Digital Divide Over Checking Account Options

by Steve Brown

People use their digital devices for just about everything these days, from performing mundane tasks to the out-of-the-ordinary. For instance, there's an app that lets you find people nearby to cuddle with and another that allows you to document every place you've made a No. 2 - both are a bit scary! There's still another app that prevents you from dialing select people in your contact list when you've had a few too many drinks.

Despite their proclivities for digital interactions, consumers still haven't wholeheartedly embraced the idea of using their devices for opening checking accounts. Indeed, only 23% of new checking accounts are opened digitally, according to a recent report by Aite Group. For the time being, it seems most consumers prefer to open up new checking accounts in a branch, with human interaction.

Some of this has to do with the fact that digital account opening is still somewhat new and customers remain mired in their old ways of doing business. According to an August research report by Novantas, only 35% of customers polled prefer opening a digital account, while 45% prefer to open an account in person at the branch.

There's an even more practical reason why digital account opening hasn't taken off yet. Many banks still don't allow customers to fully open up accounts using their devices, though it's an area more are starting to explore further.

Given increased reliance on digital devices, we would expect, over time, to see more customers shift their preference to opening accounts online. This is particularly true as it becomes a more acceptable way of doing business and customers feel more confident their personal information will be safe.

When thinking about how to optimize an account opening strategy, banks need to ask themselves how they want customers to interact with them and the implications of these decisions. For instance, banks that allow customers to open up accounts digitally may find they need to consolidate or close more branches. Banks may also need to establish a call center or ramp up existing staff to be able to accommodate questions related to digital account openings.

Banks should consider whether the customer will use the same account opening system when trying to open an account online, on their mobile phone or in a branch. Banks also have to be prepared for instances when a customer starts the process on the phone and then walks into a branch to complete the application. Will the customer have to restart the entire process (not good), or can they simply pick up with a representative where they left off (ideal)?

Even if a bank feels customers aren't ready to make the leap to open up accounts using a digital device, don't underestimate the importance people are starting to place on getting information this way. Consider data from Novantas that shows 79% of customers polled prefer digital channels to get information such as balances, while only 7% say they want to go to a bank branch. If you're not at least providing information in the way customers want to get it, you're effectively chasing them out the door.

In a world where people turn to an app to tell them the most opportune moment to take a bathroom break during a movie, it's only a matter of time before digital checking account opening becomes commonplace. For banks that aren't quite there yet, we are on the digital precipice so at least start thinking about it.

BANK NEWS

M&A Activity

1) Horizon Bank ($2.6B, IN) will acquire Farmers State Bank ($148mm, IN) for about $22.5mm in cash and stock. 2) Commercial Bank ($839mm, TN) will acquire the bankrupt holding company of National Bank of Tennessee for $5.1mm.

Branch Activity

TCF National Bank ($20.7B, SD) will close 33 branches inside Jewel-Osco stores in and around Chicago and replace those offices with enhanced ATMs.

Not Interested

A study by the SBA finds less than 2.0% of millennials are self-employed vs. 7.6% of Gen X and 8.3% of Boomers. This is also supported by a study by the Kauffman Foundation who found only 2.8% of those age 20-34Ys who own a business vs. 4.4% who did so for the same age group in 1996 - about 57% less.

Growth

An ICBA survey of community bankers finds: 93% see organic loan origination as the most likely way they expect to grow over the next 3Ys, 23% expect a traditional merger or acquisition, 17% plan a de novo branch, 17% plan to add a new service or line of business, 14% expect to participate in or buy loan pools and 5% indicated something else (such as government guaranteed loans, building or developing a more focused marketing plan, wealth management and trust services, and insurance or brokerage services).

Wealth Management

Some banks are beginning to second guess acquisitions in the wealth management area, given much faster and larger growth in automated investing platforms (robo-advisors). Aite Group predicts assets in automated portfolios jumped 210% in 2015 to $50B.

Happiness

Research by Harvard Business Review finds people report that they make more progress at work when they are in a good mood (76%).

Not Great

Europe continues to struggle following the recession and just reduced its GDP projection for this year to 1.7% vs. 1.8% just 3 months prior.

Mobile Banking

Research by Bain finds mobile transaction costs at US banks are 99% less than a branch visit. High adoption rates and such low costs are key reasons Bank of America, Citigroup and JPMorgan have reduced their branch footprint by a combined 10% over the past 3Ys. In addition, Bain found customers that use their bank's smartphone app frequently are 40% less likely to switch than those who do so only rarely.