



## What's Driving the Rise of Digital-Only Spinoffs?

digital banking competition

**Summary:** Digital-only spinoffs are becoming an increasingly popular way for CFIs to test new products and technologies, expand their reach, and target new demographics. We review the pros and cons of digital-only offshoots, and look at examples of CFIs currently experimenting with this new model.

"Happy Days" was one of the most popular TV shows of the 1970s, running for 11 seasons. The show was so successful that it spurred an additional five sitcoms based on it: "Laverne and Shirley," "Mork & Mindy," "Blansky's Beauties," "Out of the Blue," and "Joanie Loves Chachi." Though the offspring of "Happy Days" had varied success, they did not go without notice, and the practice became somewhat commonplace within the TV industry. When "Cheers" finally called it quits after eleven seasons, Kelsey Grammer's character, Frasier Crane, was so popular that NBC built a spinoff around him. "Frasier" launched just four months later, and went on to run for another 11Ys.

As the longevity of "Frasier" demonstrates, a spinoff can sometimes be more popular than its origin. Realizing that reality isn't limited to TV shows, many financial institutions have begun launching independent, digital-only counterparts for their operations to attract new business, particularly among younger demographics.

### Alternate Egos

In the years since online banking first came onto the scene in the mid-1990s, brick-and-mortar branches have seen traffic diminish as more people have embraced the convenience of digital bank offerings — a shift that picked up speed when mobile banking became commonplace.

As the number of fintechs and non-traditional financial institutions chasing the business of community financial institution (CFI) customers has exploded in recent years, traditional financial institutions have responded with digital-only brands to remain competitive. Digital-only spinoffs enable CFIs to expand their footprint beyond their geographic limitations at a dramatically lower cost, since there is no need to pay for retail space and they can operate with much smaller groups of staff. Digital-only brands also provide an opportunity to target niche banking areas and specific demographic groups by providing products and services tailored to specific groups of people.

### A New Kind of Banking

Texas National Bank [recently launched Bankers Lender](#), a digital-only offshoot targeting people who work for financial institutions and don't want their employers or colleagues to be privy to their personal financial information. Since this target demographic typically has strong credit profiles — meaning less risk of default — Bankers Lender offers more attractive interest rates than other online lenders.

Another Texas bank seeking to expand its business and geographical footprint through a digital-only offshoot is Texas Capital Bancshares. Their digital brand, Bask Bank, targets active travelers with high-yield savings accounts and awards that include one frequent-flier mile for every dollar a customer saves each year. Hawaii-based Central Pacific Financial Corp.'s digital offshoot, Swell, targets people focused on reducing their debt by providing customers the ability to transfer money in real time between their lines of credit and cash.

Massachusetts-based Cambridge Savings’ digital offshoot, Ivy Bank, uses higher yields on savings accounts and certificates of deposit, combined with money management tools that visually represent a customer’s spending and overall financial situation, to attract customers.

Not all digital offshoots are created in-house, either. One Tennessee-based institution inherited an independent digital bank through an acquisition in 2019.

The Benefits

Beyond expanding financial institutions’ geographic reach, digital-only offshoots are a good way for organizations to familiarize themselves with and test out new technology capabilities or product offerings. Digital-only offshoots can prioritize speed and do not have to deal with the headache of integrating services with dated legacy platforms, core technologies, and processes, along with existing third-party alliances.

Because of this, digital brands provide a way to try out new services and leverage new technologies, without affecting the financial institution’s brand if an offering falls short or proves unpopular. On the other hand, successes can ultimately be added to the home bank’s slate of products and services.

The lower cost of operating digital-only banks enables organizations to devote substantially more money to technological expertise than they would otherwise be able to. In the case of Cambridge Savings, the financial institution has already added money management tools that proved popular among Ivy Bank customers into its own offerings.

Digital-only brands provide a way to expand beyond geographic limitations, identify new potential customer groups, and try out new products and technologies outside their institutions before offering them to existing customers. But given some of the challenges that creating a digital-only offshoot can involve, CFIs should be sure that their boards and top executives are on board before heading down this road.

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ECONOMY & RATES

Rates As Of: 07/05/2023 11:12AM (GMT-0700)			
Treasury	Yields	MTD Chg	YTD Chg
3M	5.44	0.01	1.02
6M	5.53	0.06	0.77
1Y	5.38	-0.01	0.68
2Y	4.93	0.03	0.50
5Y	4.24	0.08	0.24
10Y	3.93	0.10	0.06
30Y	3.94	0.08	-0.02
FF Market	FF Disc	IORR	
5.08	5.25	5.15	

<b>SOFR</b>	<b>Prime</b>	<b>OBFR</b>
5.06	8.25	5.07

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