Online Account Opening: Opportunity or Curse

Louisiana Bankers Association
June 23, 2016
Presented by: Russell Wehrlin, Senior Market Strategist
HarlandClarke
Online Account Opening: Opportunity or Curse

AGENDA

● The Opportunity
  ● General Consumer Ecommerce Trends
  ● Financial Services Digital Trends

● The Curse
  ● Consumer Convenience preferences for Financial Services
  ● Performance of Online Account Openers

● The Solution
  ● Establish an Online Account Opening Eco-system
Online Account Opening: The Opportunity

- Online channel now accounts for nearly 10% total retail sales
- Excluding: cars, gasoline & groceries, The effective rate is closer to 16%

Source: US Dept of Commerce
Online Account Opening: The Opportunity

- Online Revenues growing at 15% CAGR, well beyond the traditional retail, “GDP-like” growth rate.
- Breathing new life into the physical stores of some traditional retailers
  - “Retailers must figure out how to fundamentally transform business models, that have been built for maximum efficiency & scale, transforming them into more nimble, effective ones
Growth is being experienced in nearly all consumer segments
Online Account Opening: The Opportunity

FI Online Account Opening is Lagging General Consumer Trends

<table>
<thead>
<tr>
<th>Month</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>December</td>
<td>8.10%</td>
</tr>
<tr>
<td>November</td>
<td>8.80%</td>
</tr>
<tr>
<td>October</td>
<td>9.00%</td>
</tr>
<tr>
<td>September</td>
<td>8.40%</td>
</tr>
<tr>
<td>August</td>
<td>9.20%</td>
</tr>
<tr>
<td>July</td>
<td>8.40%</td>
</tr>
<tr>
<td>June</td>
<td>7.80%</td>
</tr>
<tr>
<td>May</td>
<td>8.10%</td>
</tr>
<tr>
<td>April</td>
<td>7.70%</td>
</tr>
<tr>
<td>March</td>
<td>8.00%</td>
</tr>
<tr>
<td>February</td>
<td>7.90%</td>
</tr>
<tr>
<td>January</td>
<td>8.60%</td>
</tr>
</tbody>
</table>

Source: Andera – The Future Of Account Opening
Online Account Opening: The Opportunity

Online Account Opening By Age

- **75+**
- **65-74**
- **55-64**
- **45-54**
- **36-44**
- **25-35**
- **18-24**

These are estimates

Source: Andera – The Future Of Account Opening
Segments with the highest propensity to open accounts online are also the largest and fastest growing segments.
Online Account Opening: The Opportunity

Online Account Opening By Income

Source: Andera – The Future Of Account Opening
Online Account Opening: The Opportunity
Online Account Opening: The Curse

- Online Account opening is cumbersome to say the least
  - Regulatory / Compliance
  - No cash register
  - Account fit
  - Fulfillment

- Millennials are fickle
  - Low brand loyalty
  - Highest propensity to switch

- While Online users are more profitable, online account openers have significantly less engagement
  - Fewer sticky products
  - Lower transaction levels
  - Lower balances
Consumers seek easy solutions.

**Top 3 Reasons For Using FinTech**

- Easy to set up account: 43.4%
- More attractive rates/fees: 15.4%
- Access to different products and services: 12.4%

*Source: EY Fintech Adoption Chart*
Online Account Opening: The Curse

- While decline in branch activity levels is due in large part to consumers increasing usage of mobile and online banking channels.**

- **83%** decrease in average number of branch transactions
  - 1992 – 11,700 monthly teller transactions
  - 2015 – 6,400 monthly teller transactions

- **90%** increase in average teller salaries
  - 1992 – $8.85 per hour
  - 2015 – $16.82 per hour

- **134%** increase in branch labor cost per transaction
  - 1992 – $0.48 per transaction
  - 2015 – $1.12 per transaction
Online Account Opening: The Curse?

Active Use Rates of Digital Banking Services

%’s Shown is Active Use of Digital Banking Service versus # of Digital Banking Customers
Users Rank Online Banking as the No. 1 Reason to Remain at FI

Figure 10: Sticky Factors: Reasons for Staying at Current Primary FI (Among Online Banking Users)

- Online banking capabilities: 61%
- Convenient location of branches: 57%
- The customer service that I get: 45%
- Convenient location of ATMs: 45%
- My direct deposit that is set up with my employer's payroll: 41%
- Low cost or fees: 37%
- My bill payments that are set up at my FI: 33%
- Mobile banking capabilities: 31%
- The personalized attention that I get: 25%
- Attractive rates on accounts and investments: 23%
- Fraud protection services: 19%
- Do not want to transfer the products to another FI: 18%
- Breadth of product offerings: 10%
- Other: 5%
- Nothing will prevent me from switching: 10%

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Online Account Opening: The Curse

What Makes My FI Convenient?

<table>
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<tr>
<th>Feature</th>
<th>2014</th>
<th>2015</th>
</tr>
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<tr>
<td>Leading Online/Mobile Service</td>
<td>20%</td>
<td>26%</td>
</tr>
<tr>
<td>No Foreign ATM Fees</td>
<td>18%</td>
<td>23%</td>
</tr>
<tr>
<td>Branches Nearby</td>
<td>30%</td>
<td>18%</td>
</tr>
<tr>
<td>Many Branches and ATMs</td>
<td>16%</td>
<td>13%</td>
</tr>
<tr>
<td>ATMs Nearby</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>Convenient Branch Hours</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>Telephone Access</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
<td>1%</td>
</tr>
</tbody>
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Source: Novantas-2015 HELOC Consumer Survey © 2016 Harland Clarke Corp. All rights reserved.
The Solution: Online Account Opening Eco-system

- Online Account Opening is not a linear process, it requires a holistic approach

Targeting

- Search Optimization
- Email targeting
- Direct Mail
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**Simple Process**
- Product Design / Account Fit
- Transparency
- Funding

**Multi-Channel Support**
- Chat
- Telephone
- Video / Tutorials

**Fulfillment / Onboarding**
- Distinct onboarding process for online opening
- Activate high engagement products & services
- Get information and plastic in their hands quickly and accurately
The Solution: Online Account Opening Eco-system

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| Targeting             | • Search Optimization  
|                       | • Email targeting     
|                       | • Direct Mail        |
| Simple Process        | • Product Design / Account Fit 
|                       | • Transparency       
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| Multi-Channel Support | • Chat                
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| Fulfillment / Onboarding | • Distinct onboarding process for online opening 
|                       | • Activate high engagement products & services 
|                       | • Get information and plastic in their hands quickly and accurately |
| Ongoing Expansion     | • Preapproved cross-sell Offers 
|                       | • Deposit Marketing  |
Thank You......Questions Please