank will likely have first call on customers incremental financing needs.

Furthermore, there are significant implications for pricing and balance

Figure 1: Average Portfolio Rate Betas for Commercial Middle Market, December 2015 – June 2019



Source: Curinos CDA

sheet allocation. In the current environment, banks have limited capacity to grow deposits without diluting return metrics such as ROE and ROA.

IDENTIFYING PRIMACY OPPORTUNITIES

What does this all mean? Achieving primacy with your customers and measuring when you've gotten there are more difficult than ever.

Curinos believes that banks should measure primacy along two dimensions: current primacy and future primacy. These measures will vary by bank and customer, but both require a combination of analytics and data. The best approaches systematically incorporate data to measure and validate the "off-us" portion of the customer's business.

In measuring current primacy, the biggest challenge is to move from the notion of "what do I have?" to "what should I have?" Many banks' primacy definitions are heavily levered to total revenue or product utilization. This can lead to wrong conclusions where clients produce large revenues at thin margins in non-primary products. With respect to future primacy, it is equally important to know where the opportunities are. This helps bankers to focus calling efforts on a narrow subset of clients where they have the greatest potential for cross-selling (and advising) their way into the primary position. On the flip side, it is critical to know where primacy potential is low to avoid deploying resources towards activities that will likely have low value.

The next rising-rate cycle, which according to half of the FOMC is expected to start in 2022, will present an unprecedented pricing challenge. In prior cycles, most banks have had a practically unlimited demand for deposit growth, so elasticity was the foundation for pricing strategies. But we anticipate that many banks will still be carrying significant excess liquidity on their balance sheets when rates rise next year. Consequently, customer primacy, not rate elasticity, should form the foundation of most pricing strategies.

BETAS AND PRIMARY CUSTOMERS

Lagging betas in a rising-rate cycle always entails a delicate balancing act between the customer's desire to ride the tide of higher rates and the bank's need to capture a fair through-the-cycle value exchange with the customer. Bankers are often caught in the middle.

We anticipate additional layers of complexity in the upcoming cycle. First, bankers and clients alike will have recent memories of the heady times at the late stages of the past rising-rate cycle when betas of 80% or more on commercial interest-bearing deposits weren't uncommon. Moreover, there will likely be additional elements of pricing disruption due to the emergence of fintechs that have acquired bank charters. But with balance sheets loaded with liquidity, established players won't be able to profitably apply the playbook they used in the late stage of the last cycle.

A fair value exchange will typically dictate that primary customers should get a good rate, but not necessarily the best rate in the bank. This is because the relationship is secured through many layers of sticky integration and value exchange across product and business lines. That said, if a primary relationship comes under attack from a competitor, the bank should be positioned to move swiftly and decisively to defend the customer relationship.

For non-primary relationships, the pricing strategy should depend on the potential for future primacy. Pricing can be an effective lever to deepen the relationship for non-primary customers with high potential. For non-primary relationships with low potential, the bank should treat the deposits as wholesale funding and use rate only when the bank needs the liquidity. Curinos acknowledges that this can be a challenging message for bankers because it may result in deposit attrition.

Successful primacy programs require committed executive leadership, an inclusive approach across front line teams, rigorous but accessible analytical approaches that are backed by both bank data and "off-us" data and a programatic approach. These efforts take time, so there's no time to waste. ■

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Competition Drives Overdraft Overhaul

By Hank Israel

The evolution of overdraft is upon us, but it isn't regulators who are leading the charge. Instead, it's good old-fashioned competition.

That is one of the conclusions of new Curinos research that examines the role of overdraft amid a wave of new policies and programs among financial-services providers. The research — which confirms and expands upon previous work from Curinos, regulators and consumer advocates, also finds that consumers have a deep understanding of overdraft and the fees associated with it.

There is also a clear message for banks: consumers view providers that innovate overdraft policies and offer overdraft alternatives as being distinctive — and they are more likely to bank with them.

THE RESEARCH

This article summarizes key findings of a comprehensive overdraft study that Curinos released last month. The research also builds upon a study that Curinos conducted in 2015 to understand why consumers use overdraft and choose to opt in to debit overdraft coverage.

Curinos commissioned an online survey of 2,251 consumers in April 2021, focused on consumer overdraft behavior and the reasons and decision-making process behind this behavior. The online survey sought sufficient responses from eight identified segments of consumers, defined by their frequency of overdraft in the past year (none, 1-5, 6-10, more than 10) and by their self-stated credit quality (could or couldn't qualify for a credit card).

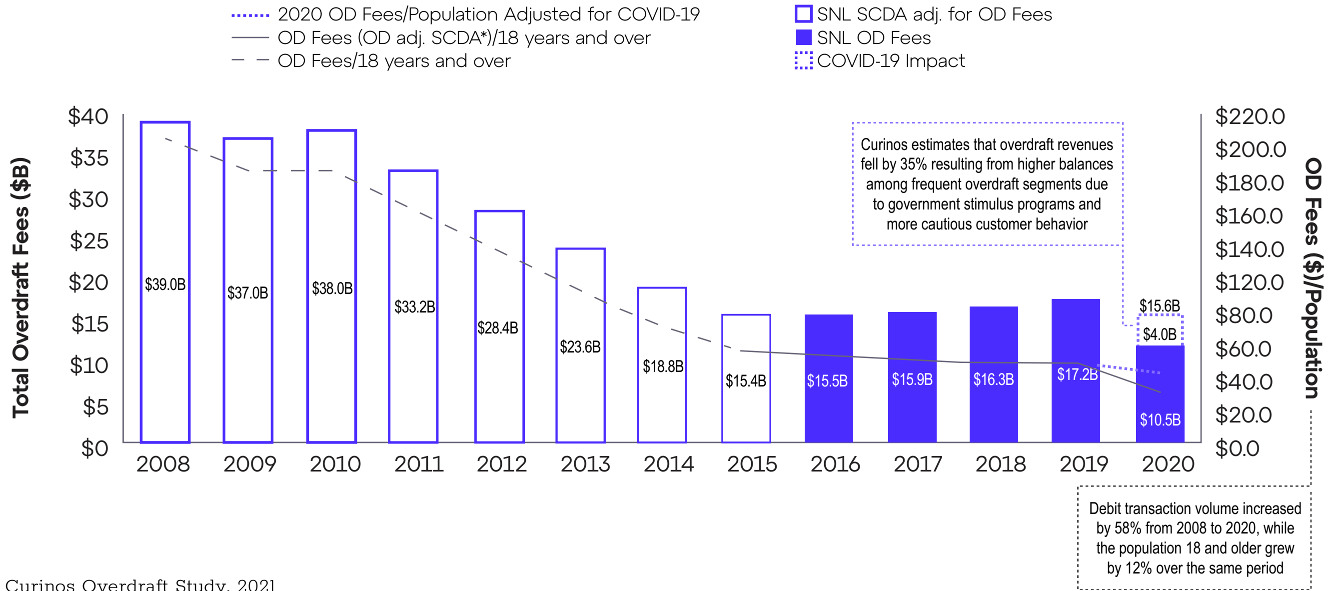
The survey aimed to provide an update to our research from 2015 to understand what, if anything, has changed about consumer behavior and attitudes in the intervening years. As such, many of the questions asked in the 2015 research were asked verbatim in this research to ensure a consistent comparison between the time periods.

This study was initiated at the request of the Consumer Bankers Association to better understand consumer sentiment and fill a gap in current research. CBA provided funding for the market research survey. Curinos independently designed, analyzed and documented research results.

KEY FINDINGS

- Overdraft fee revenue is down significantly. U.S. overdraft revenue fell approximately 57% from $40 billion in 2008 to $17 billion in 2019. (See Figure 1.)
- Fewer people use overdraft. The percentage of regular overdraft users (those with 10 or more transactions annually) fell by 40% to 4.9% of the population between 2010 and 2020.
- Challengers that adopt consumer-friendly policies win market share. New entrants, including fintechs and challenger banks, have created solutions to better manage or reduce the cost of overdraft. These entities have experienced a 40% improvement in

Figure 1: Overdraft Fees, Total and Per Capita



Source: Curinos Overdraft Study, 2021

account acquisition since 2017. Financial institutions that haven't adopted overdraft innovation have experienced a nearly 30% reduction in consumer acquisition. (See Figure 2.)

- Consumers understand overdraft. Consumers, especially overdraft users, continue to demonstrate a deep understanding of overdraft and available alternatives. More than 60% of overdrafts come from consumers who intend to use the service. More than 80% of overdraft transactions come from consumers who opted in to debit card overdraft programs with the clear intention of using it to cover their payments. (See Figure 3.)
- Two-thirds of consumers indicate that, while overdraft can be expensive, they don't want to see reductions in their access to the service.
- Consumers want more short-term liquidity choices. Consumers seek convenient and relevant alternatives to overdraft. The emergence of alternatives in the market is driving consideration of new checking purchases.
- Larger transactions now trigger overdraft. The proliferation of overdraft grace balances and changes in posting order practices have reduced the number of small purchases that

Figure 2: Innovation and Account Acquisition

The Market is Rewarding Innovators

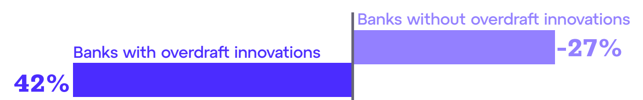
BANKS with overdraft innovations enjoy a

2X

AVERAGE PURCHASE RATE

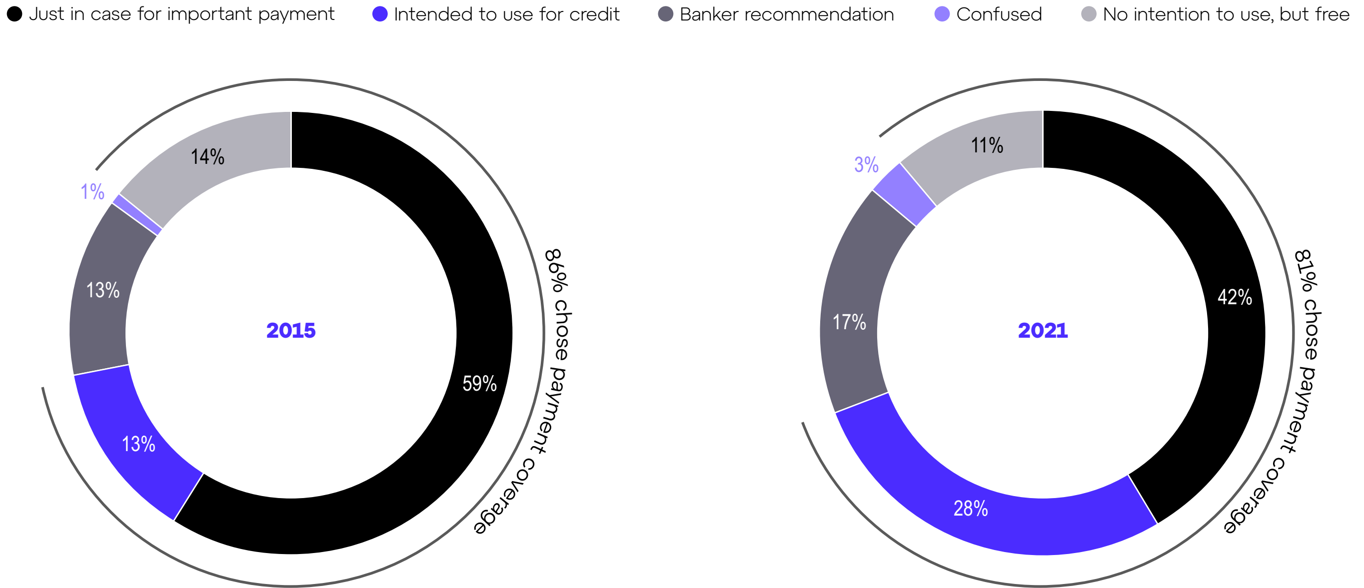
than those without

% Change in Purchase Rate (2017*-2020)



Banks with OD innovation include: Bank of America, Capital One, Citibank, Huntington, M&T, U.S. Bank, Chime, Current, Varo, SoFi Money, Discover.
*Purchase rate is % of existing checking base acquired each year.

Figure 3: What was your primary reason for opting in?



Source: Curinos Overdraft Study, 2021

are tied to overdraft. As a result, the average size of purchases that trigger overdraft fees has nearly quadrupled from $50 to almost $200.

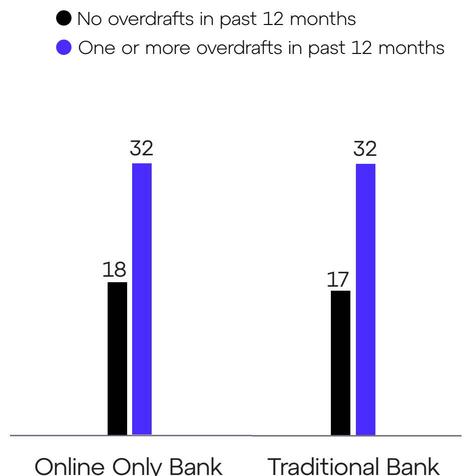
INNOVATION WINS THE DAY

Overdraft innovation has become the centerpiece of many new entrants that are challenging traditional banks. Their efforts have also prompted many of the traditional players to evolve their offerings.

Indeed, Curinos believes that new technology and a focus on the importance of financial health have driven more innovation than have regulatory actions. From Safe Money accounts that were introduced 20 years ago to the recent flurry of announcements from traditional providers who are dropping overdraft fees altogether, these market-driven innovations have a positive impact on consumer consideration and purchase.

Furthermore, they provide competitive advantages to the financial institutions that adopt them. When asked if they would consider an online-only or network bank for transaction services if they offered these consumer-friendly overdraft and overdraft alternatives, they clearly no longer hold a preference for traditional bricks-and-mortar banks and instead would consider banks based on the features they offered. (See Figure 4.)

Figure 4: Average likelihood to switch banks for an overdraft feature (%)



N = 2251
Source: Curinos Overdraft Study, 2021

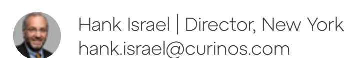
WHERE TO GO FROM HERE

Given the wave of change that has enveloped the industry in the last few months alone, all financial institutions should be reviewing current overdraft policies and pricing to ensure they remain competitive. They should also consider ways to potentially differentiate themselves from others.

There is little doubt that a growing number of institutions will offer innovative liquidity and overdraft solutions while improving traditional overdraft fee structures and policies. Indeed, those efforts have already begun, but they bring their own set of challenges. (See sidebar.)

Banks can use more advanced metrics and analytics to help create new products and manage consumer health and performance. This includes comparing unique customer cohorts to identify products that fit their needs and educate them about their financial lives.

It is increasingly clear that consumers want and need these new alternatives. The burden is now on banks to provide them — or risk losing this important set of customers.



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Deposit Analytics Add New Lens to Credit Underwriting

By Zachary Kaplan

Lenders are increasingly looking for alternative data sources to improve credit decisions across the credit spectrum. This is particularly important to drive financial inclusion for thin-file or no-file customers.

Curinos' research and client experience has shown that on-us deposit behaviors are highly predictive of credit performance. By leveraging customer deposit behaviors to better understand a customer's ability and willingness to repay, lenders can approve as many as 10%-40% of applications that historically would have been rejected.

Traditional credit underwriting has left many behind, limiting a large segment of the population to costly forms of credit such as payday loans. According to the Office of the Comptroller of the Currency (OCC), "Nearly 50 million people in the United States have no usable credit scores." Building credit is critical to unlocking financial opportunities, such as wealth building through home ownership.

Regulators have recognized this problem and are starting to look at the structural barriers to financial inclusion. Industry providers have also taken action — some are expanding traditional payment data by analyzing phone, utility and streaming bills. This, however, ultimately represents just another flavor of assessing prior behavior within the credit landscape.

Lenders who hold deposits are in a unique position to expand financial inclusion with their deposit customers. They have extensive data on their customer's deposit accounts, which provide a comprehensive view of applicants' financial well-being. This data is FCRA compliant and already sits within the lender's firewall.

And while many fintech lenders are using self-permissioned deposit data to improve underwriting, adverse selection may be an issue. Customers worried about being approved may be the only ones to provide deposit data and, when provided, may only choose to share accounts that paint their best financial picture.

Deposit-holding lenders, on the other hand, have unbiased and consistent historical deposit data that can be used for modeling. Fortunately for them, as much as 90% of consumer loans are underwritten to existing deposit customers. This also presents a chance to deepen customer relationships by saying "yes" when other lenders using traditional credit data would have to say "no."

For those institutions that are fortunate enough to have historical deposit data, the right metrics are critical. For example, a simple metric like total balances does a great job discriminating overall risk — those with more than $6,000 in balances are eight times less risky than those without. But, that simple metric won't materially help approve more customers, as those with more than $6,000 are already much more likely to be approved (for one lender, approved customers had $40,000 in average deposits, while rejected customers had only $5,000). To approve more customers without increasing risk, lenders must use advanced deposit metrics to understand the behaviors that drive deposit balance changes.

> **Deposit-holding lenders are uniquely positioned to expand access to credit, driving financial inclusion while deepening customer relationships.**

Ultimately, on-us deposit data are a rich source of alternative credit data that are proprietary to each deposit-holding lender. Curinos has found that lenders can approve up to 40% of historically rejected applications without increasing risk by leveraging advanced deposit behavioral metrics, expanding financial inclusion while simultaneously deepening customer relationships.

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Buy Now, Pay Later: Opportunity or Headache?

By Hank Israel

U.S. consumers are being flooded with offers to "buy now, pay later," whether it's a $345 baseball cap from Tom Ford ("starting at $32 a month") or a $2,199 LG Smart TV from HSN ("3 payments of $733.33"). And just in time for the holiday travel season, American Airlines recently announced that passengers could split the cost of their airfare into $50 monthly payments.

The appeal for the consumer is obvious: unlike credit cards or old-fashioned layaway plans, the buyer pays no interest on the purchase, agrees to a set payback schedule and gets the immediate gratification of ownership. Decisions to use the payment plan can be made instantly, whether at the physical point of sale or during online checkout.

So far, fintechs like Klarna, Affirm and AfterPay are dominating the burgeoning financing business, which disrupts the banking industry's interchange model and merchant relationships.

As a result, pressure is mounting on financial institutions to offer unsecured lending products. While such products can provide much-needed differentiation among institutions and improve tense merchant relationships, they can also take a bite out of interchange revenue, complicate underwriting and attract regulatory scrutiny.

SECULAR TRENDS PROVIDE A BOOST

A report from merchant processor WorldPay found that BNPL is the fastest-growing online payment method in the U.S., Australia, the U.K. and is expected to grow at a 28% compound annual growth rate globally over the next five years. Still, BNPL only accounted for about $100 billion, or 2%, of all global e-commerce transactions in 2020, while global credit-card spending is expected to reach $45 trillion in 2023.

Curinos believes the rise of BNPL can be tied to three global consumer trends that are changing the way people pay for goods and services.

First, regulators and consumer advocates want to see more stable and well-priced credit products for underserved consumers. While regulators have already raised some concerns about BNPL late fees and the chance that customers are biting off more than they can chew, financial institutions are in position to address those issues while they expand lending for consumers who historically have been locked out of credit products.

Secondly, the global financial crisis of 2008 and the COVID-19 pandemic have made younger consumers more hesitant to use traditional credit cards. Many of these consumers saw their parents fall into a debt trap during the financial crisis that they attribute to the convenience of credit cards and the economics that incentivize spending. And in the case

of the pandemic, consumers have increasingly turned online for purchases and found BNPL solutions could smooth their payments.

Finally, advancements in BNPL solutions at checkout are now as convenient as using a credit card.

THE CHALLENGE FOR FINANCIAL INSTITUTIONS

BNPL creates a challenge for traditional financial-services providers that are facing yet another round of competition from fintechs and challenger institutions that seek to disrupt consumer and merchant financial services.

BNPL takes aim at the long-fraught relationship between merchants and their banks over interchange fees because the unsecured loans don't carry interchange. Merchants have long castigated interchange fees, paying more than $50 billion to banks each year for purchases made with credit cards and debit cards. Meanwhile, financial institutions depend on interchange to fund their card programs.

Unlike the new challengers, banks have complicated financial relationships with multiple parties in the payment process — all of which can be disrupted if they start offering new unsecured lending products. Although a growing number of banks have started offering installment loans in the past few years, those products have been slow to gain acceptance, partly because they have a fixed interest rate.

The ultimate decision by a traditional bank to develop a BNPL program or challenger proposition will vary based on its position in each of the underlying markets — from the merchant acquirer relationship to its reliance on interchange.

SHOULD YOU JUMP ON THE BNPL BANDWAGON?

Curinos believes that banks can deepen customer relationships by offering BNPL-like products, but they must carefully consider a number of factors before joining the fray.

- **Differentiation.** Consumers are eager for their banks to provide new and innovative products. Offering a product like BNPL can deepen relationships with customers and attract new ones. Wrapping a financing product into a checking account, for example, could be appealing for some consumers. Financial institutions could also develop serial installment loans that consumer could access through a separate debit card or within their digital wallet; the bank could then approve each purchase individually. And, of course, they can always buy one or partner with one a BNPL providers.
- **Economic implications.** Banks with outsized reliance on interchange, overdraft fees or merchant-acquiring businesses must weigh the potential that BNPL will cannibalize those revenues, particularly if the product grows exponentially. That said, it is unlikely that BNPL will have any material impact on volumes in the near term. Banks must weigh the challenges of making a BNPL program profitable with the prospect of being distinctive as noted above.
- **Regulatory scrutiny.** Institutions that have been in the crosshairs of regulators may want to tread carefully when it comes to BNPL. The Consumer Financial Protection Bureau issued a warning about the products in July, reminding consumers that they carry late fees and don't offer the same dispute protections as credit cards. Appropriate and transparent disclosure will be essential for banks that want to offer the product.
- **Underwriting challenges.** Banks have a clear advantage to new entrants when it comes to assessing the creditworthiness of customers. The mountains of data and analytics available to banks can help estimate loss ratios and assess the risk in offering these products.
- **Merchant relationships.** Many merchants already view banks with suspicion when it comes to customer payments and may be hesitant to engage in a new offering. Banks will need to convince merchants that they have a competitive offer.

The BNPL landscape is evolving quickly and we will likely see announcements of even more creative new offerings in 2022. A few banks have already announced partnerships with fintechs to provide BNPL solutions for their customers. It is also clear the market is rewarding providers of BNPL products; shares of Affirm jumped 6% after it announced its deal with American Airlines.

BNPL represents just the latest challenge to the way that traditional financial-services providers have done business for years. There will be more innovative products on the horizon. While banks don't necessarily need to create their own version of every new whiz-bang product, BNPL also can't be ignored.

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Things to Consider When Weighing BNPL

By Michael McCaw

As the market grows and more providers look to embed BNPL, banks and other providers that consider it as a strategically attractive option will be weighing its risks and costs.

BNPL is an emerging product for consumers in the US and Europe, so perceptions are still forming. That brings with it reputational risk. From a cost perspective (as with any new offering), the provider needs to evaluate infrastructure investment, as well as marketing, underwriting and servicing costs.

Analysts from Curinos' Digital Banking Hub have isolated a number of areas in which BNPL providers are attempting to differentiate.

1. **Brand and positioning.** Leading digital players have gone beyond purely point of sale engagement to provide omni-channel experiences and have penetrated the market with destination platforms.
2. **User experience.** Dedicated providers have integrated into retailer sites as well as operating their own apps or sites while positioning BNPL as a valid, trusted payment option.
3. **Product and pricing.** Market leaders now offer users the ability to change the product according to repayment preferences in a single platform. Those providers that are really carving our market share, however, are actively engaging with users after an initial purchase to encourage further transactions.

Routes to entry vary, such as partnerships (Discover and Ally have interests and agreements with Sezzle), point-of-sale propositions (Citizens Pay or Goldman Sachs working with Apple) and installment plans (like My Chase Plan, Synchrony's Pay in 4 or US Bank's Extend Pay).

There are many ways to muscle in on the market. From a digital banking perspective, BNPL is part of a wider embedded finance narrative that's providing food for thought for all.

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The Importance of Deposit Due Diligence As Rates Start to Rise

By Michael Jiwani and Pete Gilchrist

It may be easy to overlook deposit portfolios when conducting due diligence on potential acquisitions. After all, roughly $3 trillion of deposits have surged into the industry since the pandemic began, the yield curve remains relatively flat and there is little variation in rates between top and bottom performers.

But this is precisely the time when bankers should pay attention.

That's because deposit quality has been masked by the current ultra-low rates. When rates rise, the winners and losers will start to reveal themselves.

Surface-level due diligence won't be good enough to understand the true underlying quality of deposits. Acquirers must dive deeper into the deposit portfolio by conducting a thorough analysis of the target's deposit base.

The extra investment is likely to be well worthwhile. Based on empirical data from the previous two rising-rate cycles, Curinos estimates that an inaccurate assessment of the quality of a target bank's deposit portfolio during due diligence could overvalue the target by up to 20%.

In essence, don't assume a target bank's performance at the bottom of the rate cycle is indicative of how the bank will perform when rates rise. Only through a thorough inspection of a target bank's deposit portfolio can acquirers understand how its customers will react as the environment changes.

AN ANALYSIS OF PREVIOUS RISING-RATE CYCLES

Curinos experts have long advised clients to dive deeply into the deposit portfolio of a potential target. Indeed, we addressed this topic in a 2018 article that analyzed the rising-rate cycle of 2004-2006. We found that simple misestimates of deposit betas in 2004 resulted in a difference of more than 50 basis points in target bank deposit rates by 2006.

It was unclear, however, if this analysis would be valid today, given how much the banking industry had changed. Therefore, we decided to update our analysis to reflect the more recent rising-rate environment of 2015-2019. The findings were strikingly similar — a bank's deposit performance at the bottom of the rate cycle is a poor predictor for performance as rates rise. (See Figure 1.)

Take, for example, a bank with average deposits costs of 30-40 bp in 2015. Acquirers that take a simplistic approach to deposit due diligence (which, from our observations, is a common approach) may believe that these types of target would achieve industry-average betas when deposits rise because it had industry-average deposit performance in 2015.

In reality, bank betas were materially different from each other in 2015-2019 and a bank's performance at the bottom of the rate cycle was again a poor predictor of what its rates will be at the top of the rate cycle.

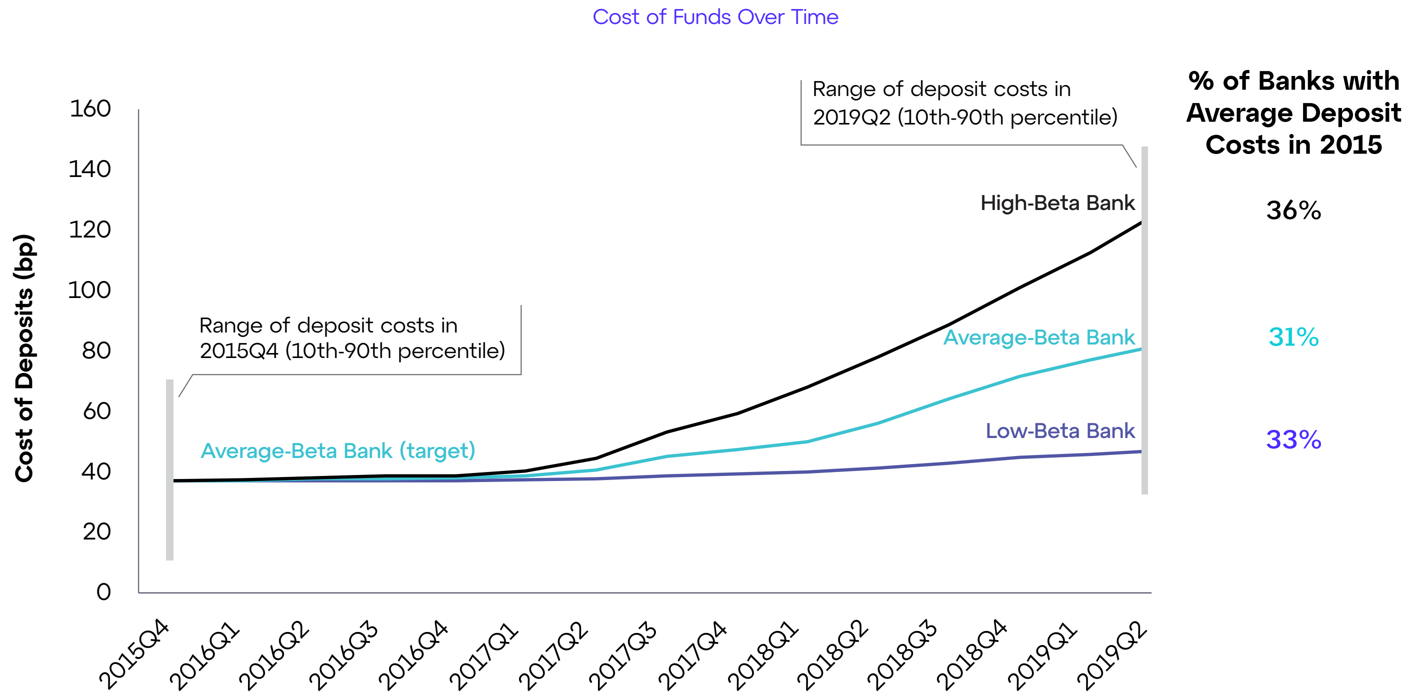
In fact, the new Curinos analysis reveals that banks with average deposit performance at the bottom of the 2015-2019 rate cycle only had an average beta about one-third of the time when rates rose. A third of the time the bank had a notably higher beta and the final third of the time the bank had a significantly lower beta.

For a potential buyer, a miscalculation of the future beta could have resulted in over-or-underestimating deposit costs by 40-50 bp at the peak of the rate cycle. That translates to about 20% in value based on typical bank PE ratios, or $30 million per $1 billion in assets.

WHAT DOES BETTER DEPOSIT DUE DILIGENCE LOOK LIKE?

What can banks be doing to up their deposit due diligence game? It starts with detailed analysis of the target bank's deposit customer base. Many acquirers settle for a single point-in-time deposit tape and focus on liquidity risk assess-

Figure 1: Target Bank Acquisition Scenarios (Hypothetical Deal at Bottom of Rate Cycle)



Note: Assumes target bank value based on median P/E ratio for banks over $2B; difference in deposits costs between low/average/high beta banks based on performance observed of 1,000 banks; valuation implications based on typical deposit contribution to average bank net income, tax-effected at 20%; discounted at 33% to account for fact that differences in cost of deposits occur over time

Source: Curinos analysis of FDIC call report data

ments, analyzing portfolio concentration or upcoming maturity bubbles.

Curinos recommends that buyers at a minimum request multiple snapshots spanning multiple years, including higher-rate time periods. (If a bank doesn't have ready access to this, it may make you wonder whether they know what sort of deposit book they have.) This will help acquirers understand three things:

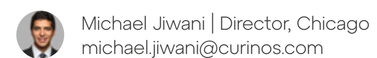
- What the portfolio looked like in a higher, more normal rate environment
- How the portfolio evolved over time, including the underlying drivers of growth, which is especially important today in light of the surge deposits
- Full customer relationship dynamics (not just account-level dynamics), which helps assess the stickiness of the customer base

It also helps to compare the target with reliable benchmarks across key measures of deposit performance. There are no shortages of valuation multiples to estimate the fair value of a target bank, but acquirers need to understand relative deposit quality to know whether it makes sense to pay a premium or discount relative to recent market deals. Benchmarking deposit-related KPIs, such as acquisition and retention rates, portfolio mix and concentration, portfolio and new money rates, branch productivity and customer relationship depth will go a long way to helping the bank understand relative performance and contribution to overall valuation.

Lastly, intensive deposit due diligence can help acquirers get a head start on integrating the target bank's products, pricing, branches and front-line staff after the deal is completed. Too often these elements are glossed over during due diligence.

As an example, we have seen acquirers complete simplistic branch proximity analysis (e.g., branches within X miles of each other), incorporate closure assumptions into their valuation models and announce publicly their branch closure targets at time of deal announcement, only to be later hamstrung when they realize that some of those branch closures would have material negative customer impact. Banks that invest in due diligence can complete a more detailed analysis of branch closures that takes into consideration estimated customer impact and broader market-level strategy. Not only would this help value the transaction, but also provide a jump-start to integration planning.

In today's banking environment — where banks are flush with deposits and rates are effectively zero — acquirers may be paying less attention to target bank deposit portfolios than they should. Misestimating deposit quality could be costly in the future because it may lead to missed opportunities to find quality gems or could lead to overpaying (as much as 20% more) for a bank when rates change down the line. ■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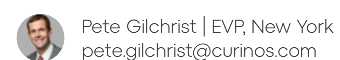
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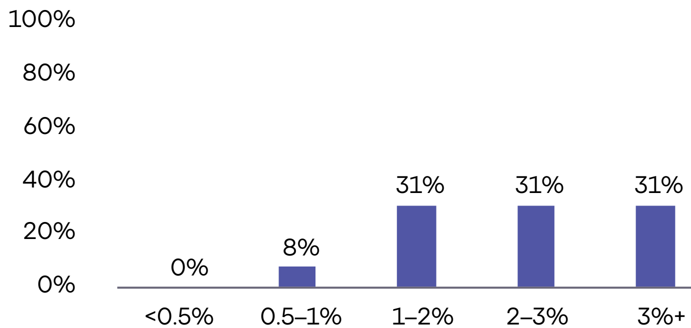
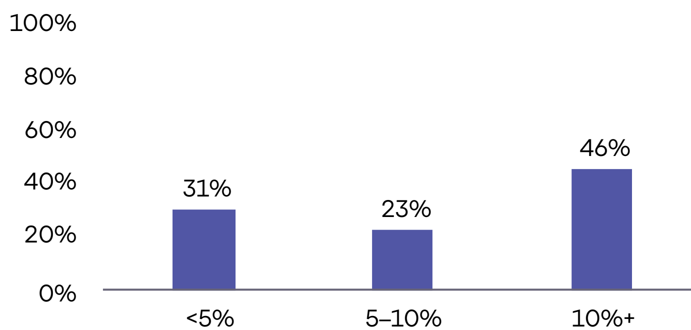
THE DIGITAL TRANSITION

Like other areas of banking, digital channels are increasingly important to treasury management. Curinos research has found that a third of banks spend more than 3% of TM revenue on digital annually.



Annual digital platform spending varies widely by bank but is generally greater than

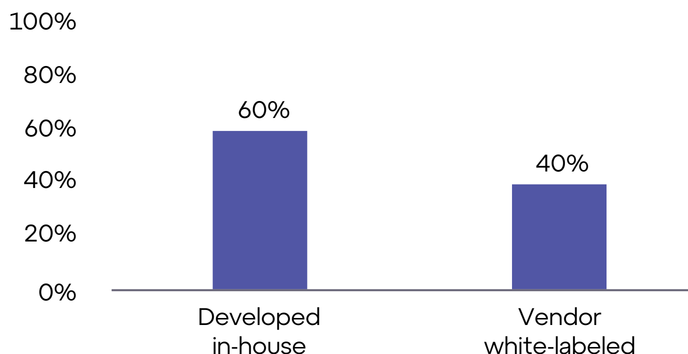
1%.



Nearly half of banks allocate

over 10%

of their annual digital spending towards new investment, indicating a growing digital market.



There is a fairly

even split

among in-house versus vendor white-labeled digital platform use among banks.

Source: Curinos CDA

Financial-Services Marketers Face **Unique Hurdles in Adopting AI-Driven Automation**

By Sarah Welch

We're living in the experience economy. And like it or not, the standard is being set by firms that excel at hyper-personalization: Amazon, Starbucks, Netflix, Stitch Fix, Google, Sephora, Facebook are just a few of the everyday brands that we all know. What do they have in common? They each have moved well beyond "personalization" protocols that are built with rules-based segmentation and behavioral triggers. Instead, they use the power of predictive personalization to *anticipate* what their customers need and want, presenting them with tailored and creative options delivered in a channel that makes them more likely to engage.

Amazon's Jeff Bezos credits the company's success to the velocity of its test-and-learn agenda. The more tests that they run — every day, every week, every month — the more growth they unlock. That's a simple enough recipe for a digital-first, direct-to-consumer company.

But it's a lot more complicated for banks that struggle with staggering levels of tech debt, siloed and disorganized data and ossified organizational structures that make cross-functional collaboration and customer-centric agility difficult. For them, achieving a test-and-learn pace that enables predictive personalization may seem out of reach. But waving the white flag simply isn't an option.

This is especially important for banks because the center of gravity for the customer relationship continues to shift to digital channels even as the quality of those relationships has fallen dramatically. Curinos' SalesScape benchmark shows that customers acquired through digital channels bring in 10 times fewer deposits, churn at a much higher rate and buy fewer additional products. If that trajectory continues unabated, a critical component of the business model is at risk.

Like at Amazon, adopting marketing technology with AI at the core is essential to unleash predictive personalization for banks. But what exactly does that mean? The market is awash with narrowly-focused, AI-driven point solutions (optimize text! optimize images!) and broad-sounding AI capabilities from core providers.

Because banking is a regulated industry, financial services marketers must pay even closer attention than typical retailers to the way they reach out to customers. Generic "Marketing AI" technology must be finetuned to operate in financial services, a process that can take many quarters to define and a veritable army of engineers to develop.

Here are five things bank marketers should consider when contemplating a marketing AI platform.

1. **Familiarity with financial services data.** Platforms that are tailored to the world of financial services will have clearly-defined data models that

lighten the lift for overstretched data engineering resources and speed up time to deployment. Even better is a familiarity with core data systems and implementation partners who can pull the necessary data directly.

2. **A robust financial services metrics library.** Algorithms that clean and enrich customer data — in effect generating new and useful attributes that drive differential marketing interaction decisioning — are some of the most important determinants of quality. The extent to which your marketing provider has a robust library of battle-tested metrics for financial services data will dramatically speed up your launch dates — and your race to ROI.
3. **Orientation to relevant customer applications.** Marketing technology that is built for financial services will have out-of-the-box configuration (product definitions, eligibility rules, optimization metrics) so that marketers can be productive immediately without needing to expand their team, agency or consultant rosters.
4. **Optimization against downstream KPIs.** Unlike general retail, the way in which a customer ends up using a financial product has a direct impact on profitability. That's why it's important for marketers in this vertical to be able to move beyond clicks and opens to optimize interactions on the true drivers of business value (primacy scores, trailing deposits, trailing loan utilization).
5. **Strong model guardrails, ability to audit and compliance controls.** Ensuring no bias becomes embedded in AI software is absolutely essential to avoid the possibility that certain groups are unfairly rewarded over others. Your AI marketing engine cannot be a black box. It must be easily configured on the front end to ensure decisioning is never driven by potentially bias-reinforcing data variables (e.g., gender). In addition, the platform should be fully auditable on the back end — with clear visibility into the decision logic behind the delivery of a particular marketing experience.

Today's consumers expect the companies they deal with to be "learning" about them as they move around digital environments, adjusting their product and marketing interactions to better meet their needs on the fly. The hard reality is that financial institutions have a long way to go to make this kind of predictive personalization a reality. Marketing technology holds significant promise, but the market is awash in solutions claiming personalization. Knowing how to evaluate the sea of options and identify the right provider is critical. ■

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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 some of them. Please reach out to the session leaders or *Curinos Review* Editor Robin Sidel if you missed any of these online events and would like to know more about the content that was presented

Curinos Chairman Mark Greene spoke about how financial-services companies can acquire, retain and grow profitable customer relationships on Nasdaq's TradeTalks broadcast on Nov. 22.

Ken Flaherty, senior consumer lending market analyst, discussed the potential resurgence of the home-equity market in a CBA-hosted webinar on Nov. 16.

Sarah Welch, managing director, participated in a 11:F. podcast that explored the potential of big data in financial services.

Rutger van Faassen, head of product and market strategy, spoke about the state of the auto finance market at the annual conference of the National Association of Federally-Insured Credit Unions) on Nov 1.

Suraya Randawa, head of omnichannel experience, discussed mobile roll-outs on a Fintech Futures podcast.

Curninos' Digital Banking Hub hosted an Oct. 28 webinar called "BNPL: Rapid Growth and Impacts on Digital Finance." Speakers included **Curinos' Suraya Randawa,** head of omnichannel experience, and **Chris Ward**, director, as well as Butter co-founder **Timothy Davis** and **Peter Andrew Davey**, senior vice president at The Clearing House.

Directors **Adam Stockton** and **Michael Jiwani** discussed new strategies to measure primacy among retail customers in a Consumer Bankers Association webinar on Oct. 14.

Michael Stinson, head of BankTrends, participated in a Carr, Riggs & Ingram webinar on Oct. 5 that provided an overview and update of the latest CECL guidance.

John Sayre, vice president of client success, joined capital markets expert **Rob Chrisman's** podcast to discuss lender trends.

Director of Real Estate Lending **Richard Martin** discussed home price appreciation, the jumbo securitization market and operational cycle times in a podcast from The Mortgage Collaborative.

Directors **Hank Israel** and **Chris Ward, Rutger van Faassen**, head of product and market strategy and Vice President **Randy Rosen** discussed the role of culture at credit unions in a CUNA podcast.

Felix Moore, managing director, participated in a virtual session at AltFi 's Open Banking Forum called *"More Data, More Problems? Solving The Challenges Of Open Finance And Beyond"* on Oct. 6.

News you may have missed

A snapshot of relevant developments in recent months

September

Citizens Bank of Edmond, a community bank in Oklahoma, said it was partnering with Moven to develop a digital challenger bank. The bank last year teamed up with entrepreneur Mark Cuban to allow customers to overdraft their accounts up to $900 without fees or interest as they awaited federal stimulus checks. ■

Varo Bank, a digital bank that has a national charter, said it raised $510 million of capital in an investment round led by Lone Pine Capital. ■

Digital banking platform MoneyLion said its customers can now buy and sell digital currencies, including Bitcoin and Ethereum. MoneyLion said it will add more cryptocurrencies in the future. ■

QED Investors, a fintech venture capital fund, said it closed a new $1.05 billion fund that will allow it to invest in fintech companies in the U.S., the U.K., Latin America and southeast Asia. QED was co-founded by Nigel Morris, who was also a co-founder of Capital One. ■

The Federal Reserve Bank of New York developed a stress test to assess the resilience of financial institutions to climate-related risks. The Fed said climate change could create systemic risks in the industry, either through disruption in economic activity or changes in policies as the economy transitions to a less carbon-intensive environment. ■

October

The Washington Post reported that the U.S. Post Office has quietly started offering paycheck-cashing services at several post offices on the East Coast. The article was attributed to three people with knowledge of the program. ■

Copper Banking, a digital banking service aimed at teenagers, announced it has raised $13.3 million in funding, led by an arm of Pioneer Square Labs. ■

A new report from London-based RBR found that nearly half of all ATMs around the world now offer automated deposit functionality. ■

Mastercard announced a partnership with Bakkt to help banks offer a set of cryptocurrency solutions and services so that consumers can buy, sell and hold digital assets. ■

Australian fintech OpenPay announced it is launching its buy now, pay later product in the U.S. ■

November

Stretch, a Dallas fintech that aims to provide banking services for people who are newly released from state and federal prison, began courting its first customers. The app also provides job leads at companies that hire people with criminal records. ■

Connecticut-based Patriot National Bank announced plans to merge with fintech American Challenger Development Corp to create what the companies said would be the largest digital challenger bank in the U.S. The fintech had been pursuing a bank charter. ■

Locality Bank said it received FDIC approval to open a state-chartered bank in Fort Lauderdale. Co-founder Keith Costello is the former CEO of First Green Bank in Orlando and Broward Bank of Commerce. ■

German challenger Bank N26 said it will shutter its U.S. operations in January in order to focus on its European operations. The move came one month after U.K. digital bank Monzo withdrew its application for a U.S. banking license. ■

“Buy now, pay later” firm Klarna introduced a “pay now” option in the U.S. The Swedish fintech also said it will soon introduce a physical payment card. ■

Curinos Publication Roundup

Digital Banking Hub Roundup
Updates on Truist, Chase, Wells Fargo, BNPL and other trends. ■

This Month in Retail Banking: Fintech Shake-Up, Rates and Overdraft
2021 may be coming to a close, but This Month in Retail Banking includes eye-opening data on overdraft, lessons from fintechs and the rising probability of a hike in interest rates. ■

This Month in Commercial Banking: Getting Ready
As the new year approaches, banks should prepare for higher rates and put investment dollars to work. ■

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