SPRING 2021

NOVANTAS REVIEW

NOW WHAT?

Post-Pandemic Priorities

The Need for Digital Empathy

Using Deposit Behavior to Assess Credit Risk

NOVANTAS REVIEW

A Note from the CEOs

Welcome to the Spring 2021 issue of the *Novantas Review*.

There are two important questions that bank executives must consider this year: How is my bank positioned coming out of the pandemic and where do we go from here?

Although the details are different for each institution, one theme spans the industry: your bank must emerge from this pandemic in a different spot than where it stood a year ago. Just as technology helped the oil industry move from traditional vertical drilling to horizontal drilling, banks can lean on technology and analytics to create new products and services for their customers.

This is the time to take the plunge.

This edition of the *Novantas Review* explores the myriad opportunities that banks can embrace as they plan for a new post-COVID-19 era. In retail banking, we look at how recent changes in customer behavior can drive new strategies for customer acquisition, the workforce and branch locations. We also examine the impact that surge deposits will have on the balance sheet if they — as it increasingly seems — remain in bank coffers for some time.

We also encourage banks to think differently about creditworthiness by analyzing deposit behavior and cash flow. And we remind fintechs that they can't rest on their laurels if they want to continue their growth trajectory.

These new opportunities will require intensive planning and commitment. They are also essential strategies to help your bank thrive in the new era.

May the spring bring new beginnings for us all.

Sincerely,

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THE DOs & DON'Ts OF BANKING IN A POST-COVID-19 WORLD

BY RICK SPITLER AND BOB WARNOCK

It has been a year since COVID-19 rocked every aspect of our world, but there are finally some reasons to be cautiously optimistic about the future. The pace of vaccinations is accelerating around the world — one in 10 Americans has now received at least one dose even as cases continue to ebb and flow around the world. Those who are vaccinated can now tiptoe back to more normal lives, a development that is likely to help the economic recovery.

Such progress is heartening after many sobering months. For bankers, the issue now is to take a breath, look around, figure out where we are and how to plan for what is likely to be an uneven future.

There are some certainties. Interest rates will stay low through the year. The flood of deposits that entered the system last year won't flow out until there are clear signs that the economy is back on track. The new administration in Washington will keep close tabs on the banking industry and the impact of fees on consumers, keeping pressure on net interest income. Fintechs are experiencing a burst of confidence as investors plow money into companies that want to release the traditional banking industry's grasp on consumers and businesses.

Amid it all, the outlook for banks looks favorable for the year. But this isn't time for banks to rest on their laurels and merely point to recent improvements in the bottom line. Instead, they need to take advantage of short-term favorable trends to defend their turf. They also must reinvest to address secular changes in the industry. This approach mightn't provide immediate revenue growth, but can position institutions for the future.

As you consider the future, Novantas is pleased to provide the following dos and don'ts.

DON'T

BET THAT BRANCH ACTIVITY WILL RETURN TO PRE-COVID-19 LEVELS

Branch sales are down 15% compared with pre-COVID-19 levels and teller transactions are down 26%. While those numbers are likely to edge higher once customers feel comfortable interacting in the confines of a branch, don't expect a huge rebound. Even before the pandemic, more than half of bank branches already had fewer than 4,000 transactions per month. As a result, Novantas estimates that nearly two-thirds of bank branches are operating at a sub-scale level.

TARGET CUSTOMERS WHO AREN'T WITH THE BANK FOR THE LONG HAUL

Depth of relationship becomes increasingly important at times like this. Customers have so many banking choices at their fingertips, but banks should focus on those who are interesting in maintaining a true and lasting relationship.

UNDERESTIMATE THE STAYING POWER OF FINTECHS TO FRAGMENT THE CUSTOMER WALLET

It seems that fintechs are creating new financial-services solutions every day — from treasury to savings accounts. As a result, it is now easier than ever for consumers to fragment their wallet.

DO

FOCUS ON CORE RELATIONSHIPS

There is no substitute for acquiring customers who have the potential of being core to the bank. Gone are the days when it may have made sense for banks to scoop up dribs and drabs of customer balances. And using rate as a lever for funding growth just isn't effective in an era when customers can quickly and easily find a better deal with a few keystrokes. Today it is much easier to ascertain if the bank holds the customer's core deposit account — accounts that show good cash flow and long duration. These are the customers who will turn to the bank when they need a mortgage or financial advice and will be more receptive to cross-sell opportunities. But it is important to recognize that there isn't a universal definition of those customers. Each bank must determine what core means to them, why and when that definition may change.

ENGAGE DIGITAL CUSTOMERS

It is increasingly clear that customers who open accounts digitally just aren't as engaged with the bank as those who open accounts in a branch. (See *Cracking the Code on Digital Empathy* on page 8). The trick for bankers, of course, is figuring out how to interact successfully with customers whom they've likely never met. That means going the extra mile to use machine learning and AI to develop ways to form a bond with these customers. The traditional method of using a branch to build brand loyalty doesn't translate in a digital world. Lollipops just aren't going to cut it.

DESIGN VALUABLE PRODUCTS THAT ATTRACT CUSTOMERS

One of the most talked-about banking offers of 2020 didn't come from a bank. It came from Chime, the whiz-bang fintech that turned heads when it offered customers access to their stimulus checks before the government even sent the payments. Of course, we don't know the long-term implications that offer will have on the upstart, but Chime certainly demonstrated creativity in meeting the needs of its customers. That will be even more important for banks this year as reliance on fees has declined significantly — the top 50 banks saw overdraft revenue slashed by roughly 25% between 2020 and 2019.

There is little doubt that the importance of branches as a driver of awareness and consideration are declining. Advertising can help, but it is expensive. This intensifies the need for banks to design targeted products that can drive core relationships and associated fee revenue. As an example, Novantas research indicates there is an increasing appetite for subscription pricing — a service than can add revenue and develop loyalty. Products like these will be important tools to grow new-to-bank accounts and can help offset the declining value of the branch.

CLOSE THE RIGHT BRANCHES

The past year has created whiplash for bank executives who are trying to determine which branches should be shuttered next. As we all know, the lowest-hanging fruit has already been clipped from the distribution network. But the next round of shutdowns may look different today than it did a year ago. Branches in high-traffic business centers and shopping centers have experienced a dramatic drop in activity as people work from home and restrict their movements due to the pandemic. The question now is, will those branches start seeing more traffic as people slowly start resuming normal activity or should they be shuttered for good?

MANAGE THE BALANCE SHEET FOR SYSTEMIC EXCESS DEPOSITS

The flood of commercial deposits into the banking system aren't going away any time soon, especially as loan growth stays anemic. That means bankers have some serious decisions to make about how to stem the inflow and how to put the remaining deposits to good use. This isn't a one-time action, however. Banks need to keep close tabs on economic factors and changing customer behaviors in order to make the proper adjustments for their position. And, of course, they need to assess balance growth down to the customer level. (See *Funding Optimization is Crucial as Surge Deposits Linger* on page 14.)

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Cracking the Code on Digital Empathy

BY SARAH WELCH

My primary bank has dodged a few bullets — six, actually — in the past 24 months. But I'm pretty sure it has no idea. The bank still gets my direct deposit and many of my day-to-day transactions. That said, I am not the loyal customer I might seem, despite my steady transaction stream. I rarely engage with the communications they send. I never visit their branches. And this year, thanks to COVID-19, I no longer need their ATMs since many people don't want to handle cash.

The bullets it has dodged? Those are the six other bank apps I've accumulated on my phone over the past two years or so, most of which are neobanks. That doesn't even include Venmo and Paypal, which have moved from rarely-opened novelty apps to essential payment utilities.

So why haven't I moved beyond kicking the tires with one of these interlopers and made a switch? It's because my early experiences with them — while friction-free, easy and digitally slick — were also generic and devoid of any hooks that fostered a relationship. After giving each of them an honest chance, I concluded that none were offering anything more revolutionary than basic bank utilities and that I would never be anything more than an anonymous customer to them. It's just not worth the pain of switching — at least not yet.

Banks on both sides of this equation are the losers here. While my traditional retail bank has enjoyed a stay of execution, it is still in a precarious situation and still hasn't changed the way it interacts with me. Meanwhile, the neobank challengers have wasted precious marketing dollars by giving away less-than-compelling incentives.

What's sorely missing on both sides is digital empathy. Banks of all stripes desperately need more marketing and product interactions that evoke a sense of connection. In time, profits will follow.

NO EASY TASK

There are certainly challenges to this goal, but it is essential. A bank that isn't responsive to its customers' behavior and fails to interact with them in relevant ways won't have those customers for long.

The promise of personalization is high, but given the breadth of impact, the value is difficult to measure. That can make it a tough sell in the budget process, especially when marketers are allocating precious investment dollars.

But a growing amount of evidence shows that it is worth the effort. Banks that establish digital empathy with their customers through personalization enjoy benefits at every stage of the customer lifecycle — from reducing the cost of acquisition to improving primacy and driving relationship depth. For example, Novantas has demonstrated that creative personalization can more than double the performance of the existing decision engine. (See Figure 1.)

FIGURE 1: CREATIVE OPTIMIZED FOR CUSTOMER

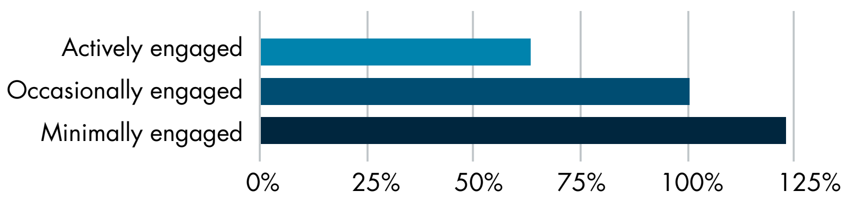
A Existing

A randomly-selected email that contained at least one or more email elements (image, tone, approach, call to action).

B Creative Optimized for Customer

An email optimized for the individual customer with the AI-selected image, tone, approach and call to action.

% Lift in Email Click-Through



Creative optimization had the biggest lift on the segments that previously were the least-engaged.

Note: No offers were included in any of the messages. Emails were only educational content with an invitation to apply. Customers were equally eligible for all content.

BANKING BASICS

Setting aside for a moment the wide variability of salesforces, let's contrast a typical bank's digital marketing interactions with those initiated by a typical banker. Where digital marketing engines blast out "personalized journeys" that are mostly linear and trigger-based communication streams that are, at best, tailored to broad segments (such as mass affluent or young professionals), a banker engages in a rapid test-and-learn exercise to build a direct relationship with the customer.

Among other things, she will greet you sincerely and ask you what you're looking to accomplish in your visit. She'll probably ask some questions about your current situation and financial goals. She might throw out a bad joke to see if you respond to humor. She'll mention a service or product feature to gauge your interest or point out some bank resources you might find helpful. Every bit of stimuli she puts out there, she's watching — assessing how it landed and using that information to either change her approach or dive deeper into a topic. These micro interactions elicit feelings of connection and increase the relevance of the bank and its solutions to the customer.

It is difficult to replicate the banker's interactions in digital channels at scale and it is impossible to do if operating teams use the same tools and approaches to drive personalization that they rely on today. Today's operating models — even the agile ones — and martech stacks are designed around a linear workflow that require teams to predefine segments and then preconceive "personalized journeys" for each of them, respond to any triggers and/or incorporate the next recommended actions.

All this hard wiring requires massive resources. Analytical teams must first determine how to segment customers and then for each segment quantify the most critical areas of relationship-building opportunity. Creative teams then generate distinct executions for each segment opportunity and digital marketing teams program test cells, work with analytical teams to read results and then scale up the winning approaches.

Not surprisingly, this quickly hits a point of diminishing returns — and keeps digital relationship-building stuck in automaton land.

A BETTER WAY

Advances in marketing software offer a path out of this linear logjam. A more human approach is possible with continuous test-and-learn capabilities driven by machine learning and AI. Instead of prefabricating and predetermining customer journeys and interactions, new technologies enable marketers to let machine learning drive the personalization based on a rapid test-and-learn approach to digital relationship building that is rooted in the assumption there are many possible "best" treatments.

With machine learning at the core, teams can invest their time and energy in building a robust library of treatments for any objective — such as driving primacy during the first 60 days. This library of executions, or executional components, flex different variables — from the topic communicated to positioning, proof point emphasis, tone, imagery, copy length, sequencing and incentives. A sophisticated machine learning engine can then capitalize on the treatment library to run tests with micro-segments at a scale that simply isn't possible for human teams. It can also observe downstream behavior to "learn" what's working (or not) and automatically adapt campaign messaging going forward. Such an approach dramatically improves the relevance of each customer interaction without requiring a scale-up in personnel.

To compete in a digital-first world, all banks will have to humanize their customer interactions to drive deeper, stickier relationships. First movers will have an advantage.

As for me, I'm still waiting. All six interloper bank apps remain on my phone along with my "primary" bank — and every bank's emails still hit my inbox with little distinction among them. ■

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CONSUMER CREDIT CONUNDRUM:
THE BENEFIT OF NEW DEPOSIT METRICS IN ASSESSING CREDIT RISK

BY ALAN SCHIFFRES

A slew of federal and state actions aimed at easing the financial burden on Americans amid the COVID-19 pandemic has upended traditional metrics that the financial-services industry relies upon to assess credit performance.

The upheaval is accelerating the need for banks to expand the data and develop improved methodologies to analyze creditworthiness, including evaluating deposit and cash-flow behavior. This will provide a significant advantage to lenders that hold the core deposit and spending accounts of their customers.

PANDEMIC ASSISTANCE CLOUDS CREDIT VIEW

Consumer and small business lenders overwhelmingly depend on credit scoring, supplemented with other indicative metrics, to statistically assess applicant and customer creditworthiness. Traditional methods incorporate several of the "5Cs" of lending (including character, capacity, capital) though empirical modeling of behavior — sometimes with overlays for collateral and conditions.

Foundational to this statistical approach is an assumption that data used when calculating a score mean the same thing they did when the score was initially developed. That assumption no longer holds. The unprecedented scale of mandated and voluntary forbearance and loan modifications from the CARES Act, as well as stimulus payments and enhanced unemployment benefits, have fundamentally changed the context of credit data throughout the pandemic.

The magnitude of data dislocation for consumer lenders is unprecedented. Four million home mortgages, more than 40 million student loans and tens of millions of credit card, personal and auto loans are in forbearance or other special payment arrangements. The CARES Act stimulus and unemployment provisions are providing hundreds of billions of dollars of direct financial support to individuals, some of which are aiding payment of loans and providing many individuals temporarily higher incomes than before.

The effects of these changes are opaque in customary credit bureau data, which are the source of most credit score attributes. The CARES Act amended FCRA reporting requirements to stipulate any account that has a payment accommodation be reported to credit bureaus as current — provided the account was current when the accommodation was made. Furthermore, all elements of the reported trade, like scheduled monthly payment and amount past due, must be updated to accurately reflect the reported delinquency level.

As a result of these actions, U.S. consumer average credit scores now stand at record levels — a stark contradiction to the economic tumult blanketing the country.

The disconnect among various traditional metrics of credit health also can be found elsewhere. (See Figure 1.) CoreLogic reports a sharp year-over-year increase in individuals who are 90+ days delinquent on their home mortgages (4.1% compared with 1.3% a year ago), yet Equifax reports mortgage delinquencies are declining. Unemployment reached stunningly-high levels in 2020, but personal bankruptcy fillings fell 22%. Beremberg Economics found Americans saved a significant portion of their first stimulus payments; meanwhile, *Novantas's Weekly Deposit Tracker* has found that individuals who received their second stimulus payment quickly drew much of it down.

While it is clear that these programs have helped many Americans meet their immediate financial obligations, the relief has obscured loan performance and payment history data, putting reliance on this data in doubt. While it is simply too early to tell how much or in what ways scores and other credit decisioning tools are being affected, it is naive to assume it won't be material. Indeed, the developments are already complicating new loan approval and service analytics.

Some may argue credit scores should continue to work as expected because score distributions are stable. But the current environment embraces measures of non-payment that don't reflect "true" non-payment. Furthermore, there is no assurance that loans that are now being paid with the assistance of stimulus and unemployment funds will continue be paid in the future when those funds dry up.

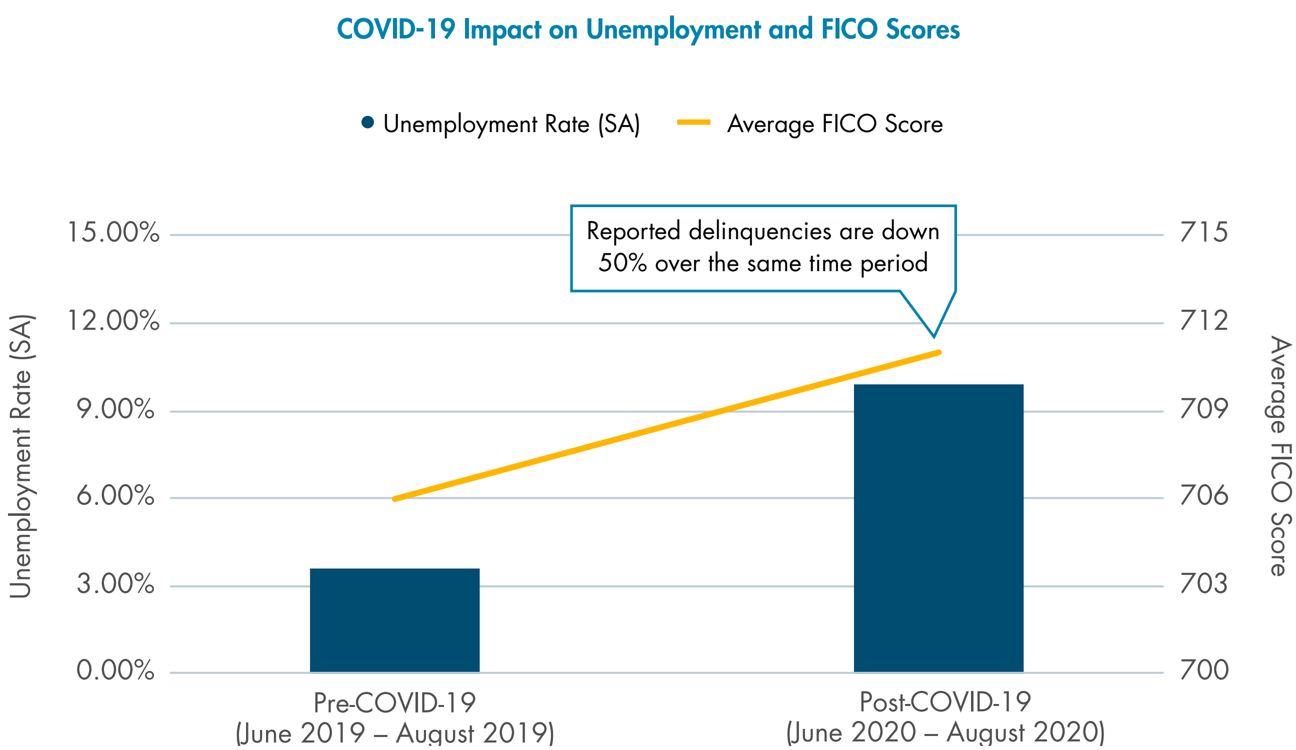
With this unprecedented confluence of data challenges, credit managers need to find alternative ways to assess credit risk. An enhanced focus on employment consistency and verification, greater attention to persistence of income, more conservative loan-to-value levels and constructing novel credit bureau attributes are all worth considering.

TACKLING THE PROBLEM

For organizations with deep customer relationships, views of behaviors apart from previous loan performance may be among the most promising. Savings and personal cash flow can provide an alternative window into a customer's situation that is apart from and somewhat orthogonal to loan performance. While patterns of deposit, savings and cash flows may have been affected by the pandemic, recording of these metrics hasn't been distorted and relationships to traditional delinquency and charge-off measures are more likely to remain unaffected.

Risk functions historically have focused on credit behavior attributes because they had direct information value. Traditional metrics are currently capturing credit performance in the light of recent public policy actions – the two are inseparable. Analyses of deposit behaviors, including deposit balance trends and transactions, may enable credit managers to separate these effects. Initial high-level evaluation from Novantas, a data and analytics company that tracks more than $2 trillion of consumer deposits, suggests deposit metrics are indeed likely to prove valuable for assessing credit risk. Specifically, the history of a customer's deposit holdings, the amount,

FIGURE 1: WHILE UNEMPLOYMENT HAS SKYROCKETED, REPORTED DELINQUENCIES ARE DOWN AND AVERAGE FICO SCORES ARE UP



Source 1: Equifax Market Pulse Webinar on October 8 (page 34), Equifax Credit Trends Monthly
Source 2: FICO Blog: "Average U.S. FICO Score at 711, But Uncertainty Abounds"
Source 3: Federal Reserve Bank of St. Louis – Federal Reserve Economic Data

the stability and the distribution across products appear indicative of a customer's ability to weather financial stresses and strains.

Using a combination of uniquely-constructed deposit and cash-flow metrics, Novantas identified several attributes that demonstrated statistically-significant discrimination among mortgage holders who were delinquent and those in good standing. (See Figure 2.) The research also reinforces the importance of studying and evaluating alternative ways to construct metrics that measure deposit levels and cash flows. For example, Novantas researchers identified a statistically-meaningful difference in the ratio of discretionary liquid balance (savings not needed for immediate expenses) and cash flow to predict mortgage performance six months out. Discretionary liquid balance alone, however, didn't exhibit a statistically- meaningful difference. This exercise demonstrates how a set of deposit metrics can drive information value for credit applications.

The specific characteristics that may be strongly predictive of future credit performance may vary from product to product, portfolio to portfolio and lender to lender depending upon the unique circumstances of lenders' markets, policies and prospect/customer demographics.

There is further evidence that this approach works. An empirical study by FinRegLab, a non-profit research organization, determined that "the cash-flow metrics were predictive of credit risk across the diverse set of providers, populations and products studied." The research was based on loan-level data provided by six non-banks — primarily fintech lenders — and considered cash-flow metrics alone and in combination with traditional risk metrics to construct risk models. Using standard measures of model performance, the cash-flow variables and cash-flow-only models "suggest a relatively robust ability to predict likelihood of default independent of… traditional metrics," the study found.

Using cash flow to make credit decisions isn't new to the industry as a whole– it has been used extensively in corporate lending decisions. A growing number of fintech lenders are already using data aggregators to collect and use consumer deposit and spending data in underwriting. But traditional banks typically don't mine deposit data in consumer credit decisions. And if they do, they tend to use simple ratios or raw data transformations that may limit its information value.

More broadly, efforts to incorporate cash-flow data into risk scores have accelerated as evidenced by UltraFICO, Fair Isaacs's risk score that includes cash flow attributes. There have also been efforts by Experian and Equifax to pull in cash-flow data from data aggregators like Finicity, Envestnet/Yodlee and others.

These approaches have their own set of challenges. For example, a consumer must provide deposit and spending information to a data aggregator and also grant permission to the lender to access and use the consolidated data — a high hurdle for consumers who are concerned about privacy and cybersecurity threats. Banks that hold a consumer's core banking relationship have a leg up in this area because they already have a broad view of a customer's cash flow. This advantage has been underleveraged by many banks; the current challenges to traditional underwriting information make advancing this data opportunity more urgent.

Ordinarily, a risk manager will ask a key question when evaluating additional sources of predictive risk: how much does the new information add *incrementally* to what is already known and is the marginal cost of the new data less than the marginal benefit to predictive power? When risk scores are working, the bar is high because risk scores are known to be highly predictive, stable over time and cost effective.

But these aren't ordinary times. Today, with concerns about the reliability of risk scores, the bar to considering alternative data is considerably lower. And the urgency for banks to incorporate this data is far greater. ■

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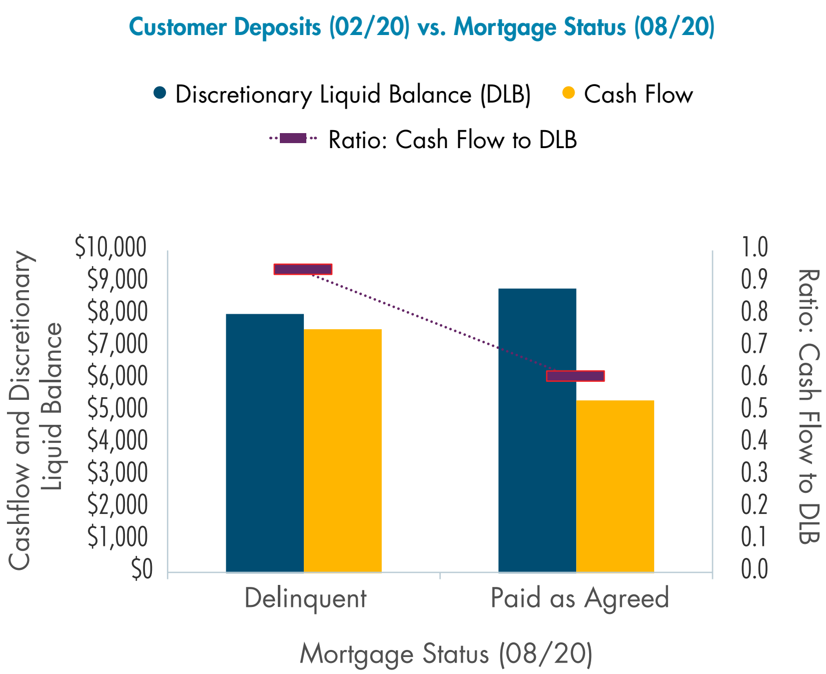
FIGURE 2: CUSTOMERS WHO CONTINUE TO PAY THEIR MORTGAGES HAVE, ON AVERAGE, A MUCH BETTER RATIO OF CASH FLOW-TO-DISCRETIONARY LIQUID BALANCE



Source: Disguised Novantas dataset of client mortgages and deposits

A NEW STRATEGY FOR TACKLING THE CREDIT DISCONNECT

BY HANK ISRAEL AND DON KUMKA

Novantas recently evaluated thousands of loans at origination to develop a customer credit scorecard that only uses deposit analytics to gauge the risk of default. The scorecard, which uses a database of roughly one-third of U.S. deposit accounts that goes back more than a decade, captures underlying consumer financial behavior to expand a lender's understanding of current borrowers and prospects.

Because the scorecard captures "thin file" customers with little credit history, lenders who have a deposit relationship with these customers can expand into a credit relationship with a greater degree of comfort.

The score includes 12 months of deposit activity prior to a credit-account opening and predicts the 90-day delinquency rate in the total population of the evaluated unsecured line and loan portfolios. (See Figure 1.) In rank ordering the probability of 90-day delinquency, lenders have opportunities to approve applicants who would otherwise fail if a traditional score was used. They can also limit lines or decline consumers whose traditional credit scores may not adequately reflect their ability to repay the loan.

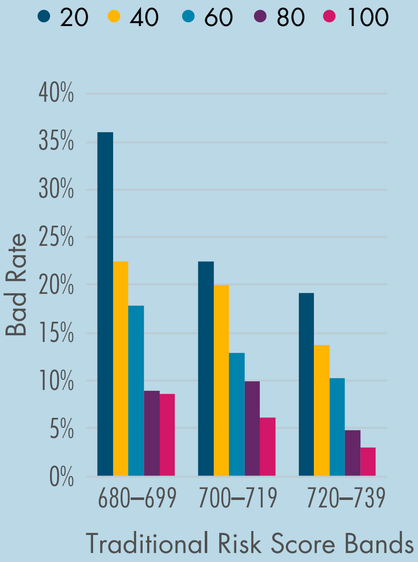
The Novantas scorecard provides a powerful rank ordering of risk in the approved loan pool independently of traditional score or attribute data. Even more valuable is that the deposit score can capture and explain broader financial behaviors and can discriminate within traditional consumer credit score bands. (See Figure 2.) Across prime bands (680-740), Novantas discriminates six-to-eight-fold difference in default rate from the highest- to lowest-performing customers in each 20-point band.

Leveraging the deposit scorecard to approve unsecured credit, the model can drive 15% lift in annual value over current practices, across the following actions.

These deposit analytic tools can have an immediate impact on credit decisions in the following ways:

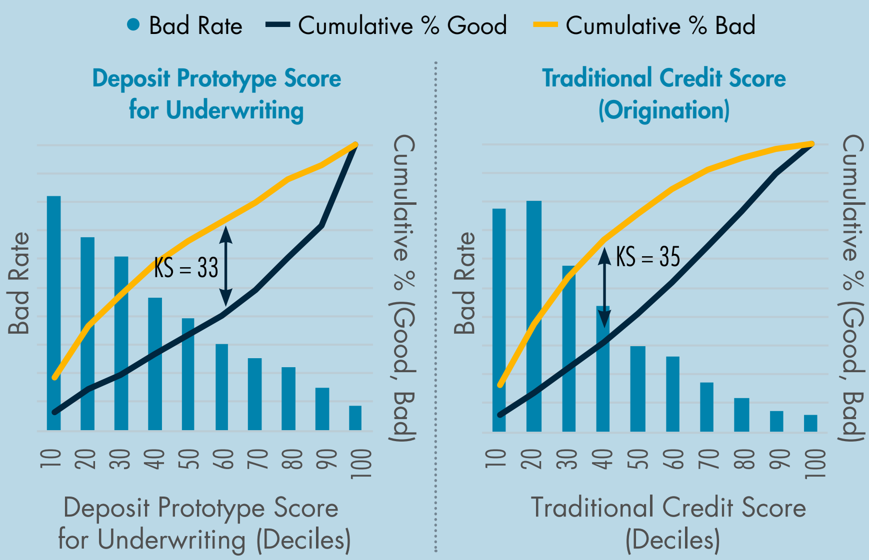
1. **Underwriting:** Enhance underwriting policy and/or scorecards to incorporate the most powerful features from deposit underwriting to advance the lender's information advantage in approvals, the size of the credit lines and/or pricing.
2. **Pre-Screen:** Leverage the data to more accurately pre-screen consumers for offers. This will be less expensive than traditional pre-screen services and will provide an advantage over competitors.
3. **Credit Management:** Use the data to manage lines and pre-delinquency engagement more accurately.
4. **Portfolio Forecasting:** Credit managers can assess more accurately the risk in their current portfolios independent of accommodation and delinquency, providing more accurate insight to inform forward-looking credit performance.
5. **Collections Management:** Prioritize collections treatments based on insights to drive economic actions and improve visibility and outcome of accommodation programs.

FIGURE 2: THE NOVANTAS PROTOYPE REPRESENTS INCREMENTAL DISCRIMINATION TO TRADITIONAL CREDIT SCORES WITH BROADER FINANCIAL BEHAVIORS



Source: Novantas disguised client data (Personal Unsecured Loans and Lines)
Bad rate: if the account is ever 60 days past due over next 12 months
Good rate: never more than five days past due over next 12 months

FIGURE 1: THE NOVANTAS DEPOSIT PROTOTYPE SCORE FOR UNDERWRITING HAS SIMILAR RESULTS AS TRADITIONAL MECHANISMS



Source: Novantas disguised client data (Personal Unsecured Loans and Lines)
Bad rate: if the account is ever 60 days past due over next 12 months
Good rate: never more than five days past due over next 12 months

FUNDING OPTIMIZATION IS CRUCIAL AS SURGE DEPOSITS LINGER

BY GREG MUENZEN

Almost a full year into the COVID-19 era, the surge in deposit balances created by a variety of government stimulus and customer behavioral drivers remains intact. Commercial deposit balances, the primary driver of the surge, increased more than 36% since the onset of COVID, with roughly 5% observed in the final quarter of 2020, according to the Novantas Commercial CDA Executive Summary.

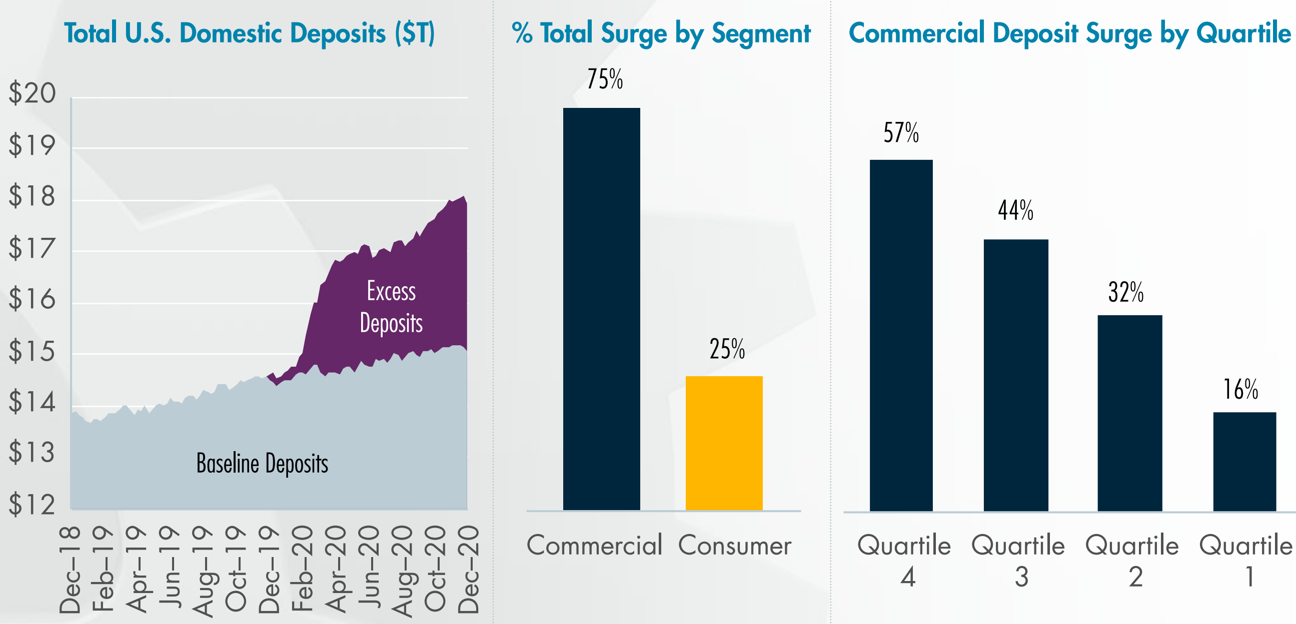
With another round of stimulus funds flowing into bank accounts, consumer deposit balances — already up roughly 14% since the onset of COVID-19 — are poised to surge again. As loan growth lags, cash and securities portfolios have ballooned, pressuring asset yields and bank returns during this period of low interest rates. (See Figure 1.)

Banks are making some moves to stem additional inflows and achieve margin relief in inflated investment portfolios, but broader funding optimization decisions are needed. In this age of big data, banks should explore the use of scoring to develop empirically-driven analytics that can be used to value and manage deposit customers on a granular basis.

TABLE STAKES: TACTICAL ASSET AND LIABILITY MANAGEMENT

On the asset side, banks have taken some tactical actions through investment portfolio management, deploying balances into longer-duration or higher-coupon securities. Some amount of investment portfolio optimization is needed, but overreliance on this strategy could mean trading marginal incremental yield in the short term for significant value risk in

FIGURE 1: DEPOSIT LANDSCAPE



Source: Novantas Analysis; Novantas Commercial Deposit Analytics; H8 Report

REPLACING LCR AS A GUIDEPOST ON VALUE

BY GREG MUENZEN

Deposit resiliency in stress is a well-known focus of the Liquidity Coverage Ratio (LCR), a regulatory liquidity metric that prescribes 30-day deposit runoff assumptions for a range of predefined, often high-level, deposit segments. Large banks that are subject to LCR often view the measure as a binding constraint for liquidity management and use the assumption to allocate liquidity costs to deposits through funds transfer pricing.

In relying solely on LCR runoff assumptions, however, banks may be overly simplifying deposit liquidity characteristics in two ways. First, banks may be considering too short of a scenario time horizon for liquidity stress. Second, LCR's one-size-fits-all assumptions — such as the 10% outflow assumption that doesn't differentiate between branch-based and online savings or the 40% outflow assumption that treats all commercial non-operational balances the same — lack useful differentiation that banks need to value funding and make customer-level decisions.

the longer-term if interest rates rise—a risk underscored by recent yield curve steepening, which saw the 2Y to 10Y interest spread reach its highest level in five years. Such strategies may hamper a bank's ability to meet customer-driven asset growth in the future.

On the liability side, banks are doing what they can to reduce deposit pricing and limit further inflows. A late 2020 Novantas Commercial CDA survey of commercial lines of business found that three-quarters of respondents took active measures to limit additional deposit growth, with 42% paying declining or zero rates on surge balances, and 26% communicating balance limits to clients. Another 21% required additional product purchases in exchange for accommodating surge balances and a not-insignificant 16% of respondents suggested placement of balances at a competitor institution. Unsurprisingly, our survey found that 26% of respondents used funds transfer price reductions to disincentivize or discourage additional surge deposit growth.

WHAT TO DO NOW: CUSTOMER SCORING

These tactical asset and liability actions are necessary, but bigger change is needed in the form of broader funding optimization — an imperative in today's low-rate environment. Banks should be careful that they don't base such efforts on incomplete views of customer value or high-level regulatory prescriptions, including from LCR. Instead, analytics can include customer-level pricing, cross-sell or myriad other treatments. In our experience, successful scoring initiatives require thoughtful definition of customer value, a big-data approach to customer scoring and a focus on the range of macroeconomic scenarios that could play out in 2021 and beyond. The ultimate goal: identify the deposits that you want to keep.

IDENTIFY VALUE EXCHANGE

Standard Treasury frameworks for deposit valuation focus on the interest sensitivity and liquidity characteristics of deposits. Long-term stability, price insensitivity and balance resiliency in stressed environments are pillars of deposit value. (See sidebar.) While appropriate for Treasury-oriented balance sheet management and funds transfer pricing applications, this view of balances ignores other, more customer-centric drivers of value, such as fee revenue potential, cross-sell potential and acquisition cost advantages. The ideal customer scoring methodology recognizes both funding- and customer-centric drivers of value.

The accuracy and usefulness of customer scores will increase with higher-quality input data describing the customer relationship with the bank. In addition to customer demographic and product holding data, transaction-level data (including Treasury Management data for commercial depositors) provide highly relevant insights into customer primacy, which typically tracks closely with customer value. This will enable the bank to consider using incentives and rewards to retain valuable deposits, while discouraging those deposits that aren't worth keeping.

ONGOING EXERCISE

Depositor behaviors from everyday consumer savings rates to large corporate cash management changed suddenly and materially at the outset of COVID-19. Therefore, it stands to reason that behaviors may change again as the economy improves with vaccine rollouts or potentially stalls again. As such, the attractiveness of various deposit segments will change. The ideal customer scoring methodology will control for these macro effects, thus enabling scenario analysis.

The persistence of flat rates, surge deposits and tepid loan growth will increase the need for funding optimization efforts — and tough decisions in terms of prioritizing and de-prioritizing customer growth. Banks need empirical tools to guide these decisions, weighing a range of scenarios given the unpredictability of today's economy. ■

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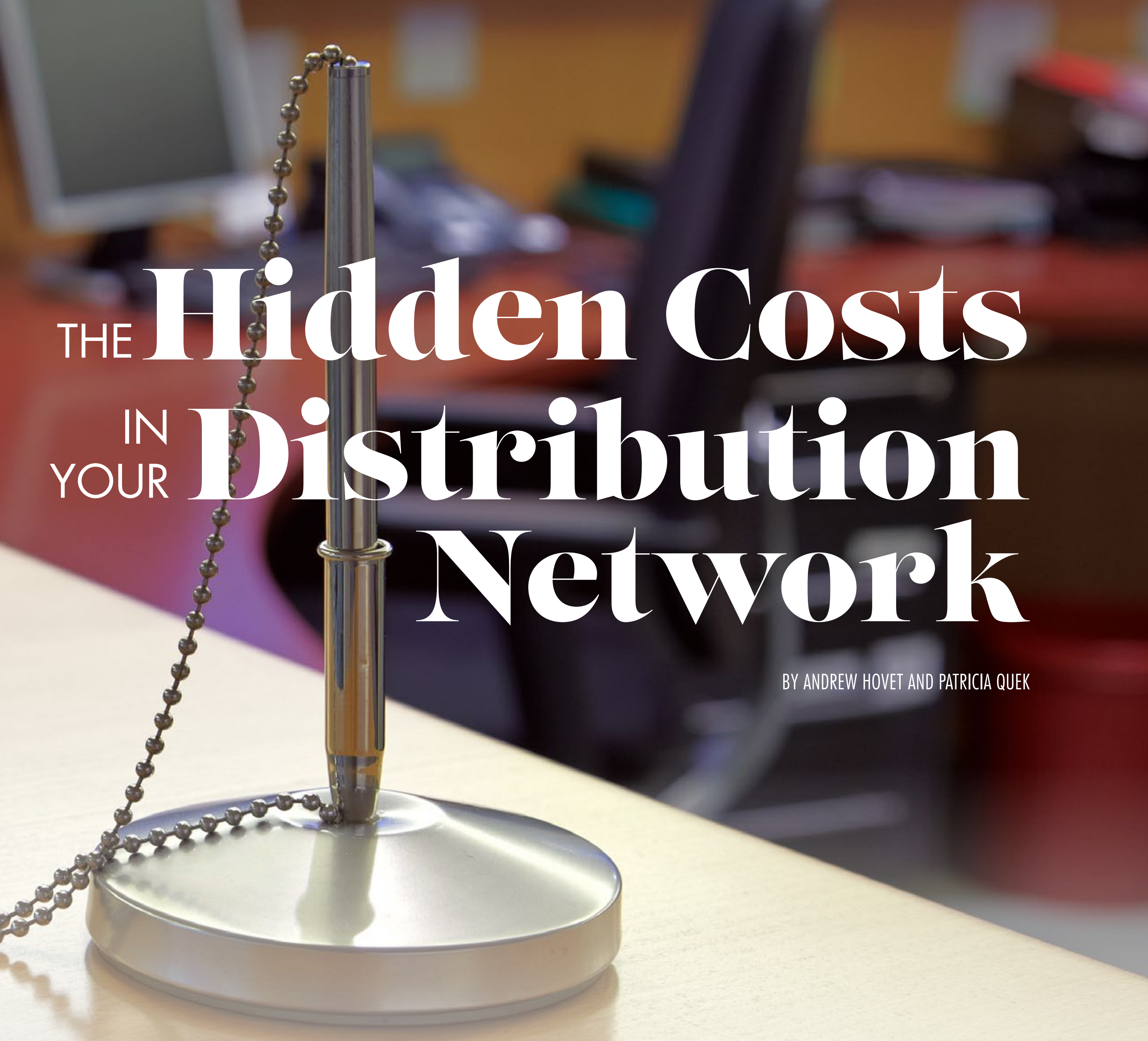


THE Hidden Costs IN YOUR Distribution Network

BY ANDREW HOVET AND PATRICIA QUEK

You just closed a bunch of branches. How do you get even more costs out of your network?

A confluence of events over the last year has resulted in many banks announcing the largest branch closure plans in their history. In just the last few months alone, banks have announced the shuttering of more than 1,000 branches. Expectations for sustained low interest rates, a surge of deposits driven by government relief efforts and customer behavioral changes exacerbated by COVID-19 have given executives the confidence to move forward with these large branch actions.

The benefit of branch closures, of course, is that they create big chunks of savings for the bank. But with earnings under pressure and revenue growth slowing, where can additional savings come from? Novantas believes that two areas that are often under-appreciated for cost savings are the branch workforce and specialty salesforce. A restructuring of these areas can lead to an additional 6-9% of distribution operating expense savings for a typical regional bank.

BRANCH WORKFORCE

Even before the pandemic upended our lives, more than half of the country's branches were "sub-scale" in 2019 (fewer than 4,000 teller transactions a month) due to historical transaction migration trends. (See Figure 1.) Additionally, sub-scale branches are most commonly at or near minimum staffing levels with sub-par sales and service productivity.

As a result of COVID-19, teller transactions per branch are currently 25% below pre-pandemic levels and branch sales are depressed by roughly 15%. (See Figures 2 and 3.) During this period, banks have made limited efforts to reduce staff by the same proportion — both out of a sense of commitment to their employees and communities amid the pandemic and with a belief that volumes would eventually return.

Novantas doesn't believe those teller transactions will return, however, resulting in a permanent reduction of at least 20% (with continued annual declines in line with 5-7% historical average). But teller employment, which is already down 15% since 2001, is expected to only fall another 15% by 2029, according to the U.S. Bureau of Labor Statistics.

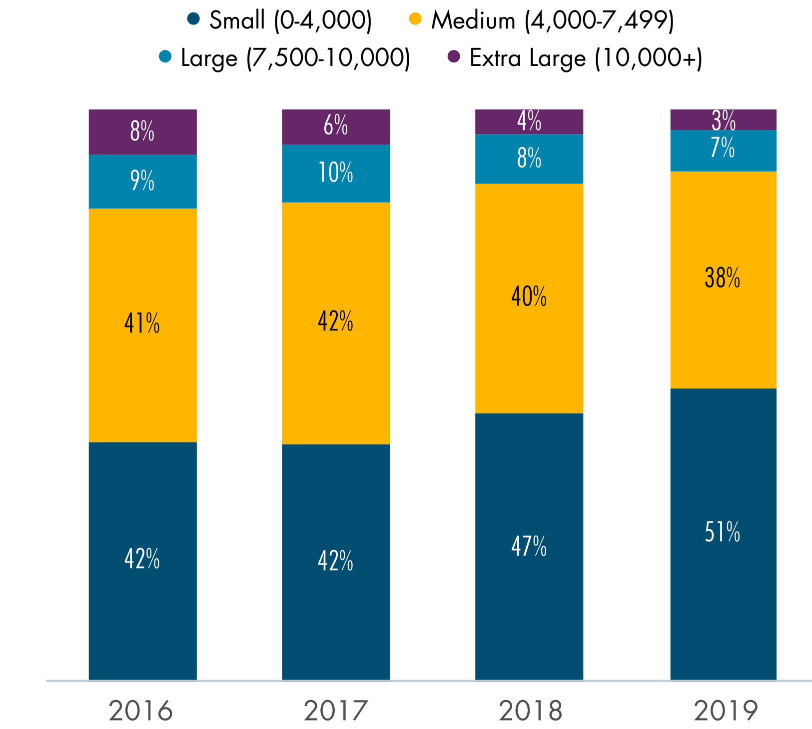
As for sales, while we believe that most sales per branch will return to pre-pandemic levels, some may permanently shift to digital channels. Even so, benchmark sales productivity of fewer than one account sold per non-teller FTE per day suggests there is plenty of excess capacity on the platform.

Even with a slew of planned branch closures, the result of these permanent implications will shift more branches to "sub-scale." Given current minimum staffing constraints, banks won't find cost savings without a fundamental re-thinking of the branch staffing model, including further refinements to the roles and responsibilities.

Novantas sees a handful of levers that can help to remove additional costs from the distribution network.

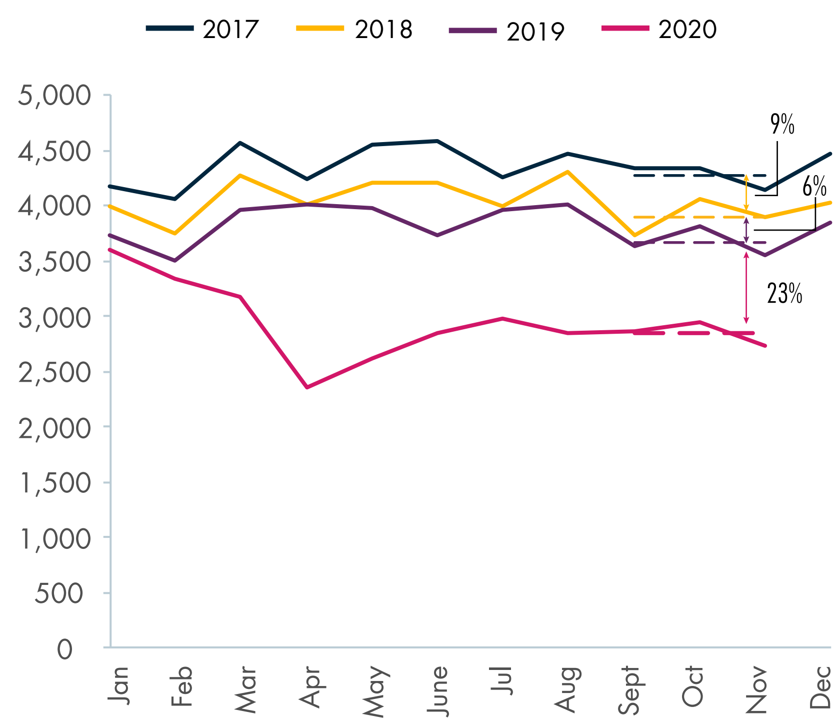
Minimum Staffing Levels. Our benchmark shows a fairly wide range of minimum staffing levels across banks, from 3.5 to 5.5 FTE with the most typical being just above 4 FTE. With so many branch-

FIGURE 1: BENCHMARK BRANCHES BY TRANSACTION VOLUME



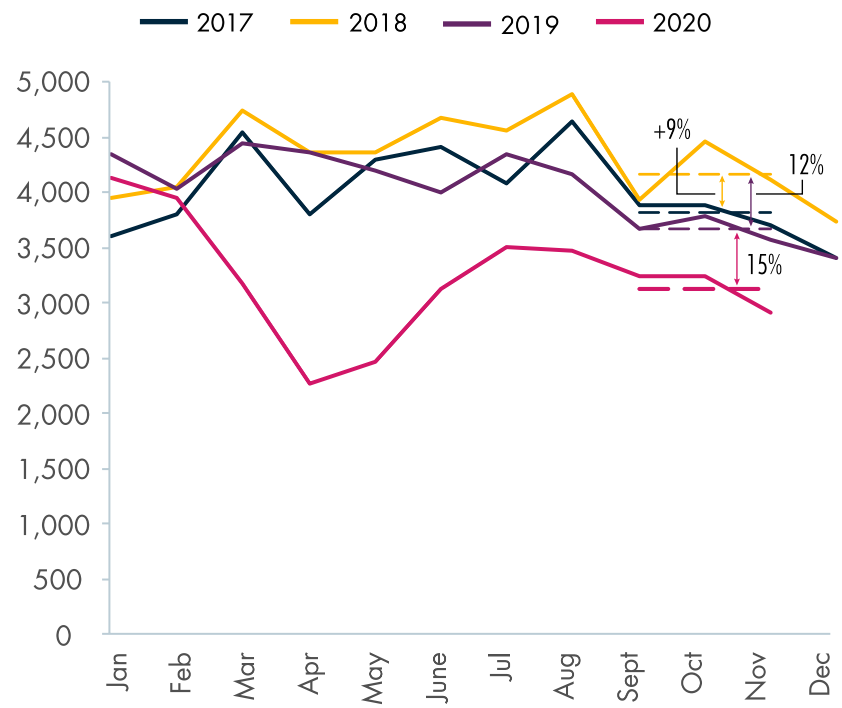
Source: Novantas SalesScape | Branches are sized based on transactions per branch per month, Sub-scale branches are defined as those with fewer than 4,000 transactions per month

FIGURE 2: BENCHMARK TELLER TRANSACTIONS PER BRANCH



Source: SalesScape Comparative Analytics, Large Regional Benchmark

FIGURE 3: BENCHMARK PRODUCT SALES PER BRANCH



Source: SalesScape Comparative Analytics, Large Regional Benchmark

es at minimum staffing levels, shifting the floor to reduce those minimums even further can drive significant savings. Other banks have achieved 4.0 FTE and so can you.

Branch Roles. While most banks have eliminated the assistant branch manager role over the last decade, some still have the position in place — or similar roles like operations manager or service manager. With average branch staff of 5.9 FTE, including the branch manager, it seems unnecessary to have any management layers except for in the very largest branches. While many banks have implemented universal banker roles, the success of these positions have been mixed. Going forward, there should be continued focus on flexibility in role design combined with improvements in branch choreography to maximize the benefits of cross-training.

Hours of Operation. One lesson from COVID-19 is that banks have more agency than previously thought in dictating the rules of engagement with customers, whether for appointment banking or changing hours of operation. We believe that banks can revisit branch hours to drive more efficiency with limited customer impact. Some banks are finding that interactive teller machines can help reduce branch hours while extending drive-up services.

Repurposing Capacity. With branch teams increasingly underutilized, banks may consider addressing capacity in creative ways. In Australia, NAB changed operating hours at all rural locations to mornings-only and redeployed branch staff to customer service in the afternoons. During COVID-19, many banks leveraged branch staff to process PPP loans. Creating programs for structured repurposing of capacity can allow banks to maintain necessary efficiency levels.

Community Staffing. Most banks currently staff associates at a single bank branch. We believe this results in a bit of "spare capacity" in each location for unplanned vacancies. There is an opportunity to reconsider staffing models that use a larger pool of associates who support a cluster of branches. A larger pool can create improved efficiencies in aligning schedules and addressing vacancies. It may also provide for the ability to create "cluster managers."

Management Spans of Control. While many banks have continued to revisit their management reporting structures at the district and region level, our benchmarks show a wide range of average spans of control across banks. (See Figure 4.) While some of these ratios are constrained by geography, the use of desktop video (WebEx, GoTo Meeting, Teams, etc.) has made it easier to manage remotely. For a typical 300-branch bank, just changing the gearing ratio by two branches/districts results in $1 million of salary expense savings.

SPECIALTY SALES

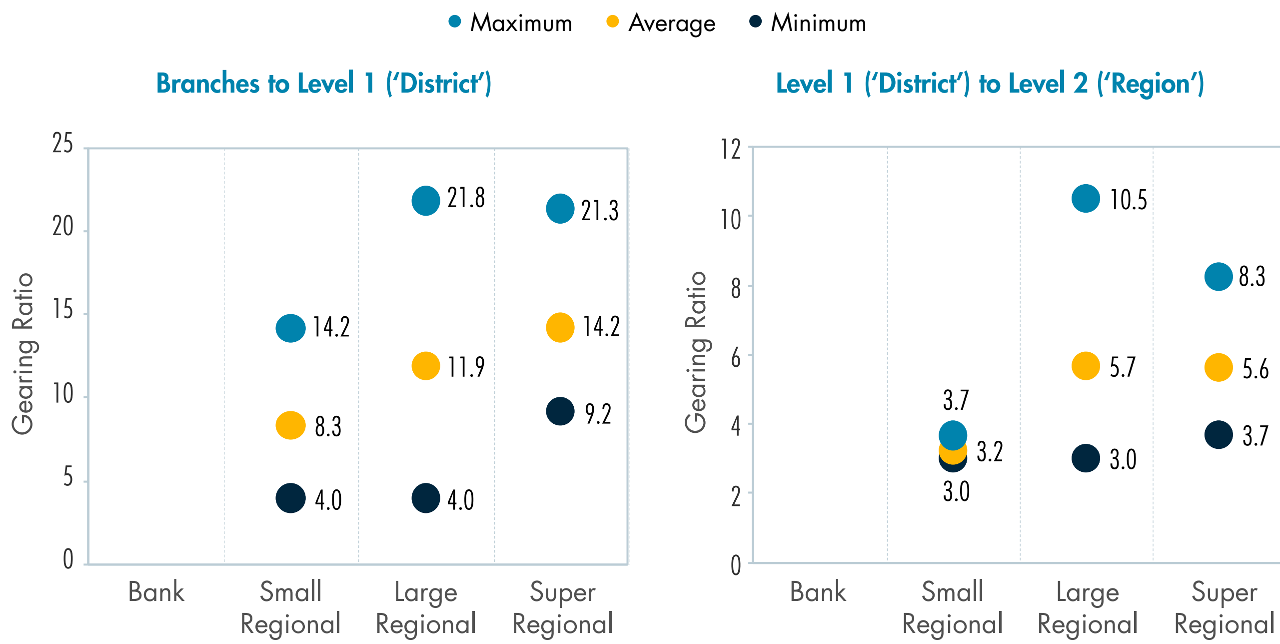
As banks have moved quickly to consolidate branches, few have taken the same steps with one of the other big cost drivers: the specialty salesforce. Depending upon the institution, we have seen anywhere from two to five sales and sales-management employees per branch across the various lines of business. This includes roles such as mortgage loan officers, financial advisors, private bankers, business bankers, commercial relationship mangers and treasury management sales officers

For some banks, this means there is easily twice as much salary expense tied up in field-facing salesforce as in branch operating expense. And just like the branch operating expense, much of this expense is being paid in salaries to maintain an existing portfolio versus growing a new one.

Depending upon the bank's strategy, specialists may be critical to ensuring revenue growth in the future. As simple branch-based products are increasingly sold digitally, personalized advice will become the one remaining differentiator between institutions. But the salary expense associated with these teams needs to be managed aggressively.

Typically, the specialists are spread across regional fiefdoms that have little incentive to give up their headcount in order to benefit another region with

FIGURE 4: GEARING RATIOS



Source: 2019 Novantas SalesScape
Benchmark gearing ratios based on traditional branches open as of 201912
Branch count categorization: Small Regional (<500), Large Regional (500-1,000), Super Regional (>1,000)

higher growth opportunity. In some of the banks we have worked with, there is a direct and consistent relationship between the number of branches in a market and the number of specialists. This would suggest that all markets have the same opportunity, which we know isn't true. We see several opportunities for potential cost reductions in this area.

Alignment of Salary to Opportunity. As noted above, there is a bias towards giving all markets their "fair share" of specialists. We believe that a realignment of salary expense that matches potential market opportunity is necessary. The opportunity drivers for each type of specialist area are different and therefore line-of-business specific metrics need to be used to support this change.

Ruthless Performance Management. While all organizations leverage some form of variable compensation for specialists, incentive compensation is too often confused with performance management. Specialists who aren't achieving target performance levels need to be coached, or, when appropriate, moved out. Just minimizing bonus payments isn't enough and doesn't send the right message. We have worked with institutions where more than half of the specialists in some areas weren't meeting expected performance targets. Specialists need to be driving customer and portfolio growth, not just maintaining existing portfolios. Using base salary dollars for insufficient growth isn't a fair trade for the bank.

Management Spans of Control. Given the small size of most specialist teams in a market, optimizing management spans of control while maintaining "local leadership" is a challenge. At many banks, managers have to be a player-coach and also maintain a portfolio. As noted above, video conferencing is breaking down the geographic barriers and best-practice sales management routines are perhaps more important than local leadership.

Central Portfolio Management. One area where many banks are seeing improved productivity is through the use of central support models. Phone/video-based specialists can support a larger portfolio field-based staff and, in many cases, can provide improved industry specialization. Another tactic used by some banks is the separation of local specialists for acquisition ("hunting") from centralized specialists for ongoing portfolio management ("farming").

The wide-ranging closure of branches in coming years just won't be enough to remove costs from the distribution system. Banks also need to focus a significant amount of time on the next-generation branch staffing model. These actions, working in tandem with the optimization of specialist salary expense, will provide both an opportunity for cost-cutting and a strategy for efficient growth. ■

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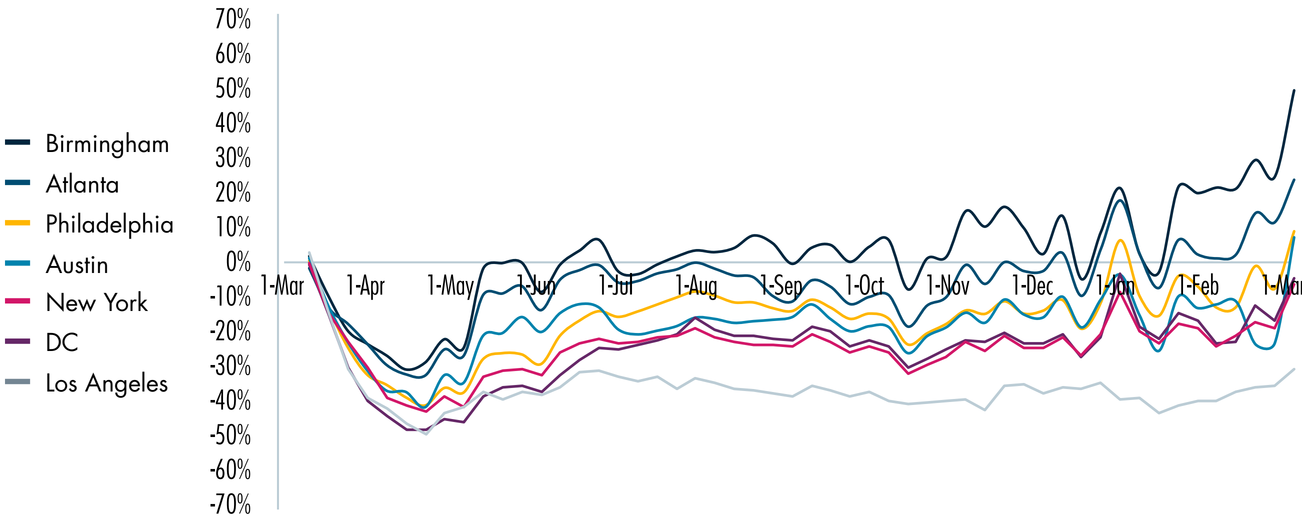
THE ROAD FORWARD

We all know that COVID–19 wreaked havoc on historic traffic patterns as people stayed close to home. As life slowly starts returning to normal, bankers must continually assess the performance of the branch network in accordance with changing traffic patterns. These trends will continue to shift in coming months as consumers and employers make important decisions about lifestyle, real estate and work–from–home policies.

The COVID–19 impact on commerce continues to vary significantly by region...

% Change in U.S. Average Daily Store Visits vs January 27 – March 2, 2020



...and by market type within regions

% Change in U.S. Average Daily Store Visits vs January 27 – March 2, 2020

MARKET TYPE	MAR 3–9	APR 21–27	JUN 9–15	JUL 28 – AUG 3	SEP 15–21	NOV 2–9	DEC 29 – JAN 4	FEB 23 – MAR 1
Feeder Markets *Primarily markets where people tend to live, commuting into other markets for work*	2%	–37%	–12%	–9%	–20%	–17%	–10%	13%
Hybrid Markets *Markets where large populations both live and work*	0%	–52%	–31%	–26%	–33%	–32%	–25%	–6%
Work Centers *Places where there is a large working population and more limited population of people who live there. Daytime population is high. Often downtowns or central business districts*	–2%	–68%	–51%	–48%	–46%	–44%	–48%	–20%

Source: Novantas Analysis, NovaLocation, PlaceIQ | includes DMAs: Birmingham, Atlanta, Philadelphia, Austin, New York, DC, Los Angeles
DMA breakdown: Feeder–250, Hybrid–262, Work Center–21
Store definition: Commercial location in PlaceIQ database, including largest players and chains. Also includes BranchScape locations. Doesn't include boutiques/mom and pops/small chains.

New Year, New Challenges **for Fintechs**

BY MIKE JIWANI

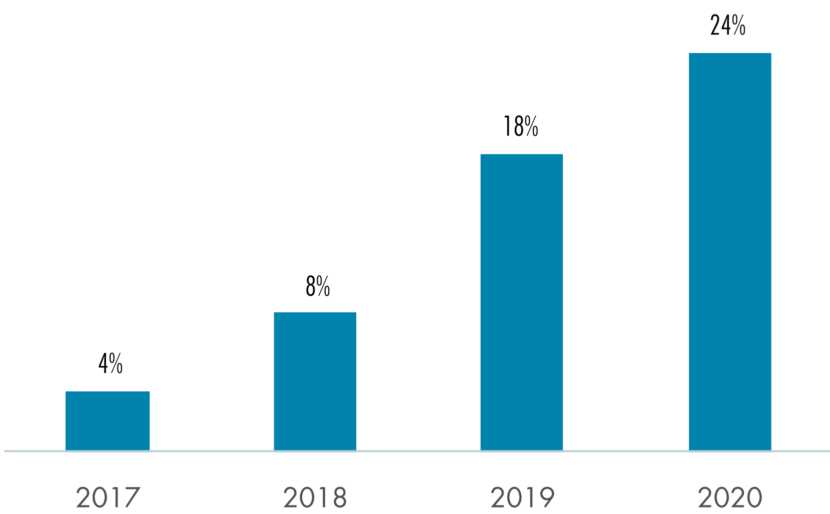
Many fintechs successfully navigated the maelstrom of 2020, propelled by the fast adoption of digital channels and creative acquisition strategies that won them new customers and big headlines. From neobanks to online lenders to e-brokerages, these new players experienced a banner year in terms of growth and valuations, with a lucky few achieving valuations on par with some of the largest traditional banks.

At the same time, a number of them also entered the deposit market and captured an increasing share of customers — a trend that Novantas expects to continue as fintechs seek more charters and additional banking-as-a-service partnerships.

As successful as they were in 2020, however, fintechs face a lot of work ahead in order to meet the lofty expectations set by investors. Current valuations are built on expectations that growth will continue and customer relationships will turn profitable. Although fintechs have been successful in developing distinctive products and efficiently marketing them to acquire new customers, they will now need a new approach to succeed. That's because they must turn those new customers into deep, profitable, sticky relationships — an effort that requires a new skillset for many of them.

Novantas sees two primary actions that fintechs should pursue in order

FIGURE 1: NEOBANK SHARE OF NEW CHECKING ACCOUNT ACQUISITION



Source: Novantas Customer Knowledge | 2020 Shopper Survey

to continue their growth trajectory: enhance the customer onboarding process with personalization and deepen existing relationships by using analytics that can understand and predict customer behavior for cross-sell activity.

THE RISE OF FINTECHS

Neobanks continue to take market share away from traditional banks at an astounding pace. According to the 2020 Novantas Shopper Survey, which surveys more than 50,000 customers who are actively in the market for a new checking account, neobanks have gone from capturing 4% share in 2017 to 24% share in 2020. (See Figure 1).

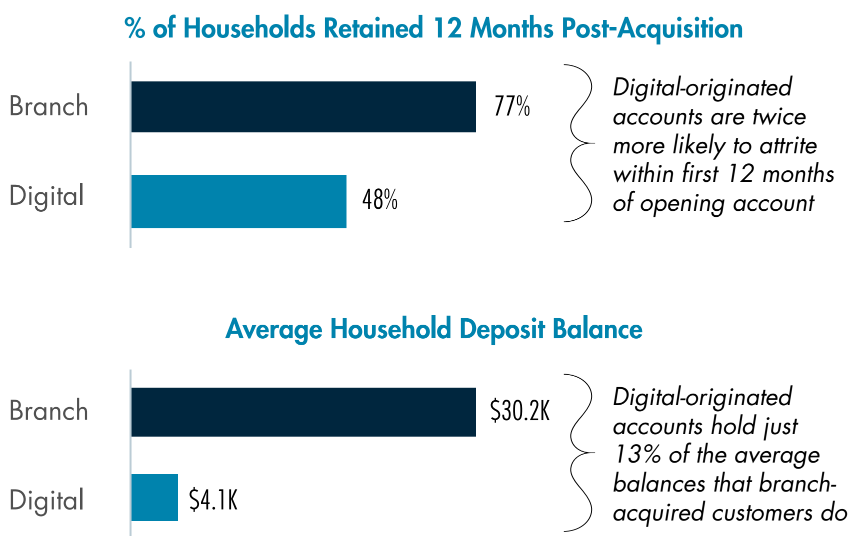
Success has been driven in part by shifting customer preferences — customers are more willing to open a bank account online and the COVID-19 pandemic has only accelerated that trend. But new entrants have also disrupted traditional banks by providing attractive, customer-friendly value propositions through no-fee products and distinctive features such as receiving access to direct deposit payments up to two days early.

Although the customer growth has been impressive, customer quality is well behind that of traditional banks. Novantas SalesScape data indicates that customers acquired digitally on average are twice as likely to close their account within 12 months of opening and hold just one eighth of the deposits compared with customers acquired in a branch. (See Figure 2.)

In part, that is because fintechs have a basic structural disadvantage relative to traditional banks — a notion that is somewhat counterintuitive. While a banker can take the time to understand the needs of a prospective customer and tailor a broad suite of products to meet the customer's needs and create the right fit, the application process for fintech customers is designed to be as quick and efficient as possible. For fintechs, that speedy and easy digital experience can sometimes overshadow the need for personalization. But the value of that in-person interaction can't be underestimated.

To some degree, lower customer quality from digital-only players is inevitable — those who are more comfortable opening deposit accounts online tend to be younger and have fewer assets than traditional bank customers. Over time, fintech customer quality should improve as their customers grow older and increase their wealth. But this only matters if the fintechs can keep them as a primary customer in the long run. It is also a long-term proposition — one that fintechs may not have the luxury of waiting for as investors clamor for

FIGURE 2: DIGITAL ACQUISITION QUALITY



Source: Novantas SalesScape

FIGURE 3: CUSTOMER ORIGINATION BY AGE GROUP

Age Group	Percent of Customers Originated		Average Balance of Retained Customers (@ 12 Months Of Acquisition)		
	Branch	Digital	Branch	Digital	% Diff
<18	15%	1%	$1,680	$1,200	30%
18-25	19%	17%	$2,800	$2,000	30%
25-35	21%	38%	$4,200	$3,000	30%
35-45	14%	23%	$6,000	$4,000	35%
45-55	13%	12%	$9,600	$6,000	40%
55-65	10%	6%	$15,300	$9,000	40%
65-75	5%	2%	$21,600	$12,000	45%
75+	3%	1%	$26,600	$14,000	50%

Source: Novantas Client Research

near-term results. Furthermore, Novantas research indicates that even controlling for the customer's age, accounts acquired digitally have materially lower average balances, suggesting there is an opportunity to accelerate improvements in customer quality now. (See Figure 3.)

ENHANCED CUSTOMER ONBOARDING

Fintechs have designed efficient customer application processes, enabling customers to open new financial products in the matter of minutes. This has undoubtedly contributed to their success and differentiates them from most traditional bank counterparts. But getting the customer through the application as quickly as possible also limits the ability to gain more information about the customer's needs. Additionally, some customers may drop out of the application process when all they needed was slightly more personal guidance to help them through it.

As a result, there are two shortcomings in the application process: the fintech winds up with fewer customers who actively use the account and fewer "sticky" customers who are long-term or have multiple products.

Fintechs can address these challenges with a more personalized approach that leverages a combination of people and technology. They can do this by exploring greater use of outbound calling during the onboarding process, including similar approaches that are used by banks. This could be a 2/2/2 program in which the fintech representative reaches out two days, two weeks and two months after the customer opens its first account to answer any questions the customer may have as well as better understand their needs. Outreach can be supported by automated emails and other forms of digital communication as well. This should enhance the rate at which customers fund their deposit accounts, as well as increase the number of multi-product users.

DEEPEN CUSTOMER RELATIONSHIPS

The lack of personal interaction in the digital experience makes it difficult to identify opportunities, evaluate a customer's evolving needs and determine how to deepen the relationship. Furthermore, many fintechs have a relatively limited product suite at the moment, with questions about how which products to develop next.

Fintechs have done a tremendous job in leveraging big data and analytics to finetune marketing models and underwriting models, as well as other use cases. These skills should now be applied in a new way with a goal of greater cross-sell and product penetration.

Novantas has observed that deposit accounts — particularly transaction accounts — can provide a wealth of data that can score customer behavior and help predict fit and usage of other products. Additionally, Novantas has used its AI-marketing optimization platform to help financial institutions leverage machine learning to develop an "always on" personalization platform. This develops optimized offers with personalized messaging components, tone, as well as channel preferences that are continually learning and improving.

Deeper customer relationships will result in greater wallet share and stickier customers, combining to increase customer lifetime value significantly. Building these capabilities isn't easy, but it will go a long way toward helping fintechs achieve their goals and become dominant players in a major market.

There is ample opportunity for fintechs to continue the positive momentum they've achieved over the last few years, and particularly in 2020. But to parrot the title of a book from executive leadership coach Marshall Goldsmith, "What got you here won't get you there." Customer acquisition alone will only go so far.

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YOU MAY HAVE MISSED

A snapshot of relevant developments in recent months

JANUARY

The Office of the Comptroller of the Currency said that federally-chartered banks and thrifts are permitted to use blockchain and other so-called independent node verification networks. The move also allows banks to use stablecoin payments on behalf of customers. ■

In a related move, the OCC granted a conditional charter to Anchorage, a cryptocurrency platform that had been chartered in South Dakota.

Green Dot Corp. launched GO2bank, a mobile bank aimed at Americans who live paycheck-to-paycheck. Feature include up to $200 of overdraft protection and early access to paychecks or government benefits. ■

SoFi announced plans to go public with the backing of venture capital investor Chamath Palihapitiya's blank-check acquisition vehicle called Social Capital Hedosophia Holdings Corp V. The transaction values SoFi at $8.65 billion. ■

The average U.S. credit score reached a record high of 710 last year, according to Experian. ■

FEBRUARY

The cryptocurrency exchange launched by Tyler and Cameron Winklevoss launched an interest-bearing account for clients. Gemini said its Earn service will pay up to 7.4% on balances. ■

Greenwood Financial, a digital bank created to serve Black and Latino communities, said it has 500,000 signups on its waiting list. The platform plans to launch this spring. ■

More than 90% of small businesses that participated in a Federal Reserve survey said they applied for emergency funding during the pandemic. ■

NBA star Russell Westbrook led a $63 million investment round for Varo and joined the digital bank as an advisor. ■

Fintech payments provider Brex filed an industrial bank application with the FDIC and the Utah Department of Financial Institutions. ■

MARCH

Walmart poached two senior executives from Goldman Sachs' Marcus consumer unit for its new fintech venture with Ribbit Capital. ■

Square launched its banking operations called Square Financial Services after winning a charter from the FDIC and Utah Department of Financial Institutions. The new bank will offer business loan and deposit products. ■

Americans paid off a record $82.9 million in credit-card debt last year, but still owe a combined $1 trillion to card issuers, according to a study from WalletHub. ■

SoFi announced plans to buy Golden Pacific Bancorp Inc. as part of its strategy to obtain a national bank charter. ■

NOVANTAS NEWS

Novantas executives are regularly quoted in the media about banking topics. Here are some of the recent articles in which they provided their expertise.

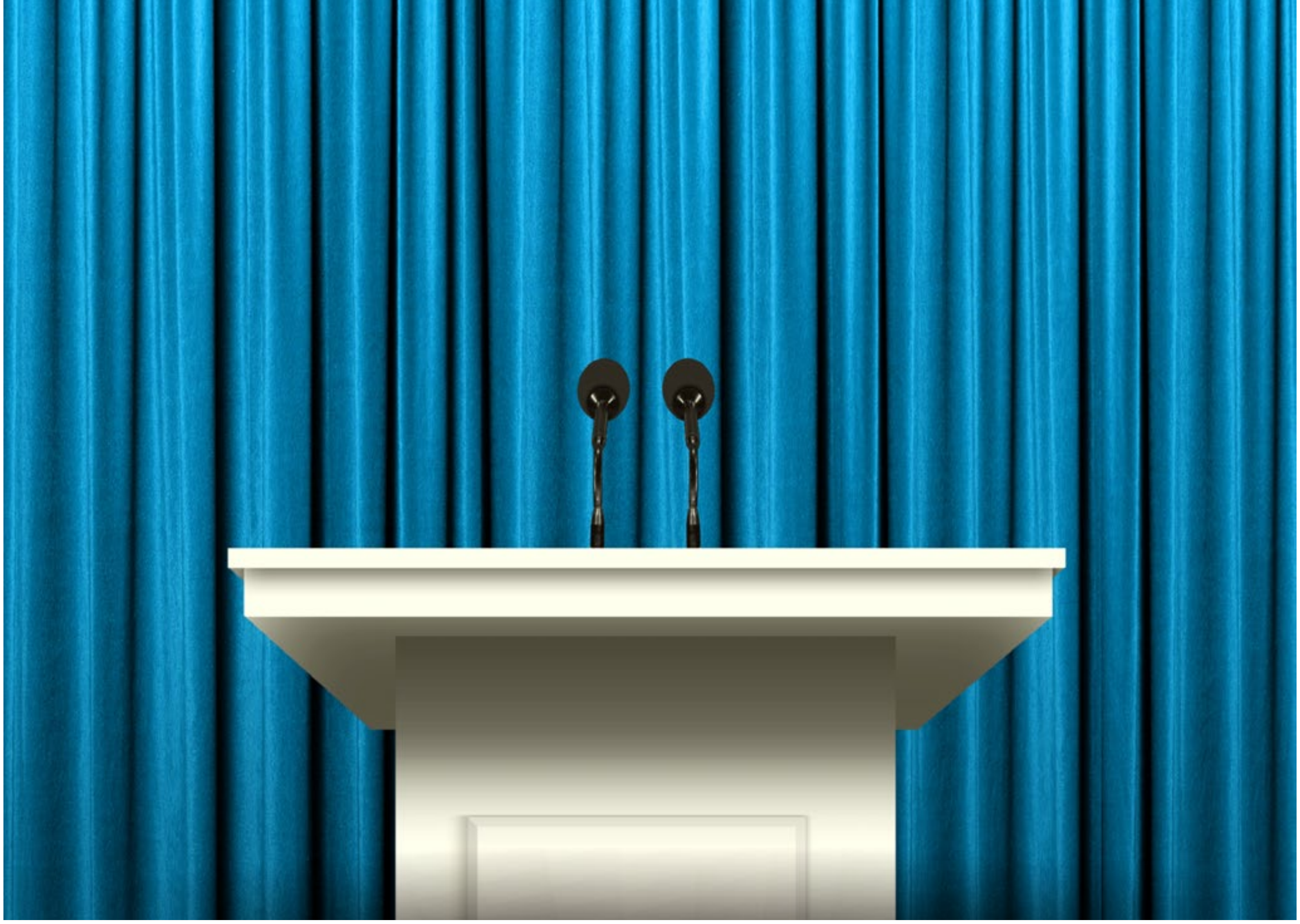
Director Adam Stockton spoke with BankRate about savings rates. ■

Executive Vice President Pete Gilchrist spoke with S&P Global Market Intelligence about commercial deposit growth. ■

Director Andrew Hovet spoke with Forbes Advisor about digital banking. ■

Executive Vice President Kevin Travis spoke with NerdWallet about neobanks. ■

Paul LaRock, director at Treasury Strategies (a division of Novantas), spoke with PYMNTS.com about the slow move toward digital adoption in the treasury departments of many corporations. ■



AT THE PODIUM WITH NOVANTAS

Although in-person events aren't on many calendars right now, Novantas experts have been busy hosting and participating in virtual events. Please reach out to the session leaders or Novantas Review Editor Robin Sidel (rsidel@novantas.com) if you missed any of these online events and would like to know more about the content that was presented.

Directors Hank Israel and Don Kumka hosted a Feb. 24 webinar titled *"How Consumer Deposit Data Can Help Assess Credit Risk."* They were joined in the session by Anurag Puranik, senior vice president and head of credit analytics at KeyBank and credit expert Alan Schiffres, president and CEO of Avalon Group Advisors, LLC.

Also on Feb. 24, **Executive Vice President Pete Gilchrist and Director Bob Warnock** spoke about the implications of surge liquidity at the FFIEC Capital Markets Specialist Conference.

Director Sarah Welch participated in an ADARA webinar on March 11 titled *"Keys to Success for Effective Personalization."*

Jeff Diorio, a director at Treasury Strategies (a unit of Novantas), participated in a GTreasury podcast that explored cross-border treasury payment trends amid the COVID-19 pandemic. You can access the podcast here.

THE VALUE OF EFFECTIVE PERSONALIZATION

Novantas Director Sarah Welch recently discussed the importance of personalization in retail banking during an ADARA webinar called "Keys to Success for Effective Personalization." The session was hosted by Bernie Yu, senior vice president of corporate strategy at ADARA.

Here are some of Sarah's comments from the March 11 conversation in which she and Bernie were also joined by Paul Kaden, managing partner at Resonance LLC in a webinar.

WHAT IS PERSONALIZATION IN BANKING?

"It is a massive topic that spans the entirety of the value chain. Think about it in three different compartments. There's acquisition-related activities and marketing that include relevant messages all the way down the funnel and the shifting and changing of those messages based on how you're interacting. There is product, which can be everything from personalized pricing schemas to the way in which the core transactions you have with a particular product are reflected back to you and tied to your participation and objective. And there are relationship interactions, such as seamless hand-offs between channels and relevant communications and interactions that drive deeper engagement."

WHY IT MATTERS

"We're in a universe that is shifting away from physical- based intermediated interactions that drive relationship value to digital channels and digital relationship-building. In financial services, digital sales benchmarks show between a differential of between 7 and 10 times in the value of deposits that are brought to institutions from a branch to those that come from digital. That gulf points to the severity of the challenge and the height of opportunity. It's not just deposits. Digitally-acquired accounts are faster to run off and attrite and have shallower relationships.

Figuring out the personalization that drives relationship value in a way that replicates what exists in human channels is important across the board."

THE COVID-19 IMPACT

"What we definitely saw in the past year was a consumer shift to digital channels. In that shift, we have seen banks and financial institutions get more savvy about the acquisition of customers digitally and doing it efficiently. But in terms of deep personalization, we may be beginning to scratch the surface, but we have a long way to go."

A NEW ERA FOR TEST-AND-LEARN

"The approach to test design and the volume of test design is a critical component of driving the personalization agenda productively. Amazon has mastered and demonstrated its constant test-and-learn cycles. And the speed with which you can drive smart test-and-learn cycles, the more effective your personalization will be over time. We're at a point in time where AI and machine learning is starting to disrupt and bring new modes that enable companies to move much more quickly to rapidly test and learn."

THE ROAD TO A BETTER CUSTOMER JOURNEY

"There are big opportunities in each of these journey segments for the financial-services industry. In onboarding, early interactions are very critical. In a digital-first world, consumers are in the driver's seat. Being able to be responsive to the tens of thousands of different paths n early relationships is increasingly important."

PERSONALIZATION HURDLES

"When you are operating in silos and everyone is incentivized to meet their own unit volume number, often the thing you do is send more communications. But you are training the customer that your communications are not necessarily relevant and they are more inclined in the future to ignore interactions from you."

NOVANTAS REVIEW

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