7 TIPS TO LEAD THE

DIGITAL BANKING REVOLUTION

7 Tips to Lead the Digital Banking Revolution

Overview

You've seen the evidence. Fewer people visit your branches each year, while the demand for digital banking intensifies. You recognize that a digital revolution is at hand. But do you have a plan to stay relevant, beat your competitors, and expand your market share? This white paper outlines the seven steps that will help you lead the digital revolution.

1. Understand the urgency
2. Target your most profitable users first
3. Cater to the needs of millennials
4. Build an omnichannel experience
5. Show users all their finances in one place
6. Provide financial guidance
7. Leverage the power of big data

Let's look at the first step.

No. 1

Understand why the shift to digital is so urgent.

Digital technology changes markets fast.

Take the book industry, for example. In just one decade, Amazon knocked out Borders.

Or look at the movie rental industry. Consumers switched from Blockbuster to Netflix in a few short years.

Something similar is happening in the financial industry. The author Brett King predicts that "In the next 10 years, we'll see more disruption and changes to the banking and financial industry than we've seen in the preceding 100 years."

King is right. Enormous changes are ahead.

The biggest banks understand this. That's why they've poured so many resources into digital technology. Bank of America, for instance, now has a tech staff of 124,000 employees and contractors, which equates to more than half of their total 238,560 full-time employees.

Because of their drive to offer digital solutions, Bank of America was the first to launch mobile banking on the iPhone. Soon after its launch, more than six million people downloaded the app, and a quarter of a million people joined Bank of America just to get a chance to use it. Two years after the app was launched, Bank of America had more people switching to it than any other financial institution in the US.

Clearly, investing in technology has benefited Bank of America. They understand how urgent the problem is, and they've acted on it.

But there are competitors that may eventually eat even more market share than Bank of America does. After all, Wal-Mart has moved into the payments arena, and Amazon and Google both already offer digital wallets. What happens when one of these companies acquires a technology like Lending Club and starts offering small loans nationwide? At that point, banking will look like a completely new industry. As BBVA chairman and CEO Francisco Gonzalez says,

> "Some bankers and analysts think that Google, Facebook, Amazon or the like will not fully enter a highly regulated, low-margin business such as banking. I disagree. What is more, I think banks that are not prepared for such new competitors face certain death."
>
> - Francisco Gonzalez
> Chairman & CEO - **BBVA**

It's clear that if financial institutions don't innovate alongside their current and future competitors, they risk going bankrupt like Borders and Blockbuster. Keep in mind that only one generation needs to make the switch to digital banking, and the traditional model will be irrelevant.

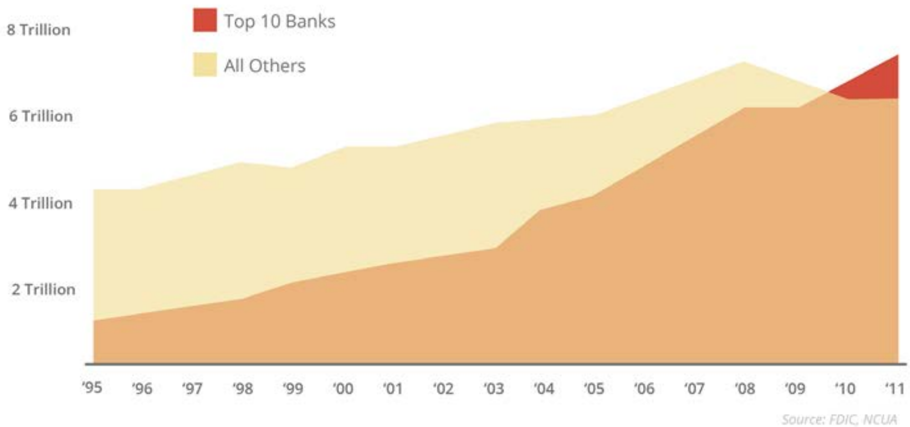
And that's why the shift to digital banking is so urgent.

AT A GLANCE

Technology consolidates industries.

A Shift in the Financial Industry

10 banks now have more assets than all other lenders combined



"Is technology a supporting element of banking, or is it what we sell?"

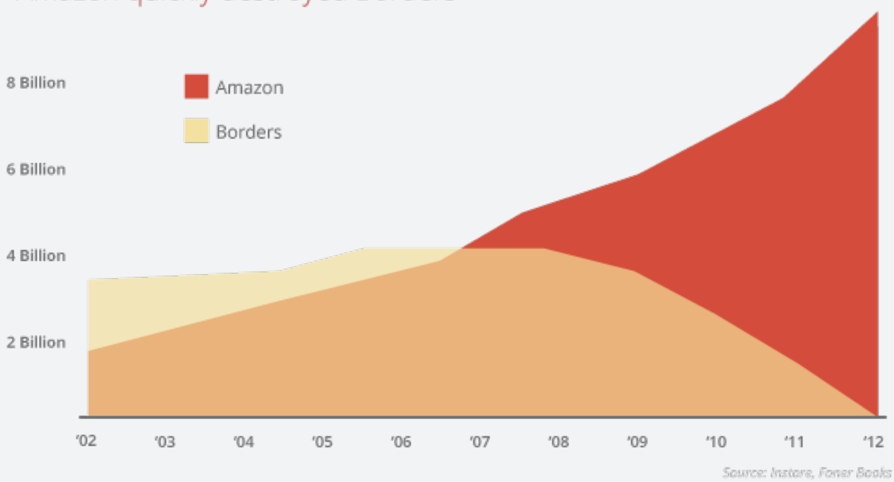
- Catherine Bessant,
GTO
Bank of America

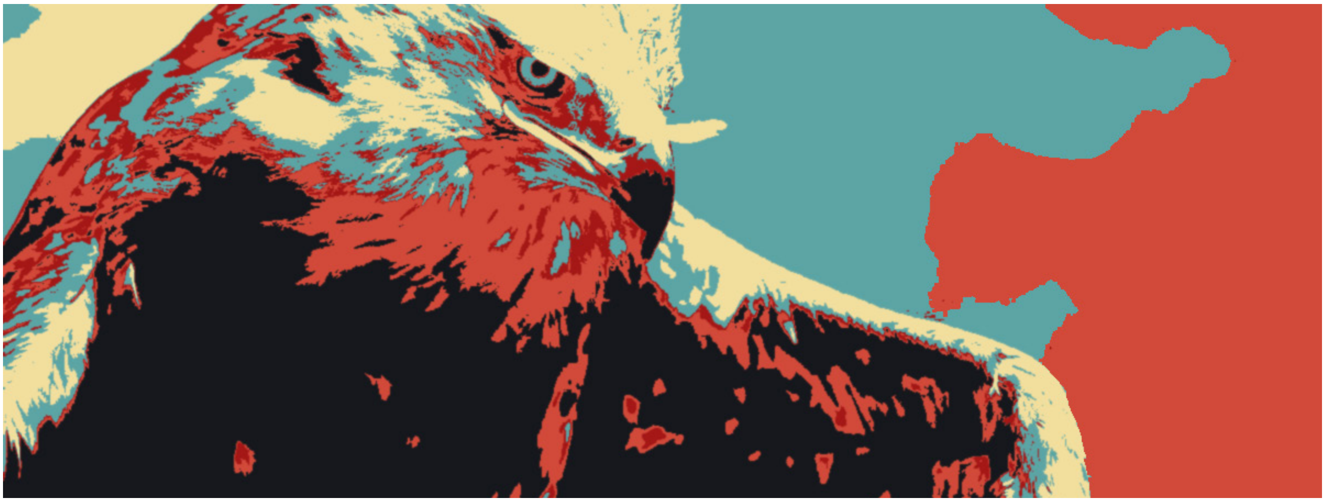
A Shift in the Book Industry

Amazon quickly destroyed Borders

"Borders isn't just a victim of a challenging economy. The company … clung to an outdated strategy way too long and reacted slowly as more nimble competitors took its business away."

- Rick Newman
Market Analyst
US News





No. 2

Appeal to your most profitable account holders first.

Do you know who your most profitable account holders are?

Javelin Strategy & Research has figured it out for you. They've discovered that your most profitable account holders are the same ones who are most active on digital banking. Javelin has even given this group of digital pioneers a sexy name:

Moneyhawks

Moneyhawks can make or break your financial institution's digital strategy. Mark Schwanhausser, director of omnichannel services at Javelin, says that Moneyhawks are "the most profitable customers that we see and study. … They're the hungriest for new technology, and they're also the first ones to say, 'if it's not good enough at my bank, I'll go look elsewhere.'"

Because Moneyhawks are the most profitable of all your account holders, they deserve the most attention. You can't afford to ignore them. This is especially true because according to Fiserv "only 1-2 percent of a bank's customers usually account for almost all its profitability." Moneyhawks lead that 1-2 percent, while most of your other account holders aren't profitable at all and some even cost you money.

In other words, what matters most isn't attracting a large number of total account holders. What matters most is finding and retaining profitable account holders — like Moneyhawks.

So what do Moneyhawks want?

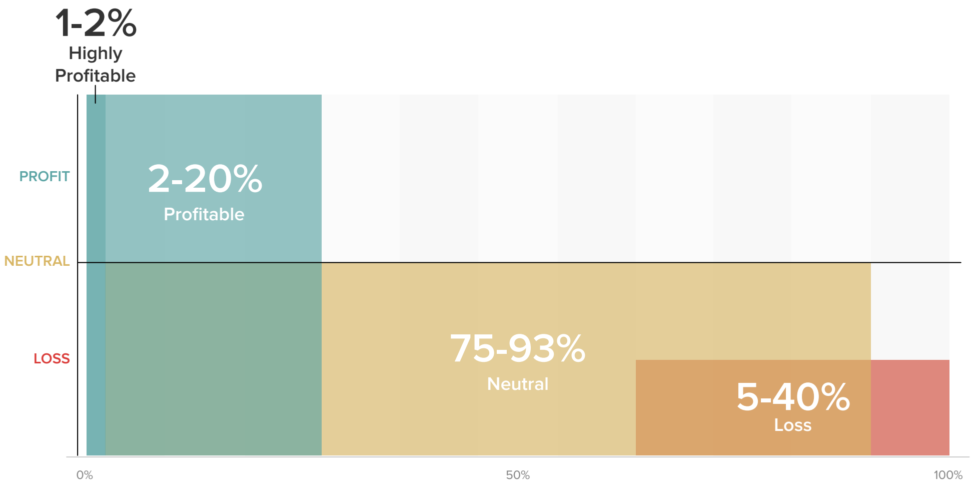
To return to Javelin's Mark Schwanhausser, Moneyhawks are the "hungriest for new technology." They're not primarily concerned about great customer service, friendly tellers, or whether you're locally owned (though all those things are nice). Instead, they're primarily concerned about simplifying their lives through the use of digital banking technology.

That's why Moneyhawks are so profitable. These aren't account holders who have a few hundred bucks in a checking account, draining your institution with maintenance costs month after month. These are account holders who use technology to get their financial life in order, originate high-quality loans, and make you money.

If you're going to lead the digital revolution, you want to appeal to Moneyhawks first.

AT A GLANCE

Moneyhawks



Sources: Fiserv, Benchmark, AxiomEPM, Database Marketing institute

Average Profitability Segments

We pulled the profitability breakdowns from four different studies and combined them into a single graph.

> "We are seeing a lot of customers starting to use mobile as their primary channel, and I think we'll see that trend increasing for the first time…
>
> **Mobile customers are more engaged and tend to stay longer."**

- Ravi Acharya
SVP of Digital Services,
JP Morgan

No. 3
Keep Millennials in mind.

In addition to Moneyhawks, there's one other group that's crucial to keep in mind when leading the digital revolution:

Millennials

The overlap between millennials and Moneyhawks is currently tremendous, and it will only continue to grow as time goes on. Millennials represent your future market share, and by all accounts they have mixed feelings about banks. (It's safe to say they're uneasy about credit unions too since nearly 75 percent of them don't know the difference between the two kinds of financial institutions.)

A three-year study on millennials from Viacom shows exactly how millennials feel about banks. For starters, millennials want third party innovators like Google and Amazon to lead the industry. In addition, millennials admit that they'd rather visit the dentist before listening to what their banks have to say, and they list all four of the biggest banks in their ten least loved brands.

However, it's not accurate to just say that millennials hate big banks and leave it at that. After all, when it comes to where millennials actually put their money, big banks dominate.

It turns out that millennials are actually the most likely demographic to choose a big bank for financial services — more likely than Gen X or Boomers. In addition, millennials are the group least likely to join a credit union.

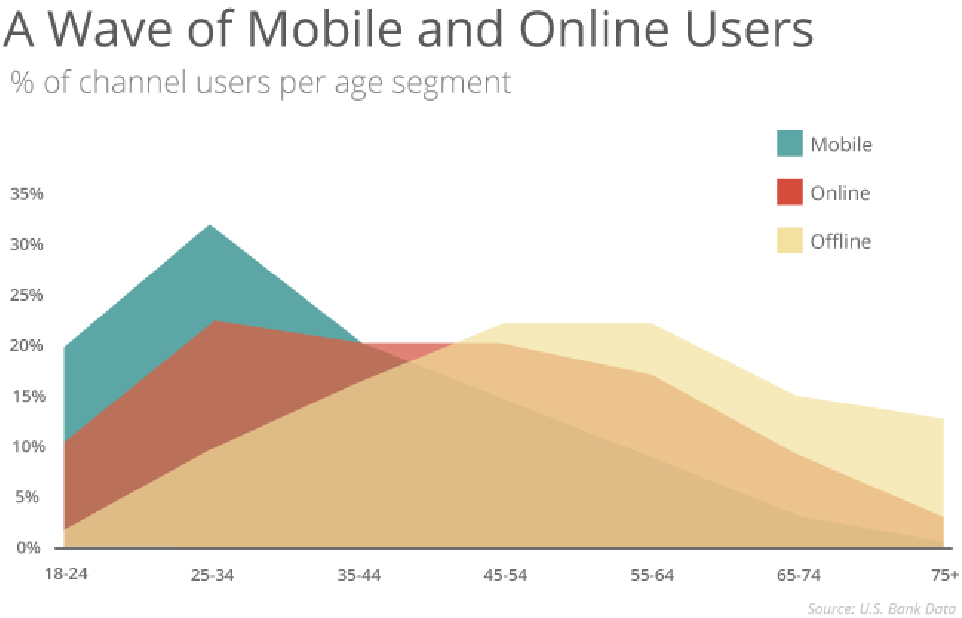
Those statistics might initially seem perplexing. How could millennials list the four biggest banks among their most-hated brands and still be the most likely to choose these banks for their financial needs?

The truth is that for millennials, **convenience trumps everything**. And nothing is more convenient than a bank that fits in their pocket.

That's why with the rise of the millennials, the financial industry will never be the same again.

AT A GLANCE

Millennials



"Consulting firm Accenture thinks full-service banks could lose 35% of their marketshare by 2020 and millennials will be leading the revolution. Meet their needs and you'll be well positioned to survive."

- Kevin Tynan
SVP Marketing
Liberty Bank for Savings

Key stats on how much millennials value financial technology from the Accenture report **"The Digital Disruption in Banking":**

72%
of millennials would be likely to bank with non-financial services companies with which they do business [like Google or Amazon], compared to 27% for those over 55.

39%
would consider using a branchless experience, compared to 16% of those over 55.

67%
are interested in their bank providing tools and services which help them create and monitor a budget, compared to 31% for those over 55.

No. 4

Create an omnichannel digital banking experience.

If you're like most financial institutions, you know that mobile development is a complicated and resource-intensive process.

It's like you're fighting the multi-headed beast from ancient mythology. The moment you figure out one mobile solution — HTML5, iOS, Android — another one pops up. You cut off one head, and two more grow back. And with Amazon and Windows pushing new mobile strategies, the problem isn't going away anytime soon.

It's a problem that surfaces because each platform requires a different code base. Android has different requirements from Windows, which has different requirements from Amazon, which has different requirements from iOS, etc. In addition, each platform has numerous code considerations for the different devices and available screen sizes.

Fighting this multi-headed beast is exhausting.

You know your users want a seamless, omnichannel banking experience, but it's nearly impossible to devote the resources you need to provide it for them.

As a result, there's talk in the industry about leveraging HTML5 to fix this problem. HTML5 does allow institutions to use a single code base, but for financial apps, HTML5 doesn't cut it. Ultimately, financial apps are so complex that they need to go through the official app channels to be successful. That is, financial apps need to be native to each device.

To illustrate, when compared to native apps, HTML5 is:

- Slower
- Less stable
- Inconsistent
- Not device-optimized
- Limited in offline capabilities
- Unable to show up in app stores

In short, it's not what users are looking for.

What you need is a solution that can pull from a single code base, making the transition from platform to platform and from mobile to desktop absolutely seamless. And you need that solution to be a native app, rather than HTML5.

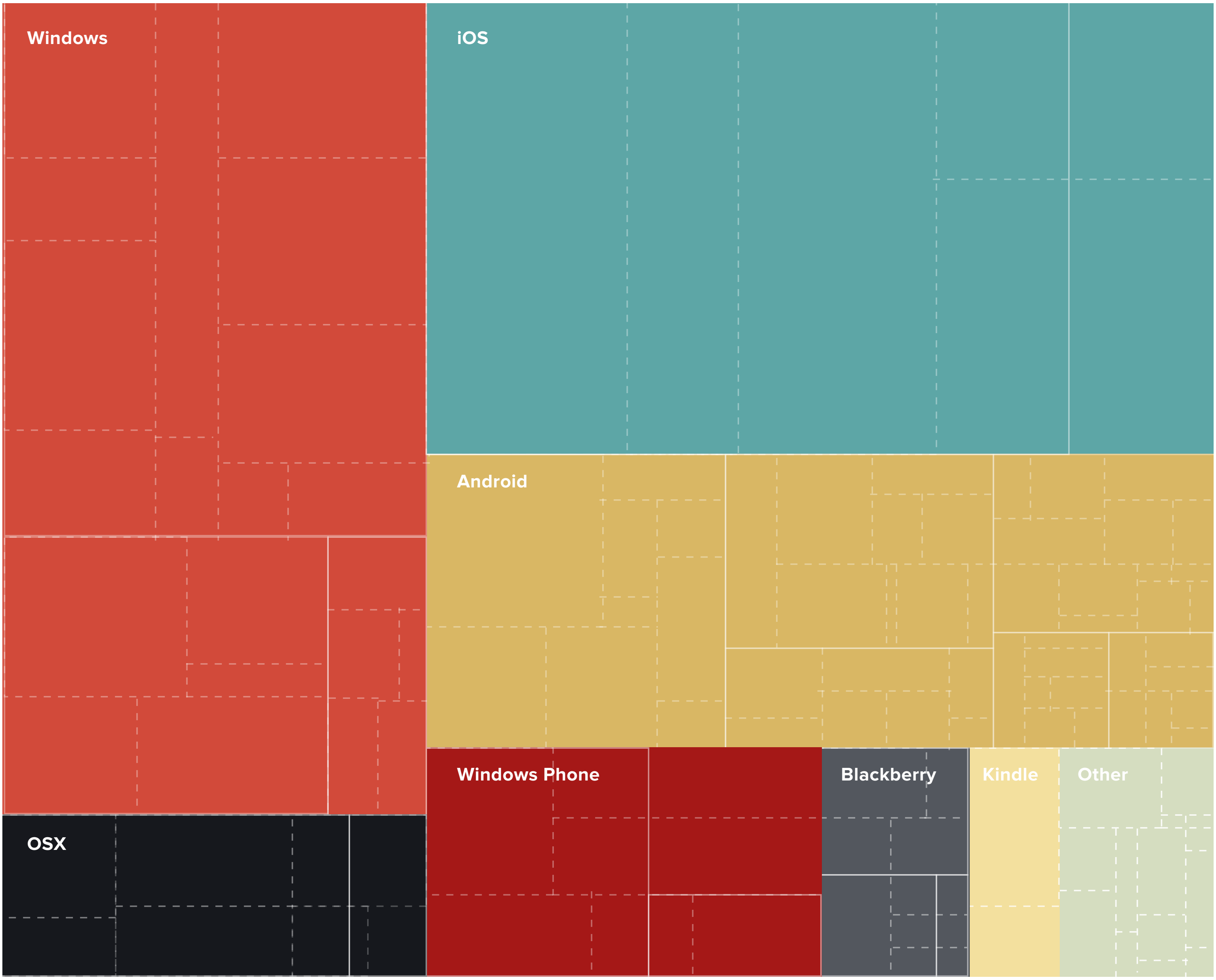
It's possible to kill the many-headed beast, but it requires Herculean innovation.

> "If you're not in an omni-channel approach - I think you're behind the times."
>
> \- Mark Swanhauser
> **Javelin Research**

AT A GLANCE

Device Fragmentation

8	22	700+
Product Platforms	OS's & OS Versions†	Screen Sizes†
(e.g Windows & Windows Phone)	(e.g Andorid Jellybean)	(e.g 480*800px)



- http://iossupportmatrix.com/
- http://developer.android.com/about/dashboards/index.html
- http://windows.microsoft.com/en-us/windows/lifecycle
- http://msdn.microsoft.com/en-us/library/windowsphone/develop/hh202996.aspx
- http://us.blackberry.com/software/smartphones.html
- http://en.wikipedia.org/wiki/Kindle_Fire
- http://www.netmarketshare.com/operating-system-market-share.aspx

Helios by MX

No. 5

Let users see all their finances in one place.

Picture this: You have two financial apps on your smartphone. Both have the standard mobile banking features, but one lets you aggregate all your accounts in one view, and the other doesn't.

Which are you most likely to use regularly?

If you're drawn to the one that lets you see all your accounts in one place, you can understand why users also want this same benefit. According to Celent Research, this feature is more frequently rated as "highly valuable" than any other feature in a mobile app (see the corresponding chart below).

To understand why this is the case, think of how users interact with financial institutions now. Seventy-five percent of them have accounts with four or more institutions. But these users don't want to look at four separate apps to get a complete view of their finances.

What this means is that as soon as users find an app that allows them to do all their mobile banking activities and see all their finances in one place, they won't have much need for all their other financial apps.

They'll have found their primary financial application.

And once users find a primary financial application, they'll spend more time with the institution that offers it. At that point the institution that offers the primary financial app will become the primary financial institution and will quickly steal wallet share from competitors.

In other words, the primary financial application will become the portal to the total banking experience.

A recent study from Google shows why this is the case. It says, "[Smartphones] have the highest number of user interactions per day and serve as the most common starting point for activities across multiple screens." The Google study also shows that 59 percent of financial management activities were started on a smartphone, and 56 percent of those activities were continued or finished on a desktop.

It's clear from data like this that the smartphone opens up a way for users to become more loyal to particular financial institutions — institutions that offer a primary financial application.

If you don't offer the primary financial application, how will you ever become your users' primary financial institution?

AT A GLANCE

Features Ranked as "Highly Valuable in Mobile App

View all your finances in one place	74.5%
Pay a merchant in-store or online	62.8%
Remote deposit	62.6%
View all your loyalty cards/points	54.8%
Pay another person (P2P)	52.1%
Enroll a new bill payee by taking a bill photo	42.8%
Speak or chat with a banker	39%
Make an appointment in a nearby branch	32%
Video chat with a banker	17.4%

Source: Celent Research on U.S. Mobile App Preferences, July 2013

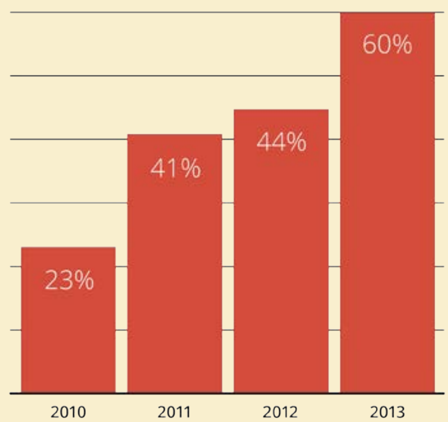
Does your app?

Does your mobile app offer account aggregation? (One of the most important features that users most frequently rate as highly valuable.)

Do you offer an app that persuades people to switch to or away from your financial institution?

Users Demand Better Mobile Banking

% who say mobile banking was important in switching banks



Source: Alix Partners via The Financial Brand

No. 6

Provide users with the financial guidance they seek.

To understand why you should provide users with financial guidance, it's crucial to revisit the concept of Moneyhawks — your most profitable users.

More than anyone at your institution, Moneyhawks "have the greatest appetite for personal financial management," according to Mark Schwanhausser at Javelin. That is, your most profitable users are the ones who want PFM the most.

Since you only have a small percentage of profitable users, this concept is critical to understand.

Digital banking with full MX integration.

These industry leaders at the big banks have discovered what the analytics firm Novantas learned about personal financial management apps in their 3,000 person survey:

Users who log in to their mobile banking app daily (i.e., Moneyhawks and millennials) are 58% more likely to use PFM tools than users who only log in once a week.

Nearly half of millennials who are looking to switch banks want their new institution to offer PFM.

It's a concept the big banks know well. That's why Joy Marshall, VP of Internet Services at Wells Fargo, says PFM "is absolutely central to our online strategy," and Dottie Yates, VP of Online Design at Bank of America, says, "the concept of PFM is driving everything we do."

Accenture found something similar in their 2014 report, "The Digital Disruption in Banking." The report shows that 67 percent of millennials are interested in their bank providing PFM, compared to 31 percent for those older than 55.

Based on data like this, Celent Research claims that "from a relationship perspective, PFM will be the most important" innovation for financial institutions in the digital age.

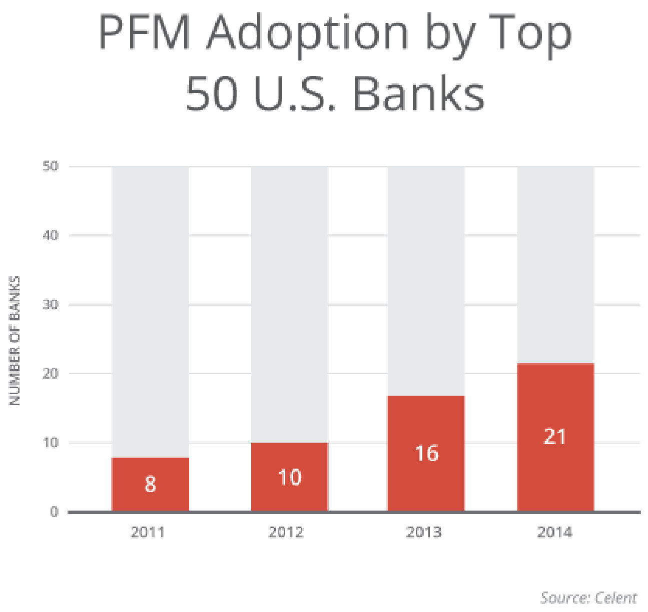
It's no wonder, then, that the biggest banks are quickly adopting PFM. In fact, according to Celent, adoption of this feature at the top 50 US banks is set to increase by 150 percent in a three-year span, from 2011 to the end of 2014.

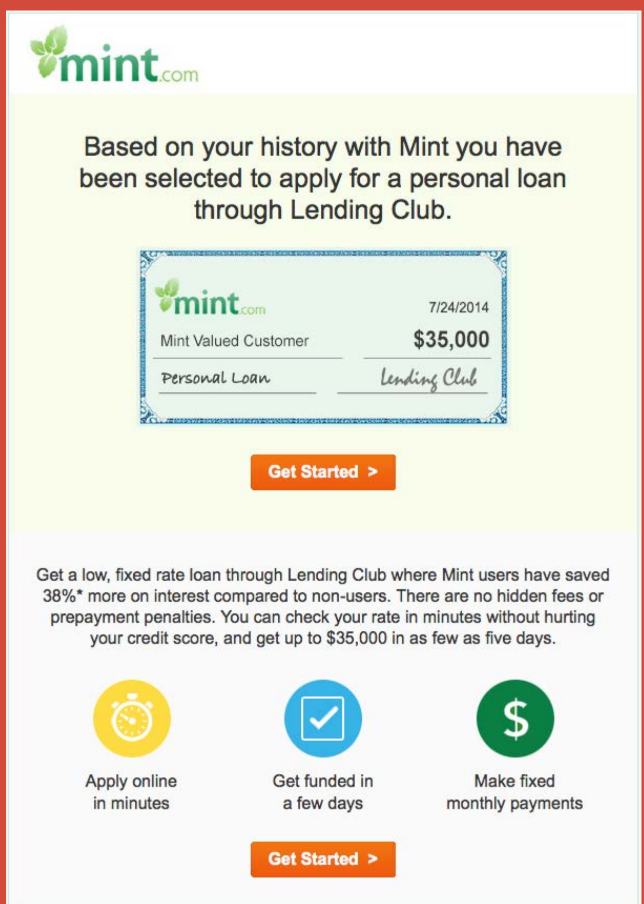
Since Moneyhawks and millennials are at the core of current and future profitability, catering to their needs by offering financial guidance will help you lead the digital revolution.

AT A GLANCE

Personal Financial Management

> **"The concept of PFM is driving everything we do."**
>
> \- Dottie Yates
> VP of Online Design,
> **Bank of America**





Mint.com has partnered with Lending Club to offer loans to its users. Any Mint user can now log in to Mint to see all their finances and get a loan in minutes.

The implications for financial institutions are clear. Mint is stealing wallet share from you.

Offering PFM is one way to counter Mint's efforts. That way users will sign into your app instead of signing into Mint's.

No. 7

Leverage the power of big data.

How well do you know your users and their behavior?

Do you know what percentage of your users have car loans, mortgages, or checking accounts? Do you know which of those users have those same financial products with your competitors?

Most importantly, do you know what interest rates your competitors are offering to your users to try to steal market share from you?

If not, you might soon find yourself behind the curve when it comes to data analytics. The biggest banks employ extensive data systems so they can better understand what they need to do to get an edge in the market. In fact, the four biggest banks in the U.S. each spend approximately $7 billion to $10 billion annually on technology, and they're on track to spend more in future years.

In order to truly lead in the digital revolution, you'll need to leverage the power of big data to see insights on your competitors' accounts, interest rates, and offerings.

This is only possible when you connect big data to account aggregation and personal financial management software.

It works like this. When a user aggregates all their accounts — including their external accounts — in your digital app, you'll be able to see their full financial picture.

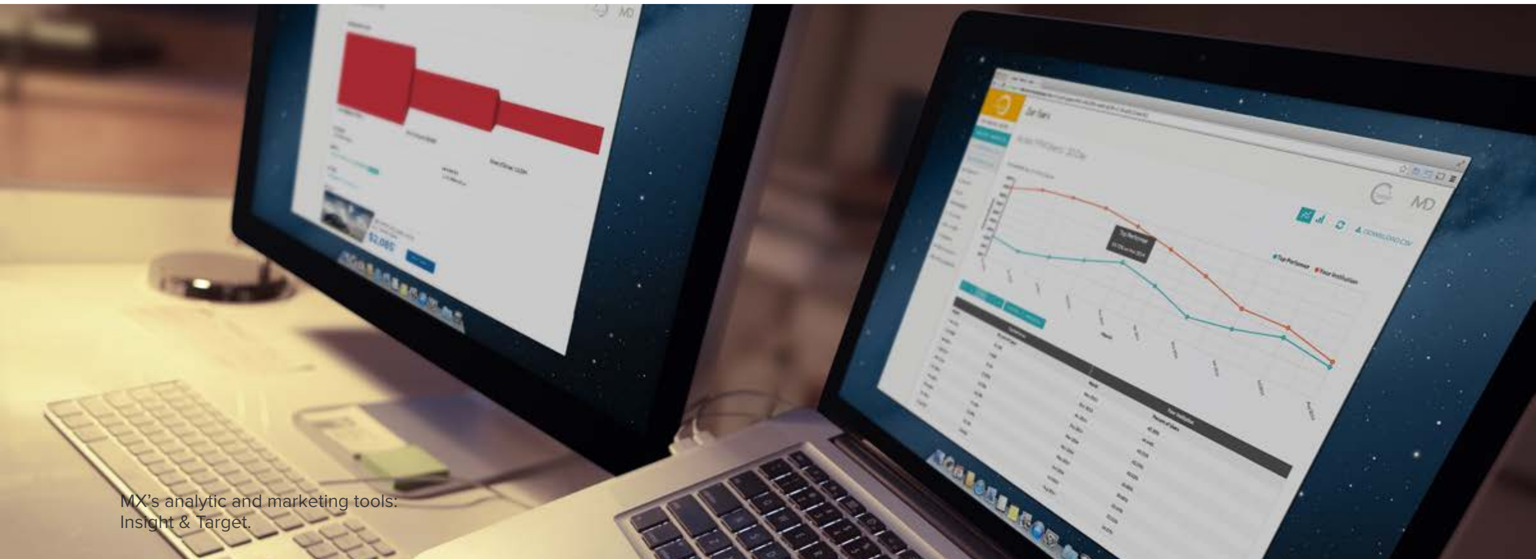
At that point you'll understand your users better than ever, and you'll then be able to give them relevant ads. Combined with real-time alerts, these ads are at the heart of building a customer-centric relationship with your users.

Imagine a billboard that tailors its content for each person who drives past it. It advertises loans only to people who want loans; it advertises term deposits only to people who want term deposits, and so on.

Any marketer could immediately see the value of such a billboard. As ad man Howard Gossage said, "The real fact of the matter is that nobody reads ads. People read what interest them, and sometimes it's an ad." Targeted advertising is the best way to match your message to the interests of a prospective user.

While this fictional billboard hasn't been created yet, targeted advertising is a reality in the digital age. You can be sure that your main competitors are or soon will be leveraging the power of big data.

This is where everything we've talked about in this white paper really comes together. It starts with committing to lead in the digital revolution, which in turn means giving users the ability to aggregate all their accounts in one place. Once users aggregate all their accounts then you can see information about your competitors (such as the interest rates they offer) and give your users alerts for all their accounts. You can also present users with relevant and targeted ads. All of this means that you've built a cohesive, customer-centric model — and that's how you win market share in the age of digital banking.



MX's analytic and marketing tools: Insight & Target.

Conclusion

The digital revolution is already changing the financial industry. You can lead out, beat your competitors, and expand your market share by following the seven steps outlined in this white paper:

1. Understand the urgency
2. Target your most profitable users first
3. Cater to the needs of millennials
4. Build an omnichannel experience
5. Show users all their finances in one place
6. Provide financial guidance
7. Leverage the power of big data

These steps will pave the way for you to be a leader for years to come. Instead of following the path of those who held on to the traditional model too long (like Borders and Blockbuster), you will thrive and succeed.

MX is a provider of solutions to enhance the digital banking experience. If you'd like to learn more, visit MX.com. You can also click here to see a demo and enhance your digital solutions today.

MX.com

Pictured: Future MX HQ - Summer 2015