THE DIGITAL DYNAMIC: COMMUNITY BANKING IN THE MODERN AGE

ACQUIRING NEW CUSTOMERS THROUGH DIGITAL CHANNELS – THE HOLY GRAIL OR JUST ANOTHER CHANNEL?

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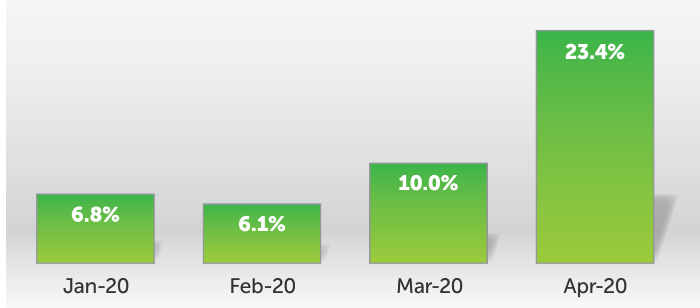
Going back a couple of years prior to the pandemic, "digital" was the latest catchword in banking. Accelerated by the pandemic and beginning in March 2020, there has not been a single day where we haven't had the opportunity to read even more about the digitization of the industry.

From *American Banker* to *The Financial Brand,* our industry publications are flush with articles that include the word "digital." In each case, the articles address topics such as the fintech threat, alleged changes in consumer banking behaviors or the lure of large financial institutions. If you read further, some even argue that community banking as we know it is headed for extinction as digital channels continue to change how consumers interact with their primary financial institutions (PFIs).

Few address the true and sustainable role that community financial institutions play in our country and communities. Community banking is a different business model than large national banks or fintech companies. At Haberfeld, our business is the business of keeping community financial institutions thriving, not just surviving. We use data to make informed decisions regarding the reality of growing a community financial institution in the digital age.

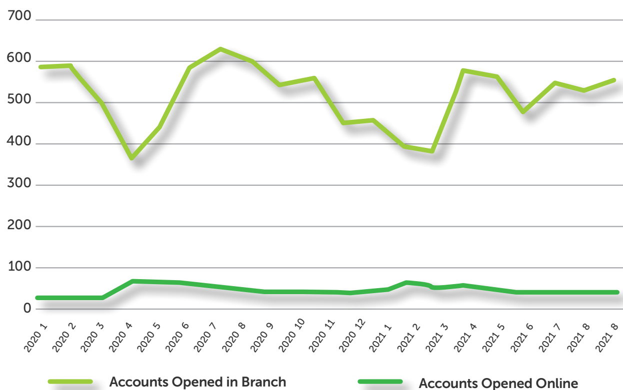
Realistically, we cannot ignore the significant impact digital channels have had on banking. Consumer-friendly and technologically sound digital tools are crucial to providing the customer experience desired by consumers and businesses. Based on community bank data, over 70% of customers use their debit cards, over 60% use online banking, and almost half use mobile banking. In today's environment, it would be difficult to imagine a relationship with your PFI without access to these tools.

That being said, the high adoption rate of digital channels can often mislead bankers into thinking digital channels are the key to earning ***NEW*** PFI customer relationships. But is that actually true? Early in the pandemic, the data showed that the percentage of new PFI relationships earned through digital channels, specifically at community-based financial institutions, dramatically increased.



Based on the previous data, many industry publications concluded that the percentage of new PFI relationships established online tripling from just over 6% early in 2020 to over 23% in April 2020 was a sign that the pandemic dramatically accelerated the trend to digital channels. Furthermore, the assertion was this trend would continue as it relates to growing new PFI relationships.

While online openings did in fact increase, in reality, the percentage of openings utilizing digital channels spiked for two reasons: 1) many financial institutions shuttered their lobbies or significantly restricted access, and 2) in the absence of person-to-person opening options, financial institution employees actively directed consumers to online channels when available. The result – significantly fewer checking accounts were opened through branch channels for a period of time.



Based on the data, online openings peaked at 23% in April 2020; however, by the third quarter of 2021, they had normalized to just under 10% of all new accounts opened, slightly above the pre-pandemic levels of 6%. **The takeaway: *90% of new relationships at community-based financial institutions are still established through branch channels.***

Taking this a step further, it is imperative to understand the difference between relationships established online versus those earned through branch channels. Financial institutions that desire to grow need to 1) consistently increase the number of customers they serve and 2) make sure those new relationships are profitable. The new relationships established have to become PFI relationships. To determine how online versus in-branch originated relationships compare when it comes to profitability, we studied key metrics for accounts opened online versus those opened at the branches during the same period of time.

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Profitability Metric	Online vs. In-Branch
Average balance	63% lower
Overdraft Income	12% higher
Debit Card Usage	10% higher
Cross-sell Deposits	60% lower
Cross-sell Loans	48% lower
Retention	24% lower
Average Age	39 vs. 42

Based on this data, what conclusions can we draw?

1. Customers who establish relationships online tend to be slightly more transactional.
2. However, they also have much lower balances.
3. Their attrition is significantly higher.

Given these findings, as well as the fact that 90% of consumers still prefer to establish their ***NEW*** relationships through branch channels, online openings are neither the holy grail nor the end to community banking as we know it. Our data suggests it is another valuable channel for community financial institutions. Admittedly, this may be different for digital-only financial institutions, fintechs or megabanks – many of whom strive to compete on rate, size or technology.

As community-based financial institutions, we have to win on the playing field where we are the best, executing on the value created by genuine service and personal relationships. Given that reality, the key to earning and retaining new relationships rests with our people. As leaders, we must support them with the right tools and equip them with the skills to win – in a branch as well as online.

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