MARCH 2024

banking transformed white paper

by: Jim Marous

Pinwheel

The Power of Primacy

At a time when loyalty and primacy are more important than ever, too many financial institutions put roadblocks in the way for customers wanting to open accounts and build relationships.

— Jim Marous

Co-Publisher, The Financial Brand
Host, Banking Transformed Podcast
Owner, Digital Banking Report

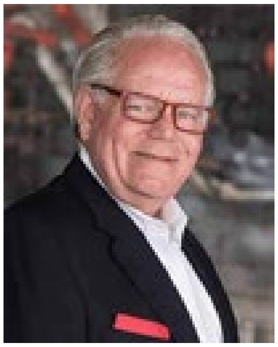
Banking Transformed White Paper (ISSN 2375-3455)
is published by DBR Media LLC, 8803 Brecksville Rd.,
STE 7-223, Brecksville, OH 44141, USA. Phone: +1 (216) 218-4257
admin@digitalbankingreport.com

White Paper Special Edition March 2024

Publisher: **Jim Marous**, *jmarous@digitalbankingreport.com*

Creative Director: Carol Ann Ryan

Letter from the Author



Jim Marous

Acquiring new customers remains imperative for retail banks fighting acquisition headwinds and increasing attrition trends. Yet an even bigger challenge looms — securing primacy by transforming account openings into engaged, balanced relationships. With disruption intensifying competition, institutions succeeding on both fronts gain strategic advantages.

Primacy signifies a customer's reliance on one institution as their primary financial hub which can help them manage their financial life (a financial GPS system). It signals trust, a willingness to expand share of wallet, endorsements to peers and durable loyalty that can span a number of years.

While each consumer defines primacy in a different way and will require different capabilities from their financial institution to even consider primacy, each financial institution must start somewhere and support the value transfer across the entire customer journey. For some consumers, they will never commit to a single financial partner. For others, a trusted financial resource is what they crave at a time of so many choices.

On the surface, major banks posted encouraging account growth in 2022. However, lower income segments drove much of these gains with government Covid checks providing much of the artificial balance increases.

Without meaningful engagement, many customers brought higher credit risks and servicing costs, pressuring margins. Meanwhile neobanks and fintech disruptors have made switching financial partners easier. Attractive digital experiences, simplified products and creative rewards have pulled once loyal customers elsewhere. As a result, legacy institutions must better curate relevance across channels to defend relationships and achieve primacy.

Personalization and proactive care are key. Leading banks open new relationships digitally, with minimal time needed to make a deposit and initiate a seamless onboarding process. Leveraging data analytics and AI to uncover customer needs, provide money advice, reward loyalty and simplify complex decisions secures a stronger relationship faster. In addition, enhanced primacy and wallet share is created rather than one-off deals.

Our research indicates that most legacy financial institutions do not meet the level of engagement of the leaders. Account opening is time consuming, the onboarding process is fractured and the result is high levels of churn, low levels of engagement and uncertain revenue streams.

In today's uncertain climate, retail banks must obsess over translating new accounts into engaged, balanced relationships marked by primacy. Combining digital convenience with human guidance sustains relevance as preferences evolve. Success means earning primacy amid fierce competition for the customer experience.

We want to thank **Pinwheel** for supporting this research into the 'primacy gap' that is undermining the potential to build relationships that last.

Jim Marous

Co-Publisher, The Financial Brand
Host, Banking Transformed Podcast
Owner, Digital Banking Report

Preface

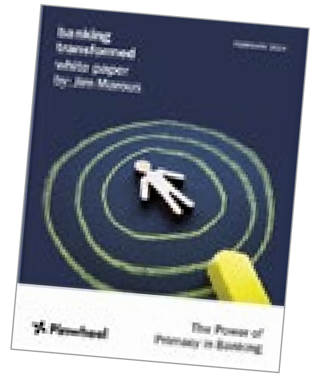
According to the **2024 Retail Banking Trends & Priorities Report,** the top priorities for banks are to 1) acquire new customers and 2) grow existing relationships. For our banking partners, who range from the top 10 to local community banks, this certainly holds true. And it's not surprising considering what happened last year.

Kurtis Lin
Co-Founder & CEO
Pinwheel

In 2023, deposits flowed out for most banks. The **Silicon Valley Bank Collapse** triggered a deposit flight from regional banks to the GSIBs. An inflationary market drove middle-class consumers to draw down from their checking and savings accounts to make ends meet. The current high interest rate environment enticed affluent consumers to move money from checking accounts to CDs, money market funds, and investment products with higher yields. It makes sense that new customer acquisition is an even bigger priority for banks today, since it's one of the best ways to recover deposit growth.

However, the ultimate goal for customer acquisition should be to win the primary banking relationship. While the industry agrees, there remains many unknowns around how to define primacy, how to measure it, and what types of customer experiences are required to achieve it. That's why we felt compelled to study the state of primacy today.

While there's a plethora of actionable insights in this paper, one thing that struck me was the shifting needs of the emerging affluent and HENRY (high earner not rich yet) population. After all, new accounts have historically come disproportionately from the new-to-banking segment and this population is setting clear expectations about the importance of providing best-in-class digital experiences. They expect their banking apps to have the same level of slick usability as the other apps on their phone — switching a direct deposit should be as easy as hailing an Uber!



This study highlights that there will be a real business cost to not digitizing experiences. While many have been eager to try to attract new prime customers with acquisition incentives, 55% of consumers earning over $150k say the hassle of switching direct deposits prevents them from switching to another bank. Furthermore, 61% of Gen Z and 54% of Millennials said they'd switch financial service organizations for a better mobile banking app and digital capabilities.

My hope is that this paper helps the banking community better understand the ever- changing needs of our collective customers. Our team at Pinwheel looks forward to continuing to partner with you on improving consumers' financial lives.

Kurtis Lin
Co-Founder & CEO
Pinwheel

Pinwheel

Contents

The Elusive Goal of Profitable Growth in Banking

It was a sunny Friday afternoon when Sanjay, a senior product manager at ABC National Bank, received an alert on his phone. The bank's new digital account opening campaign had already generated over 5,000 sign-ups in its first week — exceeding targets. High fives were surely flying across the marketing department at that very moment. But Sanjay could only sigh while staring pensively out his office window. Earlier that week in a strategy meeting, he learned those new accounts averaged a paltry $137 balance while costing $412 each to acquire through digital advertising and promotions.

Recent analysis also showed nearly 7 in 10 of such accounts went completely inactive after 90 days post opening. His team kept chasing new customer growth, but barely moved the needle on real relationship depth. "We have met the new customers ... and they are not profitable," Sanjay muttered under his breath.

The Disappearing Profits in Account Acquisition

While a fictitious bank, ABC Bank is like many banks today chasing phantom profits through misguided acquisition strategies. A recent **McKinsey** analysis found new financial accounts are being opened at twice the average rate, and new banking relationships and switching banks are being considered.

"Most concerning is that a large percentage of banks admit less than half their newly acquired accounts expand beyond an initial deposit amount."

CHART 1:

SHIFTS IN CUSTOMER BANKING RELATIONSHIPS ARE EXPECTED TO ACCELERATE

Over the next year, increased changes in customer financial needs are expected to accelerate shifts in customer banking relationships.

Changing Financial Needs		Shifts in Banking Relationship
35% expect household spending to grow by more than 50%	»	**2X** are more likely to open a new financial account
25% are planning to pay down more than 75% of household debt	»	**15%** are open to a new banking relationship
15% are increasing emergency and household savings	»	**20%** are considering switching banks

Source: McKinsey & Company © March 2024 Digital Banking Report

Furthermore, McKinsey found that customer journeys can be categorized into two broad categories — those that a bank needs to "de-friction" and those that need to be re-imagined. Most journeys fall into the bucket where processes must be streamlined. However, the research shows that in many journeys, problem resolution can disproportionally drive the overall experience that a customer has with their bank.

Most concerning is that a large percentage of banks admit less than half their newly acquired accounts expand beyond an initial deposit amount. Clearly, the economics no longer pencil out for those playing the traditional retail account land grab game focused on aggregates over loyalty.

Consider consumer stalwart **Wells Fargo** spent billions on sales incentives over 5 years to open millions of fraudulent or unused accounts exposed in their recent scandal. While such illegal extremes are exceptions, the accelerated trends around low customer retention and minimal wallet share still detrimentally impact honest legacy players.

According to industry research, it now costs incumbents between $200 and $450, with many accounts costing far more to acquire. With those economics, acquiring 10,000 new customers yearly can easily approach millions in marketing expenses. Yet, based on real consumer behaviors, 80% may contribute little long-term value.

“Bank acquisition teams have been investing aggressively in acquisition incentives in the front-end of the funnel and have done a good job of getting new prospects to consider their organizations. To foster loyalty past the acquisition incentive offers, banks must focus on the core experiences that lead to quality engagement, primacy, and ultimately long-term value. Prioritizing investments in the customer experience is the key unlock.”

Chris Powell
Head of Deposits and Customer Engagement
Citizens

The Disloyal Digital Consumer

Now extrapolate across Gen Z and Millennial demographics who today represent 50% of the workforce — a figure rapidly rising. These digital natives maintain nearly 2.5 to 3.5 financial accounts on average while growing up in a world where mobile banking options abound.

Large fractions of their salaries thus end up automatically distributed across various accounts tied to budgeting schemes or other needs. The result is intensified multi-banking behavior eroding loyalty vastly faster than organizations recognize through lagging indicators like attrition metrics. Institutions celebrate shiny new sign-up reports while mute automatic transfers quietly syphon away balances monthly.

Long gone are the days when devoted customers kept neatly organized checkbooks, visited their sole neighborhood bank branch regularly and knew tellers by first name. The game has irrevocably changed.

Gaming the System

Yet bankers incentivize to acquire regardless of quality — still fueling outdated models. An entire cottage industry now promotes techniques for consumers to maximize account bonuses and perks through various “bank churning” forums.

Financial switchers openly share tips on gaming the system — churning through multiple account openings just to capture sign up rewards in cash, airline miles or investable assets before rapidly abandoning relationships. So banks lose coming and going as unprofitable customers leave before contributing value.

Still chasing volume, they ratchet up new customer incentives perpetuating rapid switching behaviors. Fixed and variable acquisition costs per account consequently balloon over time while no underlying engagement strategies address root causes. At some point, the merry-go-round must stop.

Cultivating Relationships Over Accounts

The path forward still includes attracting new customers — the lifeblood for growing institutions. However, obsession over aggregate account openings must get counterbalanced with deeper relationship building efforts centered on driving loyalty and wallet share. Tactically this translates to:

- **More selective customer targeting:** Acquire quality over sheer quantity by pivoting focus towards distinct underbanked and underserved segments using advanced analytics. Develop hyper-local campaigns reflecting community demographics.

“Banks must similarly tap their unparalleled visibility into full financial life events and associated needs — and then urgently build capabilities matching individuals to solutions in those moments.”

- **Simplified digital onboarding:** Facilitate seamless integration for new customers to access existing account data via account aggregation and smarter switching capabilities. Provide personalized journey mapping.
- **Superior engagement utility:** Incentivize primary financial relationship building that concentrates on payroll/benefits, deposits and transaction volumes within accounts. Construct savings and budgeting tools driving stickiness.
- **Contextual advisory insights:** Apply next-best conversation approaches and machine learning techniques to uncover customer needs, timely life event triggers, and relevant product fit suggestions. Deliver prompts through preferred channels.

Efficiency still matters — but not simply chasing cost per acquisition. Building engagement utility, crafting insights across touchpoints, and aligning value exchanges to shift share of wallet better — targets profitability. The future requires both art and science across the full customer lifecycle.

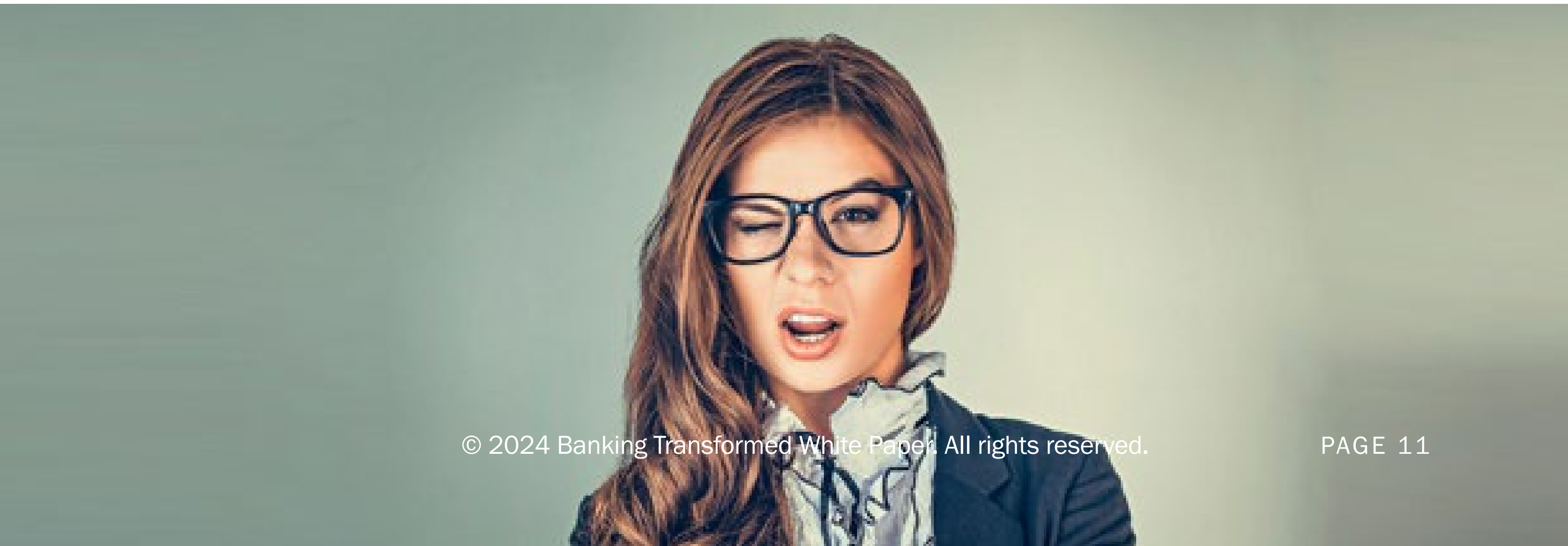
Can Banks Still Compete on Relationships?

Ultimately the biggest question may be whether institutions still possessing the advantages of trust, security and oversight can compete relationship-wise with big tech and fintech. Their pure plays continuously raising customer experience bars. The answer is a profound yes — but only with commitment to truly customer-centric principles.

Amazon built a 30-year empire through obsessive focus on understanding people and segmenting services accordingly, despite vast impersonal scale. Banks must similarly tap their unparalleled visibility into full financial life events and associated needs — and then urgently build capabilities matching individuals to solutions in those moments. Doing so flips acquisition cost/value dynamics while accelerating advocacy and retention.

Still, legacy systems, data barriers and organizational constraints prevent most banks from realizing such ambition today. Which is why, instead of more clever short-term optimization tricks, the real heavy lifting now required is expanding the underlying enabling foundations. That starts with leadership commitment to genuine customer centricity, not just messaging. Do that successfully at even one national institution — and we may witness a loyalty revolution with cracks slowly, but surely emerges across the multi-banking castle walls rising with this generation.

So, who blinks first?



Bank Models Must Reflect Marketplace Changes

Banks and credit unions face immense challenges that threaten existing business models. Falling fee income, declining mortgage volumes and eroding consumer trust undermine financial performance. However, financial institutions can evolve to boost engagement and accompany customers throughout their financial lives.

Banks face a perfect storm of headwinds. Fee revenue is dropping steadily. With this deterioration in non-interest income proving difficult to replace as regulators crack down on certain charges. At the same time, new customer acquisition has become more challenging as competition grows and consumers demand simplified account opening and improved value.

To overcome these headwinds, financial institutions must transform into agile, customer value-driven enterprises initiating strategies that increase their relevance and their role as primary financial provider in consumers' lives. This will require a doubling down in data and artificial intelligence capabilities that can deliver personalized financial operating systems, accompanying customers across their financial journeys, thereby strengthening trust and loyalty. This scenario comes from new research from **Ernst and Young**.

With continued economic uncertainty challenging the financial health of every consumer and business, banks and credit unions must focus relentlessly on understanding and delivering on customer needs, and adapting business models to drive sustainable performance.

Holding Banks Back: Issues of Customer Primacy and Trust

Trust is a cornerstone of the traditional banking industry, yet it has been facing unprecedented challenges in recent years. This has led to notable erosion in the once unwavering confidence customers placed in banking institutions. This shift in perception stems from a confluence of factors, including high-profile financial crises, technological disruptions and evolving, rising customer expectations.

The increasingly dominant role of technology has expanded the concept of trust. As digital transformation swept through the financial landscape, online banking, mobile apps and fintech startups emerged as formidable competitors to traditional banks. These innovations not only offered convenience and efficiency, but also introduced concerns about data security, privacy breaches and cyber threats. This further undermined customer trust in the industry's ability to safeguard sensitive information.

CHART 2:

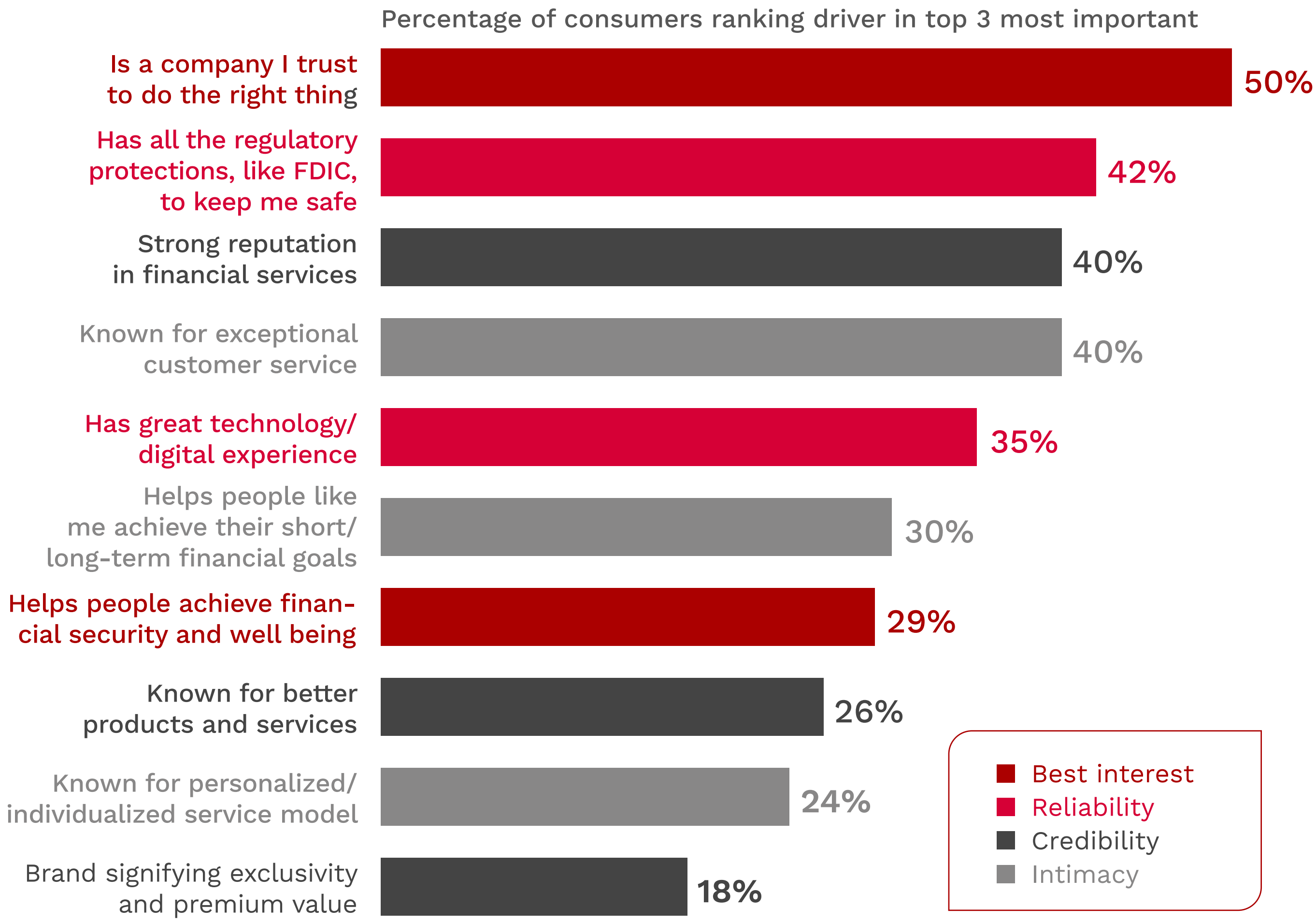
WAYS TO ACHIEVE TRUST BEYOND TRANSACTIONS IN BANKING

	Top Trust DRIVERS	Top Trust DETRACTORS
Best interest	• Alignment with personal values • Customer-centric, prioritizing needs over their products and services • Protection from financial adversity, even when it is not always profitable for the firm	• Constantly feeling "nickel and dimed" • Makes money through fees & interest when financial health is declining • Personal values not aligned • Does not support customers in crisis
Reliability	• Great technology/digital experience • Regulatory compliance and protected personal data	• Known security breaches • Negative legal ruling against brand
Credibility	• Strong reputation in financial services • Brand signifying premium value • Expectation of greater functional benefits	• Inaccurate or misleading information from brand
Intimacy	• Exceptional customer service • Personalized service model • Ability to anticipate important life events	• Loss of human touch • Generic and unhelpful service

■ Top priority ■ Second priority ■ Third priority

Source: **Ernst and Young** © March 2024 Digital Banking Report

CHART 3:
TOP TEN DRIVERS OF TRUST IN BANKING



Source: Ernst and Young © March 2024 Digital Banking Report

Trust Builds Loyalty and Advocacy

Consumers rank a company they trust to do the right thing, having regulatory protections, a strong reputation in financial services, and exceptional customer service, as the top drivers of trust. They expect a level of empathy to their needs.

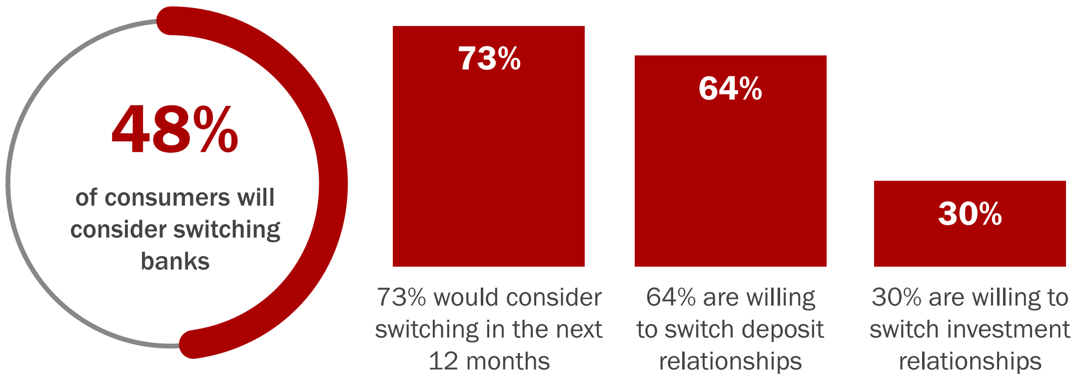
In tandem with these shifts, what people expect has changed drastically. Many of today's consumers demand personalized experiences, transparency and ethical practices from their financial providers. The misalignment between these expectations and the traditional banking model — often seen as rigid and opaque — has nurtured the perception that banks prioritize their own interests over those of their customers. Surveys show banking now ranks among the least trusted industries, behind sectors like tech and retail. Only 60% of consumers express trust in banks, according to EY's research.

The result: Consumers are now more willing than ever to test alternative financial providers.

Ease of moving money digitally, coupled with dampened trust, drives this readiness to churn. In addition, desires for reduced risk, better rates and benefits, more personalized solutions, and solutions that improve financial lives also tempt consumers to test alternative providers.

EY reports that almost half of consumers surveyed would consider switching providers, with three-quarters open to switching in the next year. Regional and community institutions face the greatest deposit attrition risks, according to Federal Reserve data.

CHART 4: CONSUMERS ARE READY TO SWITCH FINANCIAL SERVICES PROVIDERS



Source: Ernst and Young © March 2024 Digital Banking Report

Consumer attention spans fragment as financial services permeate digital ecosystems. Banks now compete for share of mindset against commerce, gaming and social platforms. Capturing attention requires meeting customers everywhere through seamless, networked experiences.

“The primacy gap will continue to be exacerbated by younger generations, who have much lower brand loyalty than prior generations. To build stronger customer relationships, banks must recognize the need for a holistic customer engagement strategy focused on demonstrating and delivering value for customers. While the drivers of value may differ across segments, it’s about finding the right balance of convenience for common transactions and personalized service for problem resolution and financial guidance that will benefit customers in their daily lives, and ultimately anchor the banking relationship.”

Chris Powell
Head of Deposits and Customer Engagement
Citizens

Balancing Ubiquity and Utility to Re-establish Banking Primacy

How can banking institutions regain consumers’ trust and persuade them to see traditional institutions as their primary providers again? It requires transparent communication, responsible corporate behavior and a commitment to meeting the needs of an increasingly digital-savvy and socially conscious clientele. Banks able to master customer primacy and trust will gain lasting advantages, according to EY. Those who do so can reverse declining share of wallet and loyalty trends. But

"To take advantage of these opportunities, financial institutions need to develop AI-powered personal financial operating systems that orchestrate seamless, contextual and networked experiences across the entire customer journey."

this requires understanding the major shifts in consumer behaviors and crafting customer-obsessed strategies.

One of the foremost changes in consumer behavior is that people are continuously connected across devices, jumping fluidly between apps and sites. Their expectation is for anywhere, anytime access and instant gratification. According to EY research, the average consumer spends just 1.3% of their month on banking activities. That share is set to shrink further as financial functionality embeds itself in commerce and lifestyle contexts. This makes it increasingly difficult to reverse existing trust and primacy trends.

To re-capture people's attention, banks and credit unions must tap technologies like AI and biometrics to securely serve customers in-the-moment across environments. This means reaching them on social platforms, at the point-of-sale and through daily apps. More than ever, financial institutions must earn attention within the flow of life by embedding empathetic engagements — not intrusive salesmanship.

Winning trust and primacy will increasingly require understanding consumer psychology and designing experiences that anticipate needs while respecting attention's scarcity. Financial institutions that master the delicate balance between contextual presence and contextual solutions will flourish. Buy now, pay later solutions are built on this balance. Taking this concept a step further, imagine a financial institution using the combination of credit bureau "hits" and real-time locational data to offer discounted car loans ... at the dealership ... during a new car test drive.

Why Personalizing Financial Offerings is Critical for Banking

As the banking industry is being unbundled by innovative competitors, consumers are swiftly gravitating towards narrower solutions that nevertheless better address their needs, according to EY. Convenience and product differentiation used to drive consumer preferences, but those factors are yielding ground to products and services tailored to the specific customer.

This change of consumer preferences combined with modern technology provides traditional banks and credit unions unprecedented opportunities to not only cater to personalized needs, but also to establish deeper trust and contextual engagement with customers. To take advantage of these opportunities, financial institutions need to develop AI-powered personal financial operating systems that orchestrate seamless, contextual and networked experiences across the entire customer journey. For instance, embedding lending within a real estate site simplifies and customizes the mortgage process during a major financial milestone. This elegantly matches supportive solutions to needs in pivotal moments.

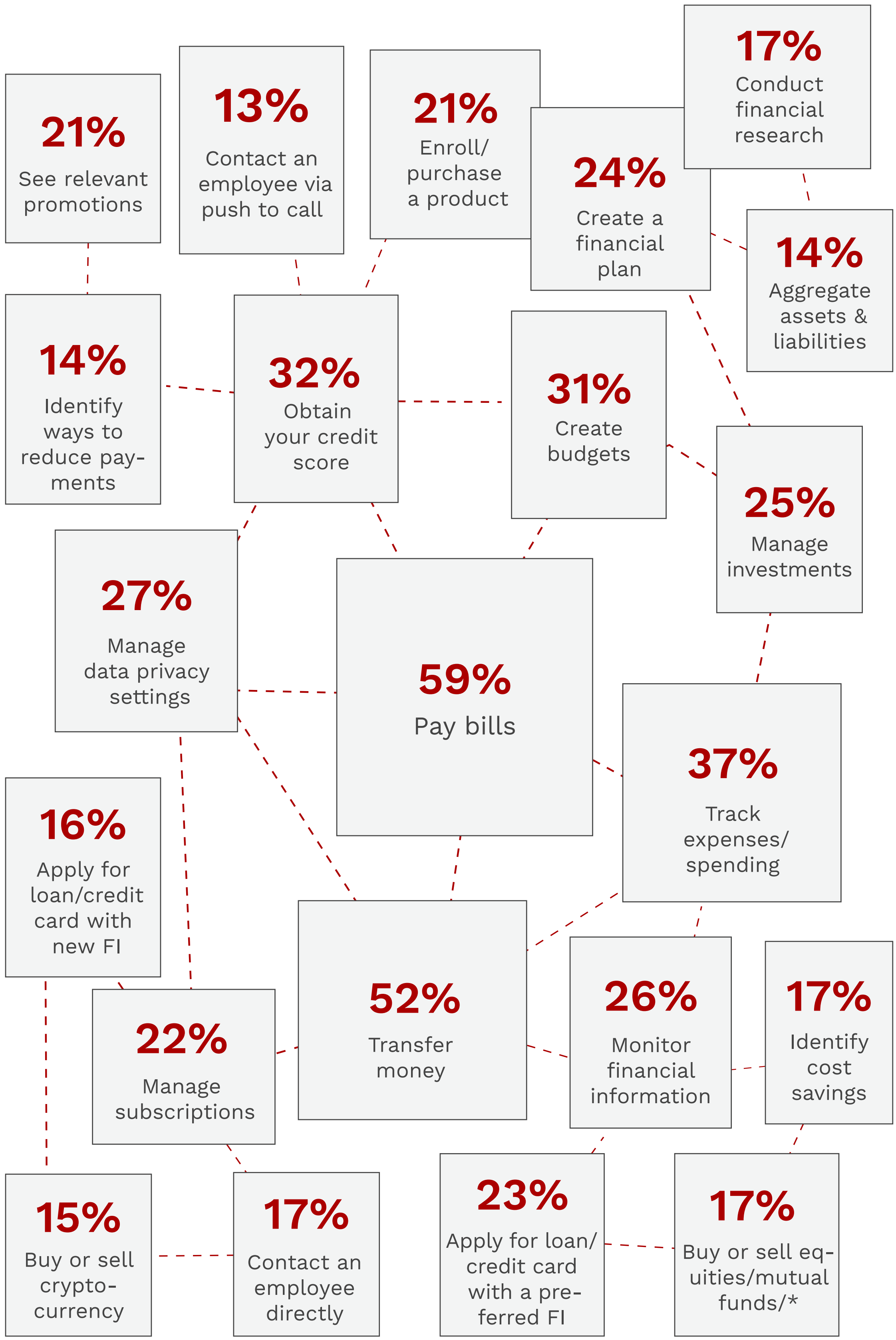
A New Value Paradigm:

The consumer financial service market is headed to 'value constellations,' which will expand the opportunities for banks to grow consumer trust and strengthen their market position, and away from 'convenience bundles' that banks use today.

Done right, data-enabled platform combinations make banking more human, not less so. The key is using technology to simplify and connect, not overwhelm. Well-designed tools that seamlessly blend banking into daily life make finance frictionless, not a chore.

CHART 5: KEY FEATURES BEING USED IN AGGREGATED FINANCIAL PLATFORMS

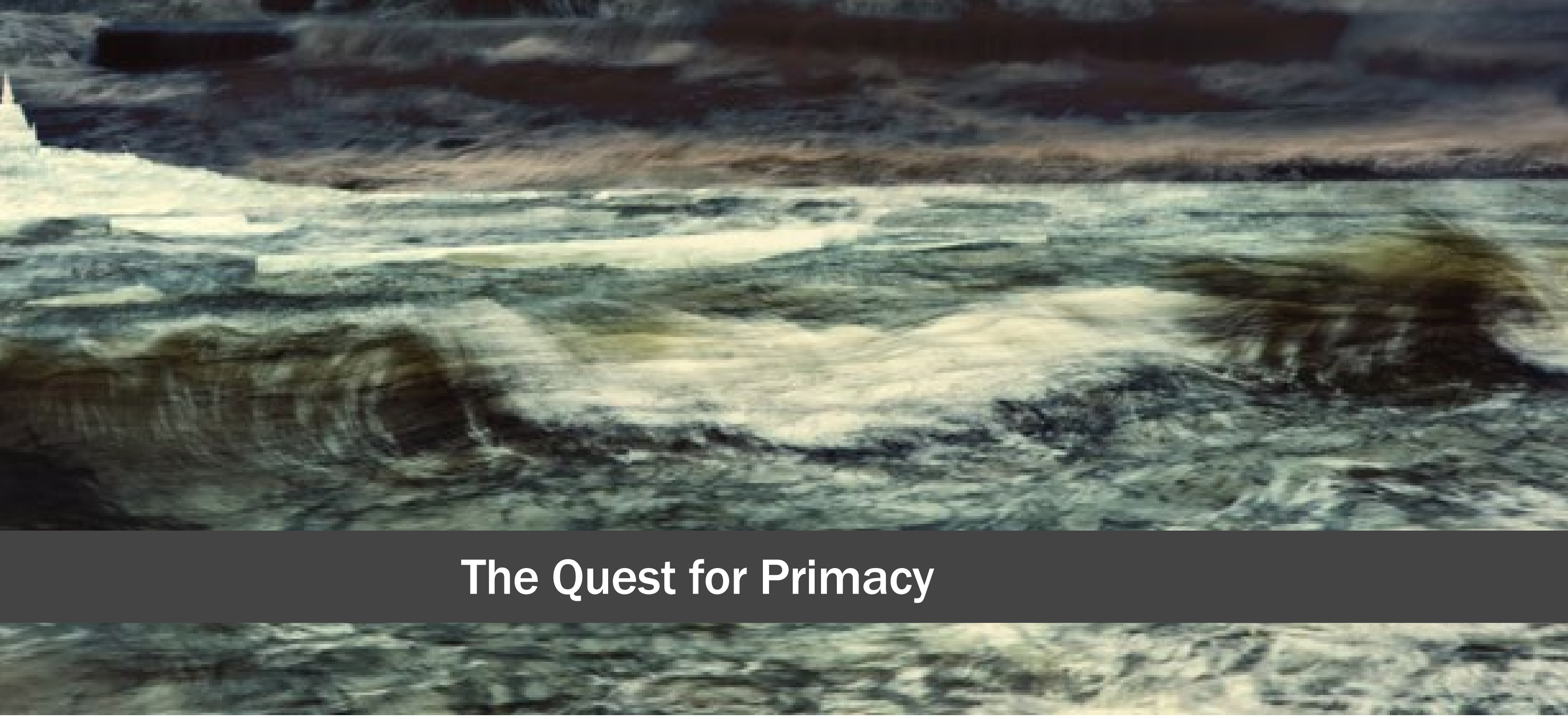
Percentage of consumers indicating using a PFOS feature with an aggregator platform



Source: **Ernst and Young Next Wave Consumer Financial Services Research**
© March 2024 Digital Banking Report

*exchange traded funds

An important strategic shift to understand: Most traditional banks and credit unions will not have all of the products, services and solutions under their own roof. This new business model will require collaborations with third party providers, including fintech organizations. Organizations will need to promote cross-functional alignment on customer objectives, embracing change agents, and solving for delivery velocity. By making customer value the priority, financial institutions could thrive amidst the next wave of consumer financial services disruption.



The Quest for Primacy

A perfect storm confronts legacy banks. Acquisition costs are mounting amid fierce competition. And consumers are increasingly defecting from legacy financial institutions, enticed by simplified offerings from disruptive upstarts. Behind these marketplace realities looms an even bigger threat — the demotion of long-trusted institutions from primary financial status.

Not long ago, customers displayed enduring loyalty, with 40% sticking for life at their first bank. Yet today's digitally savvy consumers hold 5-7 accounts on average, rapidly switching providers to optimize rates, rewards and experience. This unprecedented fragmentation signals the emergence of "super-consumers" adept at gaming the system for the hottest deals — not sustainable brand devotees.

Last year major banks trumpeted strong account growth. But lower income segments largely drove these gains, indicating higher credit risk and servicing costs that erode margins. Worse still, disruptors siphoned off 37% of new checking relationships as Millennials and Gen Zs flocked to digital-first challengers like Chime or used a legacy bank as a 'deposit hotel' while transacting with Venmo, PayPal or another non-traditional provider. Even cash-flush Boomers now divide loyalty across traditional and alternative apps.

The Path from Acquisition to Primacy

Amid this turbulence, the central challenge becomes less about getting customers in the door than about converting them to primary status — occupying the coveted space as their main financial hub. Primacy signals engagement, larger balances, and expanded share of wallet. Yet complex definitions muddy the path.

For instance, fewer than 40% equate primacy with payroll deposits; most

prioritize active usage and everyday spending. Nonetheless, a sizable 83% of consumers still claim one primary financial relationship, spanning both legacy institutions like Chase and Bank of America and disruptors like **CashApp**.

Achieving primacy requires a digital-first omnichannel strategy that blends AI insights, ubiquitous access and advisor partnerships. This starts with understanding intrinsic drivers of long-term loyalty. Ironically, longevity no longer guarantees primacy. But make no mistake, Boomers and women especially still reward empathetic accompaniment with enduring dedication spanning over 15 years. Forward-looking providers must demonstrate care by simplifying money management through personalized advice, anticipatory assistance and frictionless utility.

Crafting the Contextual Human+Digital Bank

To thrive amid unrelenting disruption, legacy institutions must now evolve into customer-obsessed enterprises constantly earning trust. Tactics demand transparency, ethical practices and financial operating systems that embed banking seamlessly into daily moments — not sales pitches.

The winning formula blends digital ubiquity with human utility to simplify money matters. One of the nation's oldest and largest financial institutions **Citizens** has eased direct deposit switching via APIs. App leader **Marcus** preempted overdrafts through creative credit products. And wealth management disruptor **Personal Capital/Empower** delivers hyper-personalized insights.

Banks that realize this harmonious digital+human vision will lead the next era of consumer finance. Yet transformation requires courage to reconfigure cultures, an embracing of outside partnerships and the rethinking of metrics beyond short-term acquisition costs. With generative AI unlocking unprecedented agility, the moment to act is now. Laggards risk fading slowly into irrelevance.

Statistics from MX Technologies

The average consumer has at least 5 to 7 financial accounts with different providers. This makes it nearly impossible to use primacy — how many consumers consider an institution their primary financial provider — as a measurer of success for banks, credit unions, and fintech leaders.

So what do consumers think about their primary financial relationships and what drives them to open and close accounts? MX's latest survey of more than 1,000 U.S. adults sheds light on what primacy means to consumers:

- **Defining primacy is complicated.** Only 38% of consumers define a primary financial relationship as where their paycheck is deposited. The next most common definition? Where consumers conduct most of their day-to-day transactions (20%).
- **Consumers don't believe in exclusivity.** Seventy-seven percent of consumers believe an individual can have more than one primary financial relationship. This jumps to 80% among Gen X and Baby Boomers.

- **But consumers do still claim a primary financial provider**. Eighty-three percent of respondents say they have a financial provider they consider their primary one.

- **Primary providers range from big banks to fintech apps.** When asked what is the name of the financial provider you primarily use, the top most-often named providers included:

  Chase
  Bank of America
  Wells Fargo
  Chime
  PNC
  U.S. Bank
  Capital One
  Truist
  Navy Federal Credit Union
  CashApp

- **Longevity doesn't equal primacy.** Very few respondents defined a primary financial relationship as the account they've had the longest (8%). But, that doesn't mean keeping customers for the long term is a thing of the past.

- **Financial providers can keep consumers engaged for the long-term.** When asked how long they've had their oldest financial account, 22% of all respondents have had an account for more than 15 years.

- **Women are more likely to keep the same financial account longer.** Twenty-six percent of women have had their oldest account for more than 15 years, compared to 18% of men. Respondents who identify as White are also more likely to have longer relationships than non-White respondents — 25% of White respondents have had their oldest account for more than 15 years, compared to 19% of Non-White respondents.

The Need to Improve New Account Acquisition Strategies

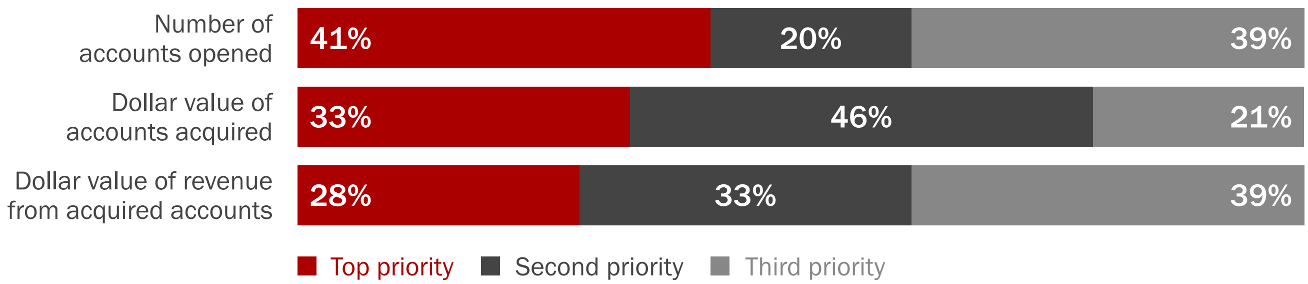
The following are the findings from the proprietary research done by the Digital Banking Report on behalf of Pinwheel. The research was conducted in February 2024 and included responses from over 200 financial services institution executives globally.

When asked about the top three priorities for customer acquisition over the next 12 months, over 40% of organizations mentioned 'number of accounts opened, with 33% mentioning that the dollar value of accounts opened was the top priority. The dollar revenue generated from accounts opened was the third highest priority (28%).

Interestingly, when primary and secondary priorities were combined, the dollar value of accounts opened had the highest percentage of respondents (79%).

CHART 6:
TOP 3 NEW CUSTOMER ACQUISITION PRIORITIES

What are your top 3 priorities for customer acquisition as an organization over the next 12 months? (Select one answer in each column.)



Source: Digital Banking Report Research © March 2024 Digital Banking Report

Organizations globally vary in the ways they innovate around customer acquisition goals. While the most likely strategy of generating new accounts is through improving the digital experience, the desire for relationship primacy and using personalization to differentiate is also employed.

That said, most strategies appear to be falling short of goal, especially as new customers have shifted their emphasis from branch account opening to digital channels. With this shift, additional challenges related to account opening abandonment due to friction that extends the time to open a new account to more than 15 minutes.

CHART 7:
KEY DRIVERS OF INNOVATION FOR NEW ACCOUNT GENERATION

In thinking about your institution's innovation agenda, rank the following in order of importance. Note: the measurement of value is on a scale of 1-5.

Source: Digital Banking Report Research © March 2024 Digital Banking Report

"At the end of the day, customers want to have options in how they bank. Many customers still prefer branches over other channels when it comes to opening accounts, seeking advice for complex financial problems, and acquiring new products. Customers continue to place substantial value on the branch experience in the digital era. While younger customers are heavily engaged in our mobile technology, they appreciate the presence of physical bank branches. The brick-and-mortar locations symbolize stability and a commitment to customer accessibility – an impression that spans across all age groups. Our customers feel more financially confident knowing there are well-trained experts in their communities who can help them navigate every stage of their personal financial journey."

Chris Powell
Head of Deposits and Customer Engagement
Citizens

The Cost of New Account Acquisition

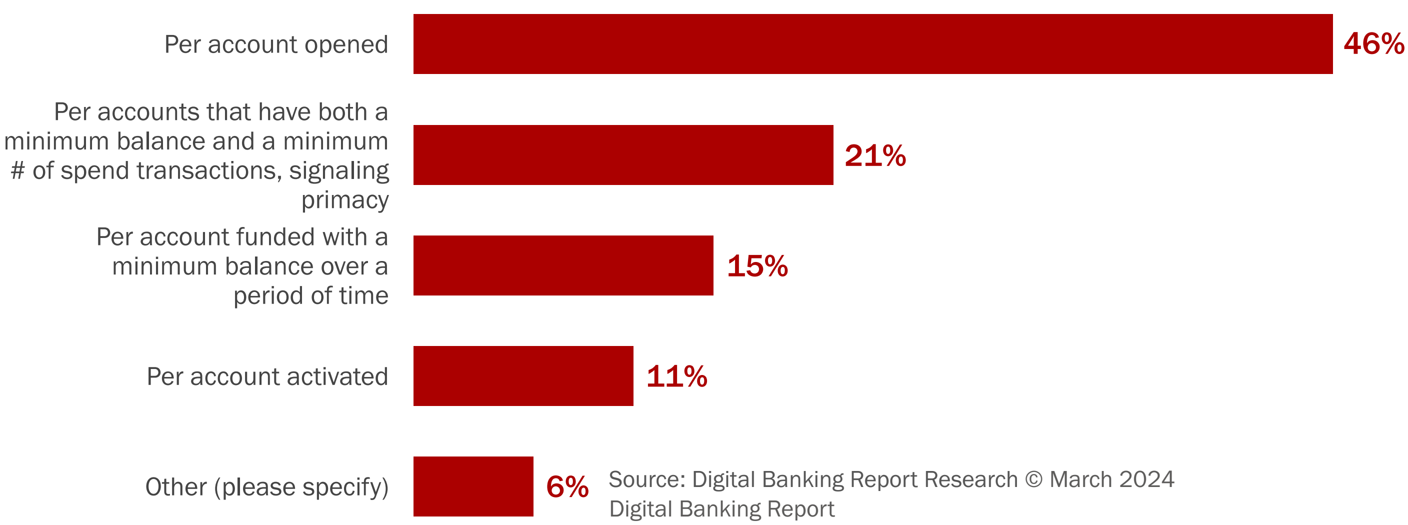
As has been the case in banking for decades, the majority of banks and credit unions continue to measure acquisition costs using short-term metrics as opposed to lifetime value measurements that put an emphasis on customer primacy.

As shown in the chart below, respondents to our survey overwhelmingly stated that acquisition costs were measured on a 'per account opened' basis (46%), without considering relationship depth or engagement metrics of the account opened.

Banks and credit unions also do not measure the level of activation of new accounts, thereby assigning the same cost per acquisition for a strong relationship as they do an account that has never become active. The metrics used tend to significantly lower the perceived cost of acquisition, with no measurement of value or potential primacy considered.

CHART 8:
BASIS FOR MEASURING CUSTOMER ACQUISITION COSTS

When measuring customer acquisition costs, how do you account for an acquired customer?



Source: Digital Banking Report Research © March 2024
Digital Banking Report

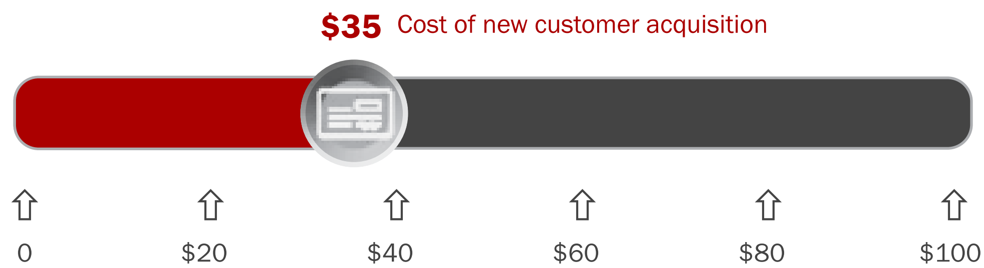
"While using a branch does add to the cost of acquisition, the success in cross-selling and building a stronger engagement at the outset of the relationship is higher when a branch is used."

When we asked financial institution executives the cost of acquiring new checking accounts, it is clear that the vast majority of financial institutions do not use a 'fully loaded' cost that would include any offers to prospects, the cost of general marketing geared to prospects, operational costs of account opening, etc. As a result, the perceived cost of a new checking customer is far lower than reality.

CHART 9:

ESTIMATED COST OF NEW CUSTOMER ACQUISITION

What do you believe is your average new customer acquisition cost for consumer checking accounts?



Source: Digital Banking Report Research © March 2024 Digital Banking Report

---

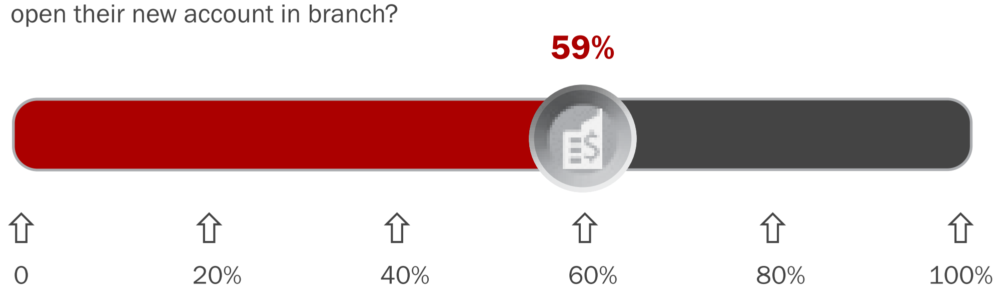
One of the primary fixed costs of opening a new account by a financial institution is the cost of a branch vs. digital account opening. Usually not included when the cost of account acquisition is determined, this delivery cost can't be ignored, especially when close to 60% of new accounts opened still use a physical facility.

While using a branch does add to the cost of acquisition, the success in cross-selling and building a stronger engagement at the outset of the relationship is higher when a branch is used. This is often because most institutions do not have a seamless onboarding process for adding new functionalities to a digital relationship (direct deposit transfer, P2P payment engagement, simplified cross-selling).

CHART 10:

PERCENTAGE OF ACCOUNTS OPENED IN BRANCH VS. DIGITALLY (ESTIMATE)

What do you believe is the percentage of newly acquired checking account customers that open their new account in branch?



Source: Digital Banking Report Research © March 2024 Digital Banking Report

Challenges to Relationship Primacy

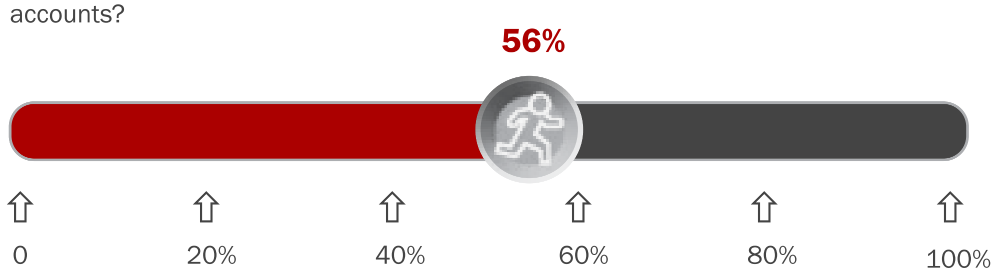
The challenge of achieving relationship primacy extends beyond how an account is marketed, who opens an account and where it is opened. Much of the challenge is an inability to expand the relationship early in the onboarding process with digital services and tools that the customer values and that do not cause friction.

The impact of not deploying a well-structured digital onboarding process immediately impacts engagement levels, churn and revenues from the relationship. As shown below, organizations believe that only a bit more than half of new accounts acquired convert to active relationships.

Carrying inactive accounts has the impact of almost doubling the cost of account acquisition if an organization measures their account acquisition costs based only on the number of accounts opened.

CHART 11: ESTIMATE OF NEWLY ACQUIRED ACCOUNTS THAT REMAIN ACTIVE

What do you believe is the percentage of newly acquired customers that convert to active accounts?

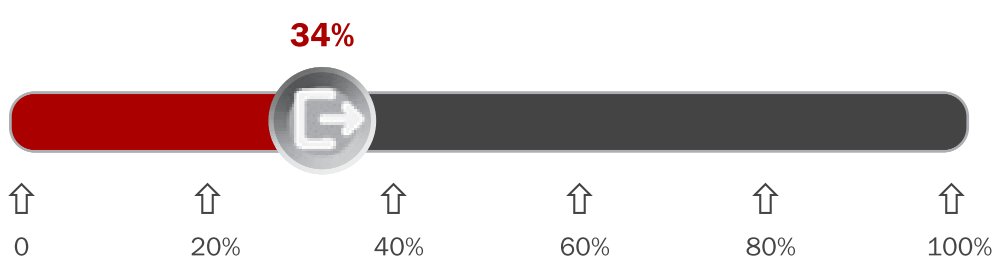


Source:
Digital Banking Report
Research © March 2024
Digital Banking Report

While mostly reflected in the measurement of inactivity shown in the previous chart, organizations that were surveyed stated that 34% of new accounts left the organization in the first year after opening a new account. Again, this increases the effective cost of a new account without any revenue being generated.

CHART 12:
FIRST YEAR CHURN RATE OF NEWLY ACQUIRED ACCOUNTS (ESTIMATE)

What do you believe is the percentage of activated newly acquired customers that become inactive or churn within the first year?



Source:
Digital Banking Report
Research © March 2024
Digital Banking Report

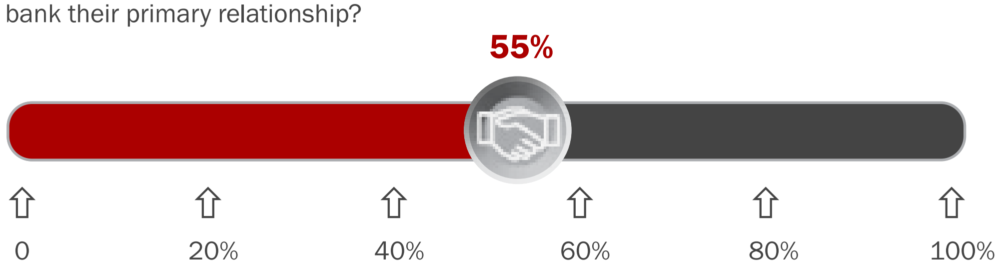
Finally, as would be expected, when there is a high churn rate as well as a high level of inactivity with new accounts, the potential for relationship primacy is foregone.

When we asked banks and credit unions globally for an estimate of the percentage of overall active accounts that would consider their financial institution as a primary bank, the number is far lower than it has been historically — at a rather dismal 55%. This is significantly lower than in the past, reflecting a heightened level of competition, the ease of digital account switching and opening, and the aggressiveness of offers for deposit customers.

CHART 13:

ACTIVE ACCOUNTS THAT CONSIDER THEIR RELATIONSHIP WITH YOU AS 'PRIMARY BANK' (ESTIMATE)

By your definition, what percentage of your active accounts do you think consider your bank their primary relationship?



Source: Digital Banking Report Research © March 2024 Digital Banking Report

---

The Value of Millennial Customers

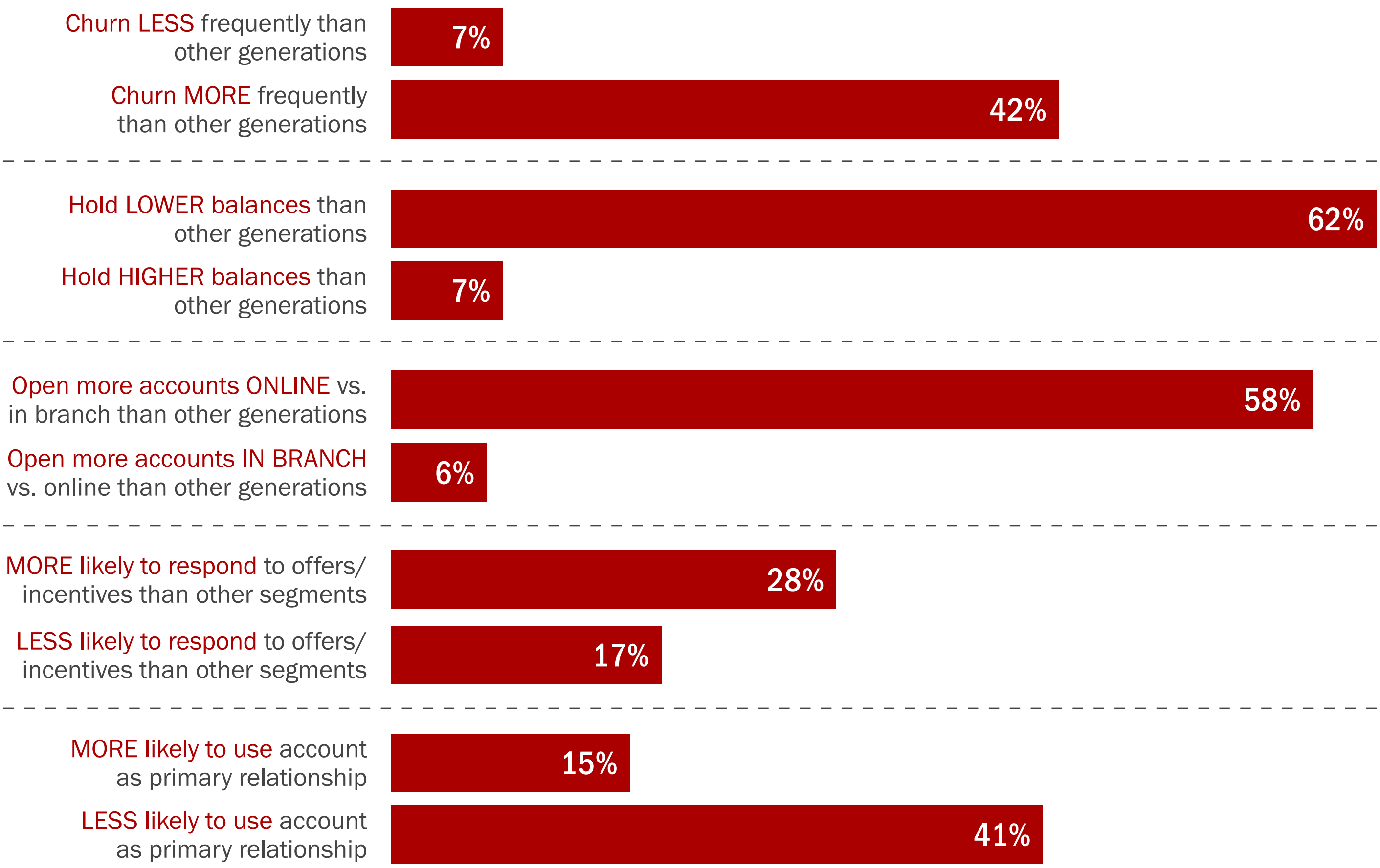
The majority of financial institutions included in our research place a high priority on acquiring Millennial customers since they often have not established a primary financial institution and can be convinced to switch financial institutions with a strong offer (28%) and are more likely to open an account digitally as opposed to in a branch (58%).

The challenge, however, is that while Millennial accounts may be easier to acquire, they are also harder to retain. According to our research, this segment is considered more likely to churn than other segments (42%). They are also more likely to hold lower balances than other generations (62%) and less likely to use their account as a primary relationship (41%).

Because of these contrasting findings, it is clear that banks and credit unions must be proactive to ensure that the Millennial accounts acquired are not only retained, but that efforts are taken to build value and primacy across the customer journey. This can be challenging since many of the accounts are generated without a branch visit, where early cross-selling and relationship establishment efforts can be done in person.

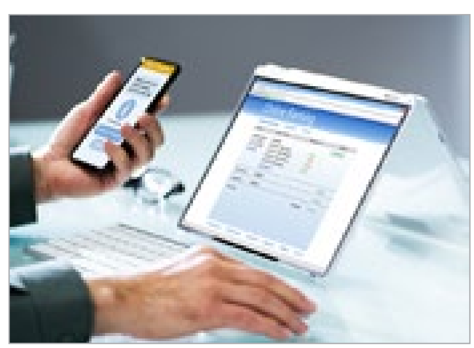
CHART 14: MILLENNIALS DIFFER FROM OTHER ACCOUNT OPENERS

What, if any, differences have you observed of Millennials and Gen Z account holders? (Check all that apply.)



Source: Digital Banking Report Research © March 2024 Digital Banking Report

The Direct Deposit Domino Effect



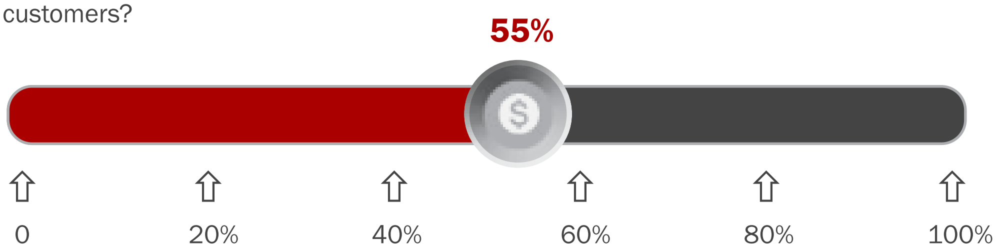
As illustrated, legacy banks face an engagement crisis. Fintech apps and neobank challengers have raised switching costs, enticing digitally savvy customers with slick interfaces, creative rewards and simplified products. Defection risks are real, especially among Millennials.

That said, direct deposit capture offers a pivotal opportunity for traditional institutions to construct durable relationships amid disruption. Unfortunately, according to our research, penetration of the direct deposit feature among new accounts is far short of optimal, especially considering the fully loaded cost of acquisition.

CHART 15: DIRECT DEPOSIT PENETRATION (ESTIMATE) FOR NEWLY ACQUIRED CUSTOMERS

What do you believe is your direct deposit penetration rate among checking account customers?

Source:
Digital Banking Report
© March 2024
Digital Banking Report



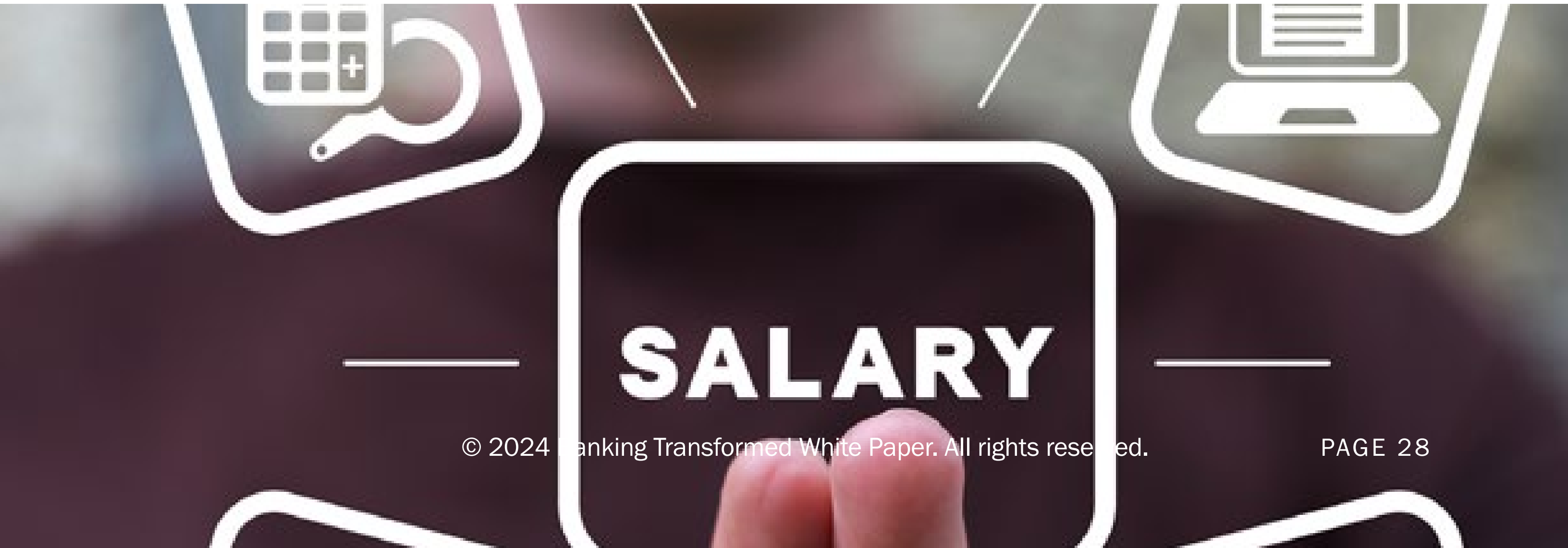
Direct deposit signifies a customer's paycheck landing in an account, establishing consistent cash flow. This drives a domino effect elevating the value exchange between financial institution and the customer. Customers access funds faster, grow balances and additional relationships larger through automated savings, and can borrow against payroll with attractive rates. Steady activity signals creditworthiness, unlocking more lending products. All this earns primacy as the core financial relationship.

The numbers reveal direct deposit's adhesive power: Accounts with payroll deposits maintain 23% higher balances and remain open twice as long as non-payload accounts, proving significantly more profitable. These durable relationships also demonstrate higher satisfaction, loyalty and referrals.

That's why securing direct deposit transfers early in onboarding is so vital, especially when competitors stand ready to poach customers. Yet cumbersome paperwork traditionally deterred small business owners and gig workers. New API solutions now automate switching quickly and seamlessly behind the scenes upon customer consent.

By smoothing this friction, more accounts turn active immediately, with foundational predictable cash flow powering fuller engagement. One regional bank using intelligent switching boosted new account balances over 50%, simultaneously increasing product usage.

The conclusion is clear: early direct deposit capture cements foundational customer relationships, seeding a chain reaction where steady payroll income escalates usage, trust and share of wallet. Legacy institutions must tap intelligent automation to plug this leaky revenue faucet before disruptors siphon too much value.



Reversing the High Cost of Acquisition Trends

Our deep dive reveals an industry still over-reliant on sheer new account volume metrics that poorly correlate to profitability. Lower income segments disproportionately drive most growth, portending credit risks and thin margins. Far more alarming, nearly 70% of new accounts remain largely inactive after just 90 days.

Direct deposit penetration signals a path forward. Payroll deposits cement durable relationships, driving higher balances, expanded product usage, creditworthiness for lending, and loyalty that concentrates share of wallet. Indeed, accounts with established direct deposit inflows maintain 23% richer balances and remain open twice as long as non-payload accounts. They also demonstrate drastically reduced churn alongside elevated satisfaction and referrals.

That's why early payroll linkage after account opening proves so pivotal in constructing primary financial ties. But manual switching friction traditionally deterred small business owners, gig platforms and other worker categories. Two consequences resulted: insufficient direct deposit capture left revenue opportunities on the table, and consumers sought alternatives more seamlessly integrating payroll services into their financial lives.

Enter intelligent bank partnerships with payment processors now automating this linkage behind the scenes via account aggregation APIs upon user consent. One of the nation's oldest and largest financial institutions Citizens recently began transforming cumbersome changeovers into instant, invisible transfers after recognizing engagement obstacles.

One solution from payroll connectivity leader **Pinwheel** goes further still — identifying and verifying payroll relationships in real-time to enable immediate allocation updates in a single click without traditional login hurdles. This unprecedented convenience promises to convert direct deposit switching at over

2X industry rates. And the resulting transaction-level insights from recurring payroll data promise personalized financial offerings like never before possible.

While direct deposit constitutes the cornerstone, integrated digital onboarding spanning full life-time journeys also proves foundational to securing primacy. Applying decision engines at the point of account opening can qualify customers for relevant cards, accounts and lending products upfront based on integrated data analytics. Instant issuance and fast funding empower new users to immediately access preferred payment types, money management tools and spending or borrowing optionality.

Finally, there are success stories for embedding values-based rewards and offsets that resonate with socially conscious generations now evaluating providers on societal impacts beyond pure functionality. Purpose-driven differentiation can capture wallet share unavailable to solely transaction-focused institutions.

In an epoch of declining loyalty intensified by digital dis-intermediation, financial institutions lose ground by the day relying on aging metrics and narrowly functional capabilities. As disruptors redefine value chains through expanded utility, legacy organizations face a mandate to either adapt or fade slowly into irrelevance. Third party solution providers can pave the path forward.

By fusing the human need for trust and confidence during moments of uncertainty with the convenience and empowerment of seamless money integration across devices, forward-looking banks upgrade aspirations from chasing transient cost-based deals to forging durable lifetime advocacy underwritten by shared purpose. Progress starts by plugging direct deposit leaks before they drain further revenue, then artfully steering newfound value to highest societal uses.

Those who realize this blended vision will lead financial services through an era where relevance reigns. And the resultant prosperity will ultimately float all boats in a more equitable rising tide built by putting shared human potential over outdated institutional constraints.

About Jim Marous

Named as one of the most influential people in banking and a 'Top 5 Fintech Influencer to Follow', Jim Marous is an internationally recognized financial industry strategist, co-publisher of **The Financial Brand** and owner and publisher of the **Digital Banking Report**.

As a sought-after keynote speaker, author and recognized authority on disruption in the financial services industry, Jim has spoken to audiences worldwide. He has been featured by CNBC, CNN, Cheddar, the Wall Street Journal, the New York Times, the Financial Times, the Economist and the American Banker.

Through his podcast, **Banking Transformed**, Marous provides listeners with an opportunity to hear about the organizational impact of digital transformation. With new shows each Tuesday, Jim interviews his guests with the objective of digging deeper into the opportunities and challenges facing banking and other industries. You can download Banking Transformed on The Financial Brand podcast page or on your favorite podcast platform.

You can also follow Jim Marous on **Twitter** and **LinkedIn** or visit his professional website.