

Why Digital Banking Matters

by [Steve Brown](#)

H&R Block recently published an infographic showing the worst college majors based on industry unemployment rates. For students, if getting a job after graduating is top priority, it's best to avoid a degree in anthropology, archeology, or film and photographic arts, for example. Further, while there's nothing saying a person who majors in music or history won't get a job, the odds aren't overwhelmingly in their favor either. By contrast, retail salespeople, medical and health service managers, physical therapists, occupational therapists and computer support specialists are in high demand.

College-age students contemplating their employment future will likely find this information useful. Likewise, banks who are still getting their feet wet with mobile banking and all things digital may find helpful the insights we gleaned from recent reports.

At a high-level, many banks are still testing the waters when it comes to mobile banking. Customers, too, are still just dipping their toes into mobile banking, with fewer than 50% of consumers in developing countries and just over 33% of those in developed countries using smartphones or tablets for their banking, according to a recent Bain report. Things are changing quickly though, so we are willing to bet those percentages will be much higher 5 to 10Ys from now.

To date, US banks have mostly concentrated on allowing customers to perform simple transactions through online or mobile channels, thereby reducing branch costs. But to get the most out of their efforts we think banks need to focus on wowing customers with slick, attractive and robust digital offerings. Banks that are successful here are likely to experience a boost in profitability and customer acquisition.

To explain this further, keep in mind that 65% of customers interact with their banks through multiple channels, according to research from McKinsey & Co. What's more, McKinsey says that customers who use mobile and online banking more than 1X a week are over 60% more likely to be active retail branch users than those who do not. That alone provides a strong incentive for banks to focus more attention on digital.

Here's another good reason. Digital Insight analyzed several hundred thousand banking customers across dozens of financial institutions over a 2Y period. The company found that while all of the customers studied maintained an open checking account with their financial institution during this period, the customers who eventually adopted online/mobile banking became more engaged with their bank or credit union. The analysis found some mobile banking adopters moved their accounts from other financial institutions, while others renewed lines of credit or opened a retirement account. Bottom line: The analysis found that highly engaged customers who use multiple digital banking services are 51% more profitable than customers who do not actively utilize online or mobile banking.

A third reason to focus on digital services is to improve loyalty and customer satisfaction. A recent bank customer survey by FICO found 82% of mobile banking app users are satisfied with their bank vs. 71 % of those who do not use a mobile banking app. Meanwhile, 76% of the mobile app users are likely to recommend their bank vs. 67% of the non-users.

There are obviously many reasons for banks to make digital services a priority. Getting educated about these advantages is the first step. The next is to go out there and give it the old college try. Given how fast things are changing, the degree to which you offer online/mobile banking could mean the difference between keeping satisfied customers or losing them to a more tech-savvy competitor.

BANK NEWS

M&A

First Farmers Bank and Trust Co. (\$1.2B, IN) will acquire three separate community banks in Illinois. First Farmers will acquire Community Bank (\$83mm, IL), United Community Bank (\$46mm, IL) and The First National Bank of Chrisman (\$39mm, IL) for undisclosed sums.

M&A

The Seminole Tribe of FL will acquire Mackinac Savings Bank (\$111mm, FL) for an undisclosed sum. Upon acquisition, the bank will be renamed Seminole Bank.

EMV Rollout

Bank of America said it will issue EMV chip technology debit cards to its customers starting next month.

Lending

The SBA said it will continue to not charge fees on 7(a) loans of \$150,000 or less through fiscal year 2015, as they seek to support veteran and small business owners.

Rate Hikes

A study by the San Francisco Fed of the futures markets finds traders and market participants expect the Fed funds rate will climb to 0.55% next year and 1.40% by the end of 2016. Meanwhile, the Fed itself sees rates at 1.38% at the end of 2015 and 2.88% at the end of 2016.

Fined

The SEC has fined Bank of America \$7.7mm for breaking securities laws related to record keeping and internal controls, after the Bank found and corrected a \$4B error in capital calculation related to assets purchased when it acquired Merrill Lynch during the crisis.

Lower Returns

The CEO of Citibank said in a recent speech that new regulations and industry changes since the crisis mean investors in banks should expect to see lower earnings volatility and steadier returns, but at "lower levels than we've seen in history."

Marketing

Seeking to compete more effectively against Google, Facebook announced it is re-launching its Atlas advertising platform. Atlas gives marketers more information on users and increases the effectiveness of advertisements in an increasingly mobile world.

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