WHITE PAPER

Platform Profitability:

Boosting Efficiency – and Your Bottom Line – with the Right Digital Banking Platform

Today, financial institutions (FIs) face an unprecedented number of market and regulatory pressures, while a growing number of non-traditional financial services providers compete with FIs for consumers' wallets. Add to this mix continually narrowing margins and the drain of cost-center services – it's a lot for any FI to handle.

Q2

Commoditization, Increasing Expectations, and the Search for Profit

In the current competitive marketplace, basic financial services like checking accounts have become commoditized. FIs race to offer the lowest prices – cutting operating costs to a bare minimum to compensate. But this trains consumers to price-shop and erodes loyalty. In addition, consumer expectations for service are continually being shaped by retail giants like Starbucks, Amazon, and Apple – where consumer experience reigns. The current environment isn't just at-odds with profitability, it feels downright threatening.

FI executives recognize the need to remain relevant and competitive. They're looking for technology to move transactions out of costly branches and call centers, while meeting consumer expectations for 24/7 self-service. Case in point: 85 percent of banks surveyed by Ernst & Young report digital transformation as a business priority in 2018[1] (see Fig.1).

While significant changes in technology can be costly and time intensive, they can be worth the investment. Because many U.S. FIs and core providers have been formed through a series of mergers and acquisitions in their respective markets, current product offerings and channel delivery systems have been patched together through a series of legacy systems and processes – stacking operating costs along the way. Many FIs have postponed the daunting and expensive work of integrating and optimizing their various platforms, but those willing to make this investment will be uniquely positioned to attract and retain key consumer segments – as well as reduce costs and boost profitability through increased efficiency.

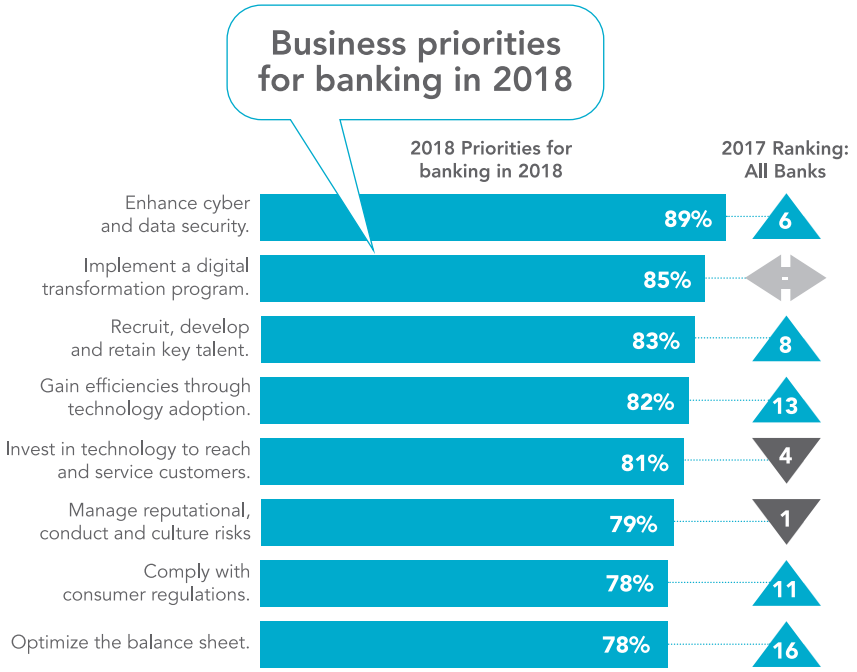


Fig. 1

To compete now and into the future, FIs will need to invest in technology that:

- facilitates a consumer-centric approach to banking (rather than focusing on products and siloed channels)
- creates a seamless experience for all users
- offers integrated sales and service across consumers' preferred channels
- leverages data analytics to tailor product and service offerings to fit consumer needs and circumstances.

Evolving Branches, Online and Off

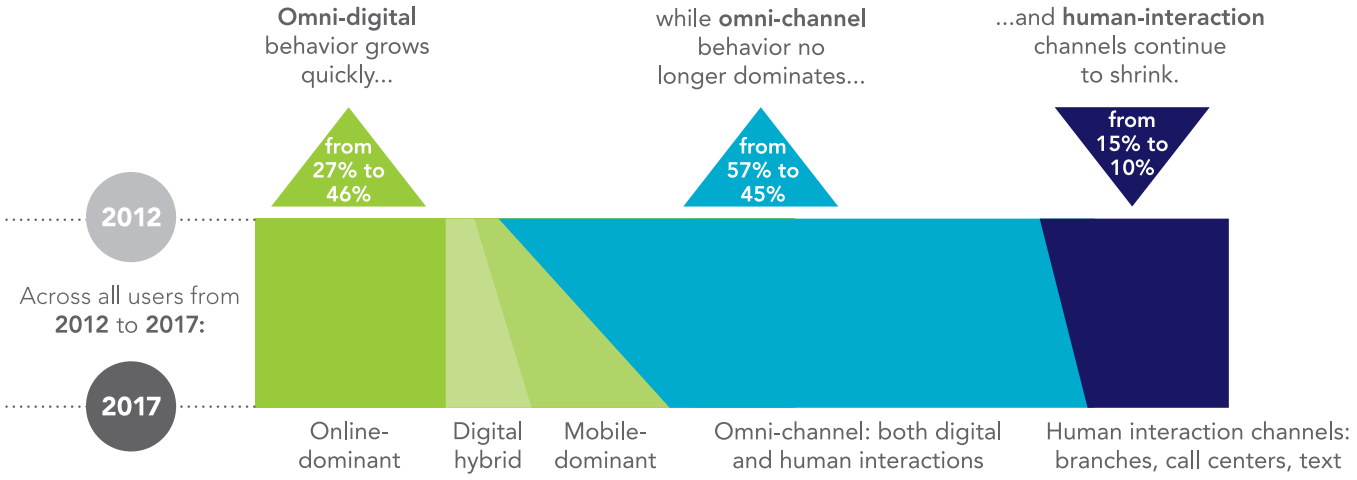
We know the role of the traditional brick-and-mortar FI is declining – or at least evolving – relative to the future of banking. According to research from PwC, 46 percent of consumers now interact with their FI exclusively in digital form, never using the branch or call center – up from just 27 percent in 2012[2] (see Fig. 2).

FIs need to rethink the branch's role to justify associated operating costs, as well as optimize ROI by using it to drive consumer loyalty and cross-sell. According to PwC, branch transactions cost banks $4.00 each, on average, whereas online and mobile banking transactions cost on-average $0.09 and $0.19 each, respectively. The implications to the bottom line are obvious – FIs will need to move more transactions from the branch to digital channels and then transform branches into centers for education and elevated engagement. In-branch interactions will change to include more digitally facilitated, one-on-one interactions – from physical kiosks to assisted transactions conducted via tablets – there will be a greater need than ever to ensure customer presentment is consistent between digital and physical channels.

Consumer acceptance of, and reliance on, self-service technology has necessitated significant investments from FIs in digital banking solutions (including related digital security enhancements). Though viewed by IT departments as an expense to manage – albeit a necessary one – the right digital banking technology can actually help boost your bottom line by differentiating your FI from the competition, increasing efficiency, and improving retention and cross-sell.

Fig. 2

The rise of the **omni-digital banking** consumer



Cost Savings Through Better Experiences

The right digital banking platform – a comprehensive system designed to provide a single, seamless experience for account holders and a single point of integration and management – can also be leveraged to streamline operations to improve efficiency and lower operating costs.

The patchwork of legacy banking systems still in use means many FIs are tethered to expensive and inefficient paper-based processes. Lack of time, more pressing strategic priorities, delivery system gaps, and integration challenges are several reasons FIs have been reticent to revamp back-office processes. But the benefits of new technology may easily outweigh these obstacles.

Boosting e-statement adoption, for example, can have a huge impact to the bottom line – and is made easy with a digital banking platform that delivers a seamless cross-channel experience. Consumers can be targeted and

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incentivized to opt for e-statements whenever and wherever they choose to bank, making it easy for them to enroll and access statements and other real-time information at their convenience. According to High Cotton, it costs financial services firms $9 per customer for mailed bills and statements – and "banks can realize annual savings of nearly $100,000 by switching 10,000 existing customer accounts from paper to electronic statements."[3]

Differentiation, Experience, and Attrition

Low prices, a larger field of competitors, undifferentiated offerings, and poor customer experience are rapidly eroding customer loyalty. The impact of attrition on the bottom line cannot be underestimated. And, because new customers can be highly receptive to cross-sell during their first year, losing customers during this crucial time can have a compound effect on profitability.

Banking professionals already know it costs more to acquire new customers than to nurture existing ones, but few are sure exactly how to slow customer churn. Customer Think estimates customer acquisition costs on-average approximately $200, with that same customer only generating $150 of revenue their first year.[4] With as many as 40 percent of new customers leaving within the first year, you can quickly see how acquisition costs skyrocket for FIs not focused on retention.

Differentiation through experience is a powerful way to boost retention, but a tangled web of legacy and bolted-on solutions isn't going to succeed. However, a modern, agile digital banking platform can make all the difference in meeting – and exceeding – expectations for an elegant experience that often creates long-term loyalty.

Something as simple as being able to begin the new account opening process online and then being able to finish on another platform – whether digital or in-branch – can be a game-changer in differentiating you from competing providers. Many FIs tout the ability to access products and services from any device, but few can deliver a consistent experience between all channels and from device to device. According to a survey by Accenture, only 27 percent of consumers described their experience between the branch, online, and mobile channels as seamless, meaning there is an abundance of opportunity for FIs who can execute a consistent omni-channel experience.[5]

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Consistency of experience, however, is just part of the equation. If the digital banking platform doesn't deliver a feature-rich experience, enrollment will remain low. The addition of value-added features, like personal financial management (PFM), not only strengthen the digital banking solution, they can be used to create additional value for consumers – and make them stickier. For example, even though PFM software has been prevalent for nearly a decade, lack of integration between the PFM tool and online banking has led to poor user experience and adoption. Instead, a contextual solution that provides consumers access to relevant self-service financial management tools, in an environment they already know and use, can help the FI transcend the confines of their current banking relationship. It can deliver a one-stop-shop for managing finances and overall financial well-being – as well as increase the volume of interactions and opportunities for cross-sell.

Improving Cross-sell and Achieving PFI Status

Achieving primary financial institution (PFI) status is essential to consumer retention – as are successful cross-sell campaigns. Because consumers can be especially receptive to new product offers during the first year of their banking relationship, FIs have a relatively short period of time to increase stickiness by cross-selling more and varied products and services. During this crucial honeymoon period – and throughout the life of the relationship – it is critical for FIs to be able to deliver targeted, relevant offers at the right time through the consumer's preferred channels. While it may sound easy enough, without the ability to gather and analyze real-time behavioral data, it's impossible to anticipate consumer needs and make relevant product offers.

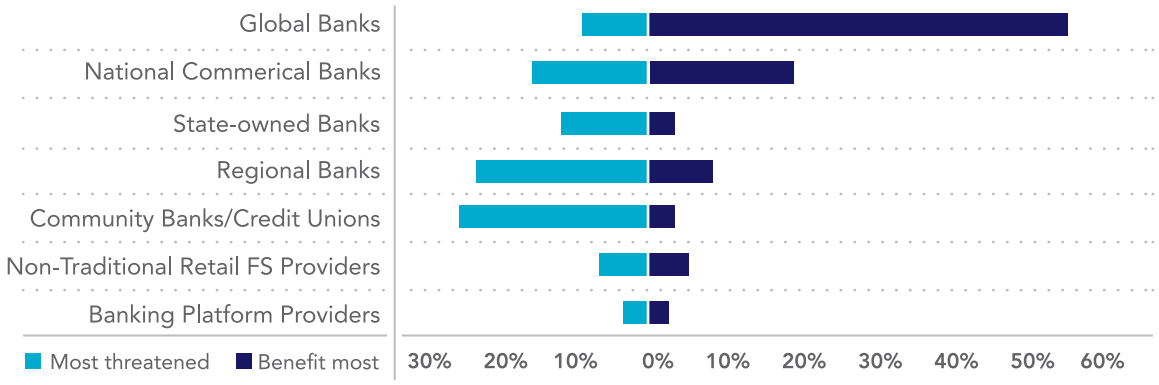
Here again, a digital banking platform can provide the integrated experience and analytics needed to deliver an elegant, needs-based approach to cross-sell. And research shows that digitally-engaged consumers also maintain a greater number of products with their PFI. Consumers rated as – "highly digitally-engaged" maintain on-average 4.4 accounts and "digitally-engaged" maintain 3.8 accounts versus "digitally-unengaged" consumers with 2.7 accounts.[6]

Those increased consumer expectations also drive cross-sell expectations – it's no longer good enough to bombard consumers with generic promotions. They expect their FI to anticipate their unique needs. A digital banking platform with integrated targeting and messaging can make the volumes of behavioral information captured every day actionable. It can help FIs leverage customer insights to uncover real needs on an individual basis and engage account holders unlike any other system deployed in the bank or credit union.

According to PwC (see Fig. 3), mastery of data analytics can pose either a great threat or great opportunity, with banks standing to gain significant advantage based on their ability to allocate the necessary financial resources to advanced analytics. Smaller FIs, in many cases, will need to partner with third parties to compete.[7]

Fig. 3

Advanced analytics – who will benefit, who will be most threathened



But, setting product sales objectives and targeting strategies is not enough. FIs also need the flexibility to design products and services that are relevant to the markets they want to serve. Open technology can grant them that flexibility. By utilizing open APIs (application programming interfaces), any development-capable organization can easily, quickly, and inexpensively customize their digital platform or create new products or applications. This gives FIs the ability to develop products tailor-made for their target markets.

Combining open banking technology with a customizable and extensible platform allows FIs the freedom to design, develop, test, and deploy new digital products – regardless of their core providers' responsiveness.

Seamless digital banking and customized product development capabilities provide the foundation that FIs need to break free from the confines of the local marketplace into wider markets.

The Bottom Line

Growing consumer expectations and market dynamics – not to mention regulation – are all converging to chip away at profitability. The banking industry is at a tipping point—shrinking margins mean simple deposit and loan volume is no longer sufficient to support growth and profitability. For FIs to survive and thrive, they must employ new thinking and the latest technology (supported by strategic partnerships) to satisfy savvy consumers while maximizing efficiency.

Change brings about challenges – but also opportunities. While the current financial services landscape is competitive, the evolving technology and trends that are driving competition and narrowing margins can work in the favor of forward-thinking FIs. With the right strategy and technology, the sky is the limit for FIs ready to embrace change.

The right digital banking platform checks all the boxes for an FI seeking to:

- Lead the way with innovative product design
- Provide an elegant experience that drives consumer loyalty
- Achieve maximum efficiency

About Q2

Headquartered in Austin, Texas, Q2 Holdings, Inc. (Q2) is a leading provider of secure, cloud-based digital banking solutions. Driven by a mission to strengthen communities by strengthening the financial institutions that serve them, Q2 delivers compelling, consistent, and mobile-ready user experiences that boost account holder retention and create opportunities for engagement. Q2's culture of partnership reflects a commitment to asking questions and listening to our customers, and then delivering the results they want.

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