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Addressing banking's key business challenges in 2023

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Bankers' wish list for 2023: More customers, better digital

BY TERRY BADGER, CFA
tbadger@bai.org



The only certainty for the banking industry heading into 2023 is that it will deal with continued uncertainty.

How high will interest rates climb before the Federal Reserve finally calls it quits? Will tighter money tip the economy into recession next year, and if so, when will it start, how long will it last and how severe will the pain be? What about credit quality and balance sheets? These questions are just a start.

Each December in the BAI Executive Report, we examine key issues facing the banking industry in the coming year. Heading into 2023, we are focusing on the three leading business challenges as identified by banking leaders who took part in the latest [BAI Banking Outlook: 2023 Trends](#) survey. The research was conducted in September and is scheduled to be published early in the new year.

Holly Hughes, BAI's chief marketing officer, writes about issues surrounding new-customer acquisition, which topped the business challenges list in the latest BBO survey.

She says competitive factors remain a key obstacle facing banks and credit unions—too many institutions chasing too few customers new to the market, combined with a reluctance by most established customers to abandon their existing bank. The BBO survey found that more than 45% of customers plan to give all of their future business to their primary bank.

Our research shows that community banks and credit unions have the most at stake in getting the new-customer acquisition strategy right, Holly says, as they are the ones feeling the most pressure from the upstart direct banks.

Digital-only competitors figure into the No. 2 business challenge for banks, which is providing a more compelling digital banking experience. Karl Dahlgren, managing director for research at BAI, takes on that topic in his article.

In what might be the starkest finding in the BBO survey, only 4% of financial institution leaders believe their digital customer experience is “excellent.” For their part, customers weighing in on digital quality tend to judge it as “average.” An average rating sounds sort of OK until it's paired up with another survey finding: More than 70% of millennials and Gen Z respondents say they'll happily change banks if it gets them better digital capabilities. Institutions developing their new-account acquisition strategy may want to take note.

Third among the leading business challenges is acquiring and retaining talent, which shouldn't come as much of a surprise to anyone, given the focus on the recent wane in banking's

career appeal among younger workers. BAI's president and CEO, Debbie Bianucci, applied her long-standing interest in banking talent issues in crafting our outlook piece.

Resistance to hybrid work models by many banking institutions is often cited as one of the reasons why the industry is less of a draw. Debbie's view is that banking leaders should accept as fact that the pandemic changed the workplace for good. Once they've done that, she says, they can look at new ways of working as an innovation similar to a process improvement or break-through technology.

Also in this month's Executive Report:

- » **6 trends financial marketers need to know:** Lisa Nicholas from Vericast examines macro factors that marketing teams at financial institutions should be on top of in 2023. Her broad list includes that customers will be more aggressive in pursuing higher deposit rates and that alternative payment options will gain in popularity.
- » **Using tech to build relationships:** James White from Total Expert starts from a premise that banks and credit unions fail to capitalize on many of their opportunities to strengthen their connections to customers. The fundamental reason for these misses, he tells us, is that financial institutions are not focused enough on customer engagement.
- » **Winning big with fearless tech partnerships:** Nathaniel Harley from MANTL writes about some of the ways that financial institutions and fintechs can work together to drive growth and innovation. He builds his story around a small but fast-growing bank based in Texas that has built a strategy around leveraging fintech vendors.
- » **Trends, scams and fighting back:** Eric Tran-Le from NICE Actimize offers pointers on how banks and credit unions can better protect themselves against the growing threat of fraud in the coming year. Digital payment fraud losses are expected to top \$300 billion by 2027, with community banks and credit unions facing heightened risks.

We hope this BAI Executive Report provides actionable insights that you can put to work as you embark on what we hope will be a prosperous new year for the industry. Feel free to [email me](#) to share your thoughts about what you're expecting in 2023.

Terry Badger, CFA, is the managing editor at [BAI](#).

A hand is shown with several fingers extended. Each finger has a glowing yellow node on it, and these nodes are connected by a network of thin, glowing yellow lines. The background is a gradient of blue and orange. The overall image conveys a sense of digital connectivity and network growth.

New approaches to new-account acquisition

Community banks and credit unions in particular need to sharpen their customer targeting with flexible strategies that highlight their value proposition.

BY HOLLY HUGHES



Every new year comes with new challenges. And 2023 will certainly be no exception for bankers and other financial services executives. But among this year's challenges, one issue should be top of mind for most bankers: new-customer acquisition.

A [recent survey of bankers](#) by BAI showed that new-customer acquisition was the No. 1 business challenge and investment priority for banks heading into 2023, up two spots from a year ago. As we emerge from a pandemic that changed the way many customers conduct financial transactions, bankers face a new environment that calls for a new approach to acquisition.

Another factor is Generation Z (those born between 1997 and 2012) coming of age. The oldest members of this group are now potential customers, creating a particularly ripe customer acquisition environment as these young adults look to expand beyond low-balance checking and savings accounts.

Acquiring new customers won't be easy. Most customers are hesitant to change their primary institution, and they often look to their existing primary institution when they are ready to open a new financial account. The BAI study found that most customers view their checking account as their primary account, and that roughly half of customers with a deposit account plan to give all of their future business to their primary financial institution.



HOLLY HUGHES
BAI CHIEF MARKETING OFFICER

Banks and credit unions will have to work harder and be more strategic in customer acquisition. They can't employ a one-size-fits-all strategy. There are variations in what different generations value and what they are willing to switch for. The best strategies for pursuing new accounts may vary based on which segments a bank or credit union chooses to pursue.

Looking at the needs of millennials and Gen Zers is particularly insightful. For example, they are more willing than other generations to change financial institutions. Only 38% of Gen Zers would give all of their future business to their current institutions, compared

Only 38% of Gen Zers would give all of their future business to their current institutions, compared with 50% of millennials, 45% of Gen Xers and 55% of baby boomers. In addition, younger customers are more likely to need new products—such as mortgages and investment accounts—as they mature.

with 50% of millennials, 45% of Gen Xers and 55% of baby boomers. In addition, younger customers are more likely to need new products—such as mortgages and investment accounts—as they mature. Those factors combine to create a very attractive customer base on which to promote new products.

So how can bankers attract younger generations as new customers? Clearly, a strong digital offering is important. Younger consumers cited the features found in a digital offering as a key reason to consider switching their primary banking relationship. About 73% of Gen Z respondents in our survey said they would consider switching their primary relationship if another

institution had a better digital offering—a 13 percentage point increase from just a year earlier. Millennials had similar responses: 70% said they would switch for a better digital app, up from 63% in 2021. We also saw a significant increase in the percentage of Gen Xers who would switch for a better digital offering, from 42% last year to 60% this year.

But let's not forget the importance of branches. While Gen Zers and millennials clearly prefer digital channels for most interactions, they are still using branches. In fact, the BAI study found that these customers are

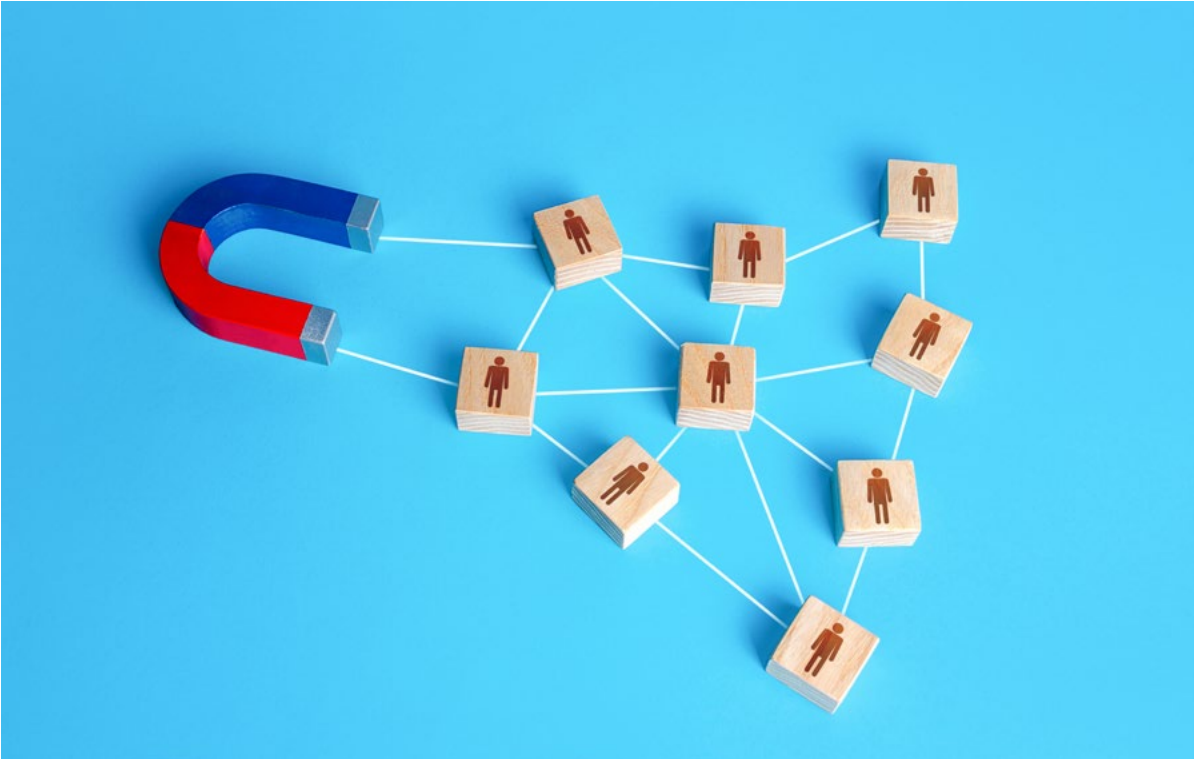
interacting more often with branches than baby boomers are, perhaps because they tend to conduct many more transactions with their financial institution.

And branches will continue to play an important role in helping customers of all ages open new accounts. While Gen Zers and millennials aren't as dependent on branches for new-account openings as Gen Xers and baby boomers, they still want them. About 20% of Gen Zers want to open new accounts from a branch, compared with 28% of millennials, 31% of Gen Xers and 56% of boomers.

An additional area of focus in customer acquisition is an organization's reputation and perceived values. Our study shows that values are important to Gen Zers and millennials—they want to support organizations with strong policies that align with their beliefs. Communicating about values can be a way for financial institutions, particularly community banks and credit unions, to differentiate themselves and compete with direct banks.

And community banks and credit unions have the most to gain by developing a strong new-customer acquisition strategy. Our research shows that direct banks are gaining in the percentage of customers who consider them their primary bank—and those gains are coming primarily at the expense of community banks and credit unions. The percentage of customers with primary relationships at large banks has generally remained stable.

While 22% of millennials in 2021 considered direct banks their primary institution, that number grew to 34% in 2022. Similarly, the percentage of Gen Xers that considered direct banks their primary institution grew from 16% to 27%, and for boomers the percentage grew from 6% to 11%. Only Gen Z showed a slight drop in loyalty to direct banks, from 25% in 2021 to 23% in 2022.



Meanwhile, the loss in primary relationships was most noticeable in community banks: the percentage of customers with primary accounts at community banks and credit unions dropped from 13% to 8% for Gen Zers, from 22% to 10% for millennials, from 26% to 20% for Gen Xers and from 17% to 15% among boomers.

Clearly, community banks and credit unions are getting squeezed by direct banks. To counter this threat, banks need to take a close look at their value proposition relative to direct banks. Can they compete on rates and fees? Or, more likely, perhaps they can play up their other advantages and say, “Hey, you can stop

in a branch if you've got a problem and you need to talk to someone.”

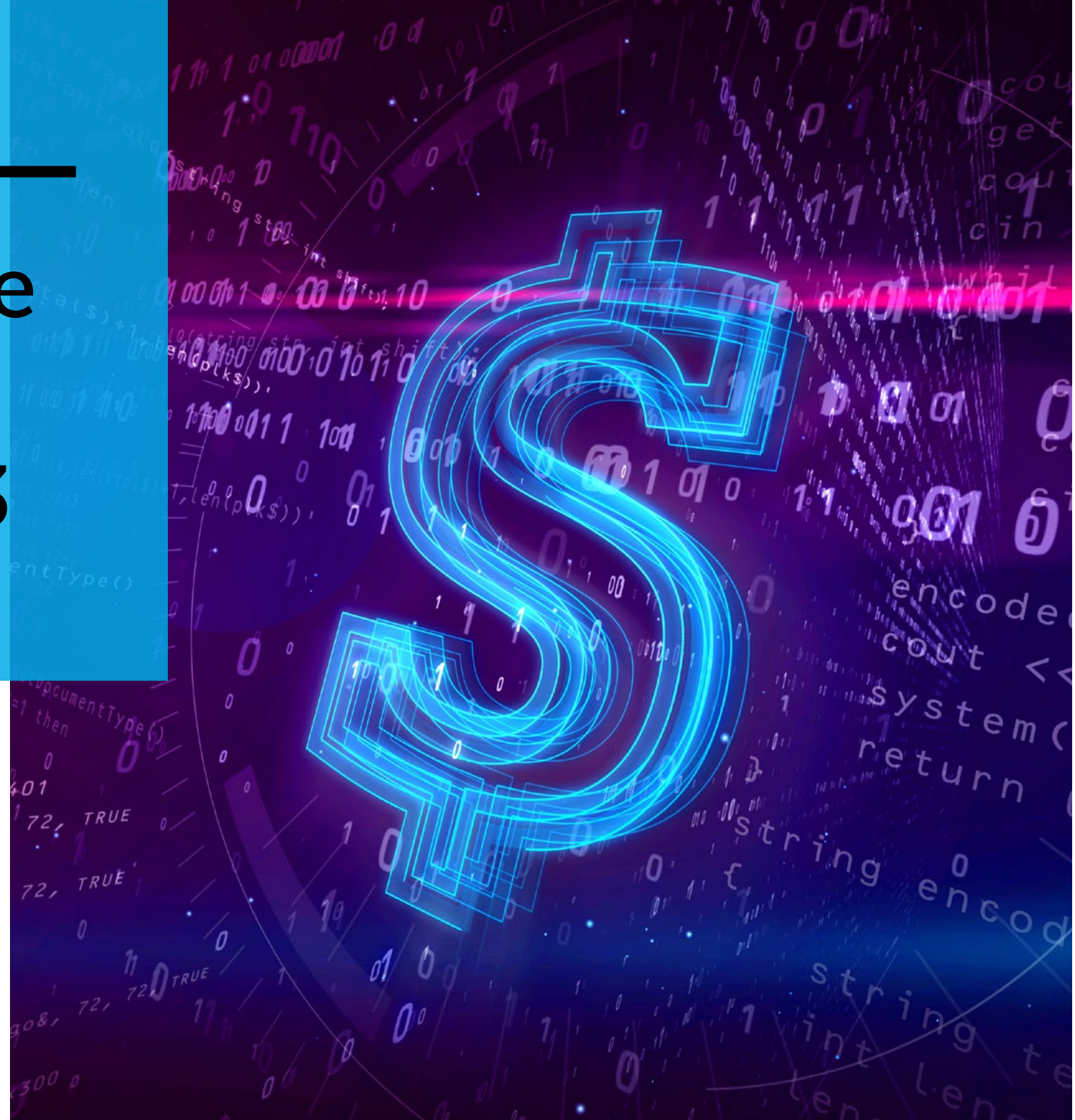
As we head into the new year, these institutions need to develop strategies to pursue new customers. But those strategies must be able to evolve as customer needs change. They also must focus on each institution's strength and target the specific customer base the institution is pursuing. ➡

Holly Hughes is chief marketing officer at BAI.

Digital experience will remain a challenge in 2023

Our latest BAI Banking Outlook survey shows that customers have noticed improvements in online and digital, but they have more wants and needs.

BY KARL DAHLGREN



As financial services organizations head into 2023, improving the digital experience for customers of every age group remains a key business challenge. Institutions must overcome this hurdle to remain competitive with the ever-nimble fintechs working to overtake this storied sector.

A mere 4% of financial services leaders report that they deliver an excellent customer experience digitally, a decline from a year ago, according to the [2023 BAI Banking Outlook: 2023 Trends](#). Fielded in September, the survey focused on identifying trends

and preferences within four customer demographics: baby boomers (and older), Gen Xers, millennials and Gen Zers, digital natives whose leading edge is now in early adulthood.

A much greater 44% of respondents said the digital customer experience they deliver is merely average. The biggest customer experience gaps include onboarding, digital interaction and account opening—three areas that are imperative to the industry’s success. Failure can have consequences: More than 55% of respondents said they would switch institutions for a better mobile banking app/digital

44% of respondents said the digital customer experience they deliver is merely average. The biggest customer experience gaps include onboarding, digital interaction and account opening—three areas that are imperative to the industry’s success.

capabilities, up significantly from 47% a year earlier. Among groups, nearly three-fourths of Gen Zers said they would change—up from 60% a year earlier—along with 70% of millennials. Just 23% of boomers would, almost flat from the prior period.

Meanwhile, the percentage of consumers who said their primary financial services organization is a direct bank (one with no branches) has increased since a year ago. The biggest change came from millennials, with a surge to 34% from 22%. The percentage also increased among Gen Xers and boomers, a group that tends to lag when adopting new technologies, while it decreased slightly among Gen Zers. The location of their primary checking account is the top reason respondents from every age group consider a financial institution their primary relationship.



KARL DAHLGREN
BAI MANAGING DIRECTOR OF RESEARCH

Overall, the top reason for using a primary provider’s digital banking services was to review/check balances, though Gen Z put making bill payments above that use. When asked about ways to improve apps and digital capabilities, every age group cited 24/7 customer service. Beyond that, age groups differed. For Gen Z, the ability to bypass ID reverification was important, suggesting that security isn’t as much of a concern for these digital natives. Millennials seek faster payments, while boomers want the ability to turn debit and credit cards on and off.



Gen Zers and millennials reported the highest weekly usage of mobile apps and desktops to access banking services, while Gen Xers and boomers reported the least. Boomers were the only group that used desktops more than mobile apps. When asked what they had used digital banking services for within the past week, respondents cited checking balances, followed by paying bills, transferring funds and reviewing statements.

Top frustrations with digital banking include fast-changing technology, concerns about fraud and security, a slow experience and a lack of personalized recommendations. Drilling down into age groups, only Gen Zers listed “no personalized recommendations” as a top concern, while the other three groups cited technology. Gen Zers and Gen Xers listed “a slow experience” as No. 2.

Early adopters of technology are most satisfied that their financial services provider understands their digital customer experience, while late adopters of technology are the least satisfied. This could indicate that late adopters need more assistance.

What would it take to increase consumers’ digital use? Across the board, the top answer was to make digital easier to use, followed by making it faster. Gen Zers, Gen Xers and boomers listed “more personalization” as No. 3, while millennials want things to be more up to date. When it comes to managing money, Gen Zers and millennials want faster payments and transactions, while Gen Xers and boomers seek better protection from fraud and identity theft.

Regarding opening a deposit account online, usage declines with age: 70% of Gen Zers and millennials



have done so, compared with 61% of Gen Xers and 24% of boomers. Gen X and boomers think opening an account has gotten easier compared with a year ago, while their younger counterparts think it has gotten harder. Meanwhile, more than seven in 10 of deposit accounts opened online recently were with direct banks.

When it comes to opening a loan online—a more in-depth commitment than simply opening a deposit account—more than half of Gen Zers and millennials have done so, compared with 45% of Gen Xers and just 20% of boomers. Every age group reported that opening loans online has gotten easier since a year ago. As with opening deposit accounts, seven in 10 loans opened online recently were with direct banks.

Behind these many statistics, the BBO survey’s findings reinforce in some ways and amplify in others many of the recent trends that we’ve observed in recent years regarding customers’ digital wants and needs—among them, 24/7 customer service, streamlined ID verification, faster payments and ability to easily turn cards on and off.

Understanding these priorities can help banks and credit unions strengthen their relationships with customers by making the everyday digital experience easier, safer and more personal, which in turn can provide a valuable differentiator in an increasingly competitive landscape. ➡

—

Karl Dahlgren is managing director of research with BAI.

Workforce flexibility is a banking innovation

Executive leadership and all segments of the workforce can collaborate creatively to redefine flexibility and achieve strategic competitive advantages.

BY DEBBIE BIANUCCI





Financial services executives have many important issues on their minds as they look ahead to 2023. Externally, the economic environment, market volatility and regulatory pressures are ever-present concerns. Customer growth and digital transformation also remain important priorities. The [BAI Banking Outlook: 2023 Trends](#) survey shows a continuing focus on the customer, particularly in terms of new-customer acquisition and customer digital experience.

Interestingly, for the first time since the survey started tracking executive priorities, the quest to attract and retain top talent was identified as one of the top three business challenges in the year ahead. The war for talent has been a major challenge over the past few years for all industries, including financial services. Many hoped that workforce shortages and salary inflation would be a short-term problem that would work itself out so that we could all go back to normal.

But as the 2023 survey underscores, issues around hiring and retaining top talent won't be resolved anytime soon. In fact, many financial services executives believe that staffing challenges will become even more pronounced next year. If this is the case, why do so many bank executives resist flexible working models?

Recent research conducted by KPMG found that [nearly 70% of U.S. bank CEOs](#) foresee fully in-office working environments in the next three years—nearly twice as many as in other white-collar industries, on average. Only 6% of bank executives envision remote-only work environments. Banking CEOs express concerns about their ability to maintain a strong workplace culture with minimal face-to-face interaction. They worry about potential competitive disadvantages with customers. They fear lower productivity. Some just want to go back to the way it used to be. The problem is that the world has changed, and it will never be the way it was.

The preference for an in-office workforce is understandable. Executives who started their careers working diligently in the office experienced the benefits of the interactions and relationships that develop through in-person settings. But now there's a cross-generational desire for flexibility. Millennials and Gen Zers in particular expect to be able to work in a hybrid model, and many prioritize this factor in seeking opportunities. They think differently, they work differently and they have different expectations. The reality is that they just don't buy into the expectation that they must be in the office.

Of course, some banking roles must be performed in person. But with technology and hybrid business practices, many roles can be performed effectively in a hybrid model. This calls for a purposeful management structure that has clear objectives and expectations with both qualitative and quantitative measurement criteria. No one would disagree that this is important.



DEBBIE BIANUCCI
BAI PRESIDENT & CEO

But these principles hold true whether employees are in the office together or working remotely.

I have spoken to enough executives to know what they're facing and how much they're struggling with this. But resistance to the flexibility that is important to employees—particularly younger generations—will likely only compound the talent problem.

In [BAI's recent special report on today's talent challenges](#), Megan Burkhart, Comerica Bank's chief human resources officer, described Comerica's successful implementation of a hybrid program called WorkBest.



One of the biggest concerns is missed opportunities for mentoring and building valuable relationships. Less experienced employees benefit when they tap into the wisdom of their more experienced colleagues who have accrued a wealth of perspectives over the course of their careers.



Bank leaders categorized jobs or roles into groups that defined how colleagues could work on site or in various types of remote arrangements. Burkhart explained, “We recently surveyed our managers and colleagues, and 85% of respondents let us know that WorkBest allows them and their teams to work effectively and productively while executing Comerica’s business and enhancing its culture.”

The strategic purpose of Comerica’s hybrid model is to gain a competitive advantage in the relentless battle for top talent. “We are offering colleagues flexibility and, at the same time, enabling them to participate in rich collaborative experiences while building strong working relationships with each other and preserving

Comerica’s rich culture,” Burkhart said. “It takes a lot of deliberate planning to make all that come together.”

For most financial services organizations, designing a well-balanced blend of remote and on-site work requires new ways of thinking and iterative experimentation. There is no single way of doing this, and there’s plenty of room for customization. If executed well, this blend could change the game in recruiting and retaining employees as well as in building engagement. And we know that creating a fulfilling and flexible work environment with solid managerial support lays the foundation for a more engaged workforce.

Now is not the time for banking leaders to scale back career pathing or professional development resources that are also important to employees. Many large organizations make significant investments in the development of their teams. Small and midsize financial services companies may not have the same level of resources as the largest ones, but they can provide professional development resources at levels that are right-sized for their organizations. This really matters.

Thinking differently about hybrid models isn’t a one-way street that puts all of the responsibilities on executive leadership. The most successful models are built on collaborative thinking and adjustments. For example, one of the biggest concerns is missed opportunities for mentoring and building valuable relationships. Less experienced employees benefit when they tap into the wisdom of their more experienced colleagues who have accrued a wealth of perspectives over the course of their careers.

Although Gen Zers and millennials may not agree with some of their senior leaders about how hybrid models should work, they still have a lot to learn and can do so by connecting with executives who have more experience and accumulated wisdom about the business and customers. Innovation in mentoring programs



(including the always-valuable reverse mentoring) is a powerful way to build relationships that facilitate valuable knowledge-sharing across generations.

I have spent my entire career in banking, and I have lived through substantive changes in our industry including deregulation, the financial crisis, the impact of advancing technology on customer delivery and the evolving competitive landscape. A strong strategic position is largely dependent on having the right people who are passionate about their roles, capable in fulfilling their responsibilities and committed to living the organization’s mission, vision and values. This will not be easy without being more open-minded about new ways of working.

Financial services executives have become more innovative in nearly every part of the business, including technology, customer service models,

product packaging, pricing and how they serve their communities. They can capitalize on this experience in innovation to build a hybrid model that enables flexibility for team members and positions the organization to achieve its strategic objectives.

Success may require a fundamental shift in a mindset that has historically equated high performance with face time, and members of the workforce must think innovatively about what flexibility means to them. Together, executive leadership and all segments of the workforce can collaborate creatively to redefine flexibility, achieving powerful strategic competitive advantages. 


Debbie Bianucci is president and CEO of BAI.

The background of the slide is a complex, abstract image. It features a grid of numbers, likely financial data, in various colors (red, orange, yellow, blue, and white). Overlaid on this grid are several thick, glowing, wavy lines in vibrant colors like orange, yellow, blue, and pink. The overall effect is one of dynamic movement and data analysis.

6 trends financial institution marketers need to know

Before you ring in the New Year, take a look at some of the key macro forces that will shape the market in 2023.

BY LISA NICHOLAS



The final month of 2022 is upon us. While many organizations and teams are winding down for the year, others are in full planning mode. 'Tis the season when marketing budgets and strategies are evaluated and fine-tuned for next year. This usually involves a look back at this year's activity and results, as well as a look forward to what lies ahead. In light of current market trends, consider these five strategies that could have a big impact on your 2023 marketing results.

The digital advertising landscape has changed dramatically over the past two years. Tighter regulations around consumer privacy, the shift to cookieless browsing and limits on targeting parameters have

affected how we identify customers and prospects. But none of this has to limit your marketing reach.

REEVALUATE YOUR DIGITAL APPROACH

How to make it happen:

- » Make sure you have a plan to use your first-party data or other methods for matching. According to the Vericast [2022 Financial Services TrendWatch report](#), fewer than one-third of financial institutions surveyed are ready for a cookieless world, with only 28% reporting they have a targeting strategy to address it.

- » Take a fresh look at your behavioral targeting. Reevaluate not only your digital strategy but also your partnerships. Be sure you're working with a company that is well versed in the dynamic landscape of display ads and Google keywords, email, short-form video, social media and connected TV.

ENGAGE CUSTOMERS VIA SOCIAL MEDIA

The adage "People don't care how much you know until they know how much you care" still holds true. Consumers gravitate toward companies that make a point of knowing not just the names of their customers but also what's important to them, what drives them and how they see themselves. Show you understand this by producing social media content that not only informs but also demonstrates empathy.

How to make it happen:

- » Incorporate engagement opportunities into your stories. There is a trend toward inviting more brand interaction across digital touch points. The easier it is to connect with your brand, the more people will believe that you know them, or want to get to know them.
- » Be wise about the type and tone of content you produce for each social media channel. It's not a one-size-fits-all experience. TikTok users are very different from those on LinkedIn, for example. Sharing the wrong messages to the wrong audience can damage your reputation.

HELP YOUR CUSTOMERS SAVE

Your customers expect personalized financial advice and guidance on how to grow their money—in

Be wise about the type and tone of content you produce for each social media channel. It's not a one-size-fits-all experience. TikTok users are very different from those on LinkedIn, for example.

both the long and short term. Help them reach their savings goals and give them a reason to choose your financial institution.

How to make it happen:

- » Consider offering incentives for deposit promotions. Our survey work finds that nearly two-thirds of respondents say "yes" to incentives such as cash rewards for switching financial institutions.
- » Reevaluate your credit card offers, rewards and rates. This is also an ideal time to help your customers leverage their higher home values by informing them about home equity loans with fixed rates or low introductory rates.



LEVERAGE DATA FOR PERSONALIZATION

According to our survey, 72% of consumers engage only with personalized messaging. Financial institutions should take advantage of their wealth of customer insights to enhance marketing efforts, including delivering personalized messages, offers and contacts.

How to make it happen:

- » Merge your customer data and transactional data with demographic information and other consumer insights to create smarter segmentation and targeted campaigns to serve customers and grow revenue.

REMEMBER WHAT’S OLD CAN BE NEW AGAIN

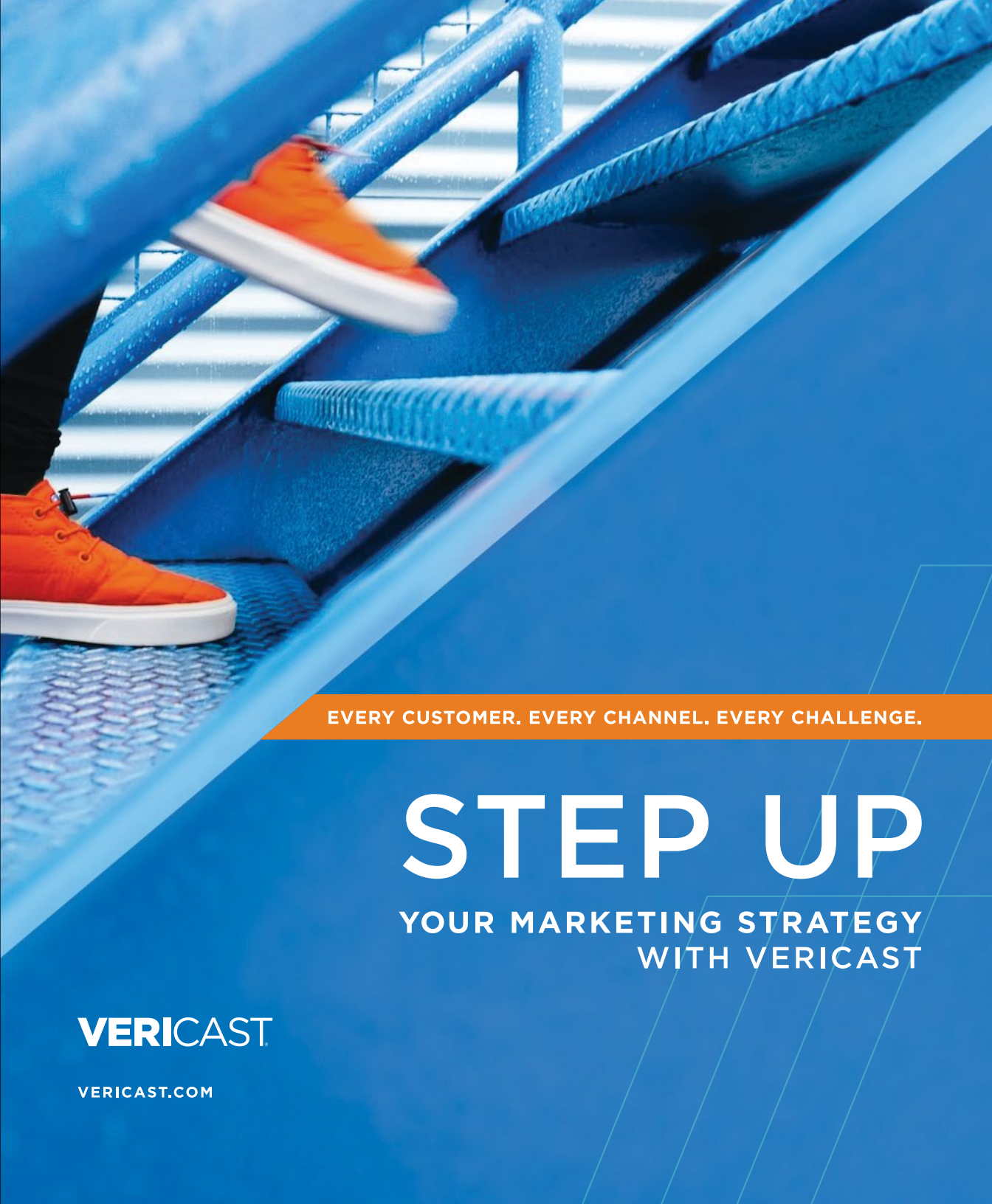
New technology and innovation have their place. For example, artificial intelligence and robot assistance are great at helping behind the scenes, but not so great for building meaningful relationships with

customers. Sometimes tried-and-true methods offer the best solution.

How to make it happen:

- » Offer live chat agents with 24/7 availability or extended hours. People want to talk to live support when they need help. Use outsourced support that lets you scale up or down as needed.
- » Don't discount direct mail. Direct mail is gaining favor among consumers as a source of discounts and coupons, especially when combined with QR codes and personalized URLs. 

[Lisa Nicholas](#) specializes in marketing and digital transformation for the financial services industry. She has more than 30 years of experience in the banking and tech industries.



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Using tech to build relationships

*Here's how driving value for consumers
will help financial institutions differentiate
themselves from the competition in 2023.*

BY JAMES WHITE





Happy consumers come back for their future banking needs, and they refer friends and family to their financial institution. Consumer polling in part confirms this age-old banking wisdom, but polling reveals another thing as well: Banks and credit unions miss nearly 40% of opportunities in their relationships with consumers.

How do they miss so much?

Data and polling show that it’s because they focus solely on satisfaction, rather than on a combination of satisfaction and engagement. That said, increasing engagement comes with risks and practical barriers that hamper success in high-ROI channels. While these challenges are surmountable, institutions seeking high performance in 2023 will dig deeper than just buying technology to boost engagement.

Most banking customers hold multiple products and services at any one institution. The typical household

comprises several consumers, who together use about 10 products and services. At the highest-performing financial institutions, the average consumer uses more than four products and services (not including “go with” services such as debit cards).

To increase households’ usage, institutions must identify the factors that prompt consumers to expand the relationship. According to polling of some 9,000 financial services consumers by Gallup, [engagement is the missing link](#) that when addressed increases consumers’ interest in buying additional products from their institution.

Gallup found that 45% of consumers who were satisfied with their banking relationship also said they would consider their institution for their next product or service. But when they said they were both “satisfied and fully engaged,” the ratio rose to 83%.

Full engagement holds the keys to growth—and of the most efficient kind. With a possible 40% increase in product usage on the table, engagement becomes much more than a marketing “nice-to-have.” [Industry polling by Total Expert](#) shows financial institutions are investing to engage. About 80% are implementing new technologies, 73% are adding new processes and procedures, and 51% are working with vendors to improve and increase their engagement. Nearly half are adding new team roles to support new engagement tactics.

RIDDLED WITH RISK

The road to greater product and service usage might be paved in gold, but it’s not lined with roses. Consider

‘Fully engaged’ customers are a boon for institutions, but what does ‘fully engaged’ mean? Do consumers want more engagement, or better engagement? We are all consumers; we intuitively know the answer—we want better engagement, and we want more engagement only when it is better.

the bigger picture. “Fully engaged” customers are a boon for institutions, but what does “fully engaged” mean? Do consumers want more engagement, or better engagement? We are all consumers; we intuitively know the answer—we want better engagement, and we want more engagement only when it is better.

When institutions attempt to reach full engagement, they tend to cannibalize satisfaction, and the relationship and opportunity costs are not small. Gallup polling shows that only 19% of consumers would go to their financial provider for their next product or service when they are neither satisfied nor fully engaged.

If an institution’s customers are mostly satisfied but not fully engaged, wouldn’t it be less risky to just do nothing? It might seem better to stay at a 45% consideration rate among consumers than risk dissatisfactions from poor engagement and a fall to 19%.

Unfortunately, risk confronts banking organizations on both sides. On the one hand, consumers have as many as 30 relationships with banking companies, all of which—especially the largest financial institutions—increasingly invest in digital engagement to serve their customers.

Providers that reach full and satisfied engagement win the cross-sell game. As competitors set higher standards, consumer expectations will follow suit; they will choose banks that meet their expectations. When an institution gets consideration 83% of the time, its competitors get less and less.

Leaders should consider the risk/reward ratio. The possibility of dropping to the lowest consideration rung may be a small price to pay when competitors gain more ground with every passing year. Leaders must choose to either pursue consumers’ highest consideration or succumb to a consideration rate that’s falling as low as zero.



Leaders who choose growth and invest in the long-term franchise value of the organization can chart a path through the risks to fully engage and satisfy consumers. To reach this goal, they will need to remove key barriers that prevent personalization and decrease engagement value.

REMOVING THE BIGGEST OBSTACLE

Banking institutions must take on a host of improvements as they seek full engagement. Their first and biggest enhancement challenge, though, is ensuring the project isn't doomed from the beginning.

When polled by Total Expert, banking leaders reported that [providing value to each consumer segment](#)—not to mention each person individually—presents a scale problem. When leaders self-categorized their institutions, the majority said they had just begun using contact data, banking data, segmentation and digital engagement.

In that category, personalization faces serious challenges from manually maintained and disjointed data and an absence of automation. Only 10% of respondents in this category leverage data from multiple sources to segment. Some 52% send the same message to all contacts, and 70% still manually leverage data. No wonder most consumers don't value their engagement; their providers don't have the tools that make valuable engagement possible.

Does this mean that the message is “buy engagement tech”? Hang on. It is true that institutions need the tools to overcome the challenges of scaled and valuable engagement. Often, though, it's the tools that have doomed them from the beginning. This is the major risk leaders miss when buying engagement platforms: buying a technology not made for engagement of banking-specific contacts.

Banking is unique; the tech that powers it should be as well. Buyers must assess platforms for what they offer in terms of banking know-how. What expertise does the platform contain and provide for growth? Is that built into the software itself?

Financial services providers must dig deeper into what it will take to fully engage consumers in ways that are valuable to them. Identify data to create meaningful segments, determine which education and advice are most valuable to consumers, and plan consumer experiences across staff actions, emails, print marketing and SMS. Then, vet platforms to determine which offer the know-how—meaning what's already coded into the software—to provide value to depositors and borrowers.

 **James White** is banking principal at [Total Expert](#).



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Winning big with fearless tech partnerships

How financial institutions and emerging fintech companies can work together to unblock innovation and unlock growth.

BY NATHANIEL HARLEY





Organizations in every industry are talking about digital transformation. But if you want transformation to be more than a buzzword, you need a strategy based on a keen understanding of what your customers want—and trusted partners who can help you deliver what your customers demand.

That’s exactly how Encore Bank became one of the fastest-growing privately held commercial banks in the United States.

Under the guidance of Allan Rayson, chief innovation officer and chief technology officer, Encore achieved

unprecedented growth in 2021: 95% asset growth, 119% loan growth and 107% deposit growth.

In this article, we’ll discuss Encore’s remarkable story, Rayson’s recommendations for vetting tech vendors and the essential role of transformational tech partnerships in unlocking explosive growth.

IT ALL STARTS WITH THE STRATEGY

Why is Encore so successful? According to Rayson, it all comes down to getting specific about goals and outcomes.

“Early on, Encore Bank identified three big rocks that we wanted to move: driving commercial loan volume, driving core deposits and driving noninterest revenue,” he says. “Gaining clarity on our business outcomes helped us set a clear technology and innovation strategy.”

High-performing financial institutions such as Encore have one thing in common: They tend to be clear about their goals and what success looks like. They define their objectives and identify tangible pain points to solve for, and then they select the right tools and tactics to help them reach those goals.

With upfront clarity on the desired outcome, the digital transformation conversation shifts from “We need tech” to something more substantial—and measurable. For example: “We need the right technology to reduce our labor and marketing costs by X, increase

our profit margins and new-account openings by Y, and boost our operational efficiency by Z.”

UNLOCKING THE EFFICIENCY RATIO

As you identify the right metrics for measuring the success of your digital strategy, the efficiency ratio—that is, your operating costs divided by your total income—should always be top of mind.

While front-of-house staff tend to scale with revenue, operational staff are the main driver of the efficiency ratio. If you can empower operational staff to be more efficient on the back end, your institution will be well positioned for smart, sustainable growth.

“At Encore Bank, we’re trying to achieve an efficiency ratio well below the industry average,” explains Rayson. “To do that, we have to determine how many full-time employees we’ll need to run the business at scale.”





Modern software-as-a-service platforms are built on a single code base, so every customer benefits from economies of scale. This is a major competitive differentiator that will help your institution keep up with the speed of innovation.



BEST PRACTICES FOR VETTING TECH VENDORS

With access to more technology than ever, many institutions face the challenge of identifying which fintech partners can deliver true value and scalable growth. As you navigate this complex ecosystem, consider these three tips from Rayson and his team:

Legacy is not always better: Legacy infrastructure can be a competitive liability that may be putting your institution at a critical disadvantage in a crowded marketplace.

Steer clear of RFPs: Many FIs rely on RFPs to vet technology partners. While this process can be helpful in identifying tech requirements and business objectives, RFPs often involve a lengthy process and a detailed checklist that may fail to capture some of your most important considerations. Instead, make

sure the fintech’s long-term strategic vision aligns with your strategic vision, and that the partnership will serve your future banking needs.

One code base is better than custom code: Creating custom code carries risks. It’s time-intensive and difficult to update. It won’t scale or innovate at the speed that you might require. And it leaves little room for adapting as you go. Modern software-as-a-service platforms are built on a single code base, so every customer benefits from economies of scale. This is a major competitive differentiator that will help your institution keep up with the speed of innovation.

“Building technology is expensive, time-consuming and risky,” says Rayson, adding that Encore was able to achieve immediate return on investment on a product that was engineered “the right way to start driving deposits on day one while creating efficiencies on the back end.”

In the battle for new business, the future belongs to the agile.

You’ve listened to your customers. You’ve prioritized your digital offerings. And you’ve created a road map for digital transformation. Now it’s just a matter of choosing the right partner. By finding vendors that will work with you as you explore the best path forward, you can clear a path to resilience and embrace the future with confidence.

Just ask Rayson. “We’re an organization that’s only three years old, and we’ve grown from \$120 million in assets to almost \$3 billion during that short time,” he says. “I think we all feel incredibly proud of that—and want to use this moment of recognition to keep that momentum.” ➡



Nathaniel Harley is co-founder and CEO of [MANTL](#).

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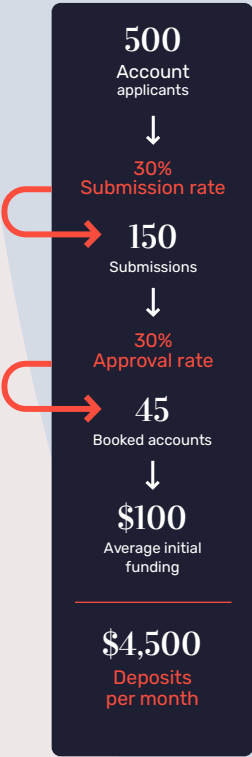
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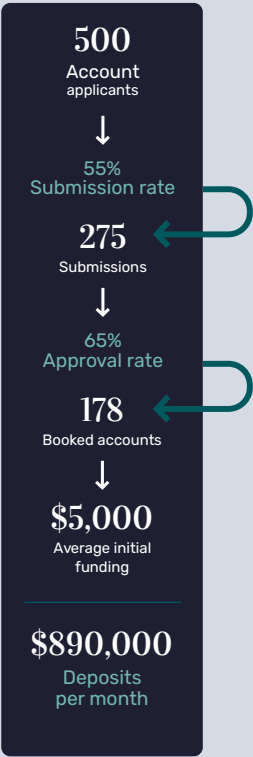


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Trends, scams and fighting back

How banks and credit unions can better protect themselves against the growing threat of fraud in 2023.

BY ERIC TRAN-LE



This year has been shaped by rapidly evolving fraud typologies and scams. Digital payment fraud losses are expected to [surpass \\$343 billion globally between 2023 and 2027](#). Community banks, credit unions and regional banks face particular pressure to overhaul risk solutions to sustain customer loyalty and competitiveness in a [broadening digital landscape](#).

The latest iterations of fraud are exposing gaps and vulnerabilities in existing fraud controls and rules-based fraud prevention systems, and midmarket

financial institutions must prepare their fraud prevention programs for an eventful 2023 fraud landscape.

SYNTHETIC FRAUD

Synthetic fraud is the epicenter of numerous other fraud threats, such as account takeover, new-account fraud and authorized push payment fraud.

Losses incurred from synthetic identity fraud [surpass \\$6 billion annually](#), with the [loss per account averaging \\$10,000](#). Financial institutions must anticipate the proliferation of synthetic-driven fraud alongside the

ubiquity of AI-generated visual and auditory content, such as text-to-image generators.

- » **Job applications:** The future-of-work model offers enticing opportunities for bad actors to penetrate organizations by posing as qualified candidates for remote roles. The FBI has warned that [any company that has](#) personally identifiable information from users is likely to be targeted for this type of fraud at some point.
- » **SMB lending fraud:** There's been a [6.9% increase](#) in lending fraud among small and midsize businesses since 2020. Synthetic business credentials, created from stolen business and consumer data, make it challenging for banks and credit unions to distinguish authentic loan requests from fraudulent ones.
- » **Business identity theft:** Fraudsters use synthetic media to impersonate business profiles and resources on social media to misrepresent employees, execute scams against the company or other victims, or create replica websites to obtain sensitive data. Driven by soaring cyberattack risks, the identity theft protection market is expected to reach nearly [\\$28 billion by 2029](#), more than double 2022's figure.

SCAMS

Scammers use numerous multifaceted social-engineering techniques to enhance their schemes, including phishing, spear phishing, baiting, scareware, whaling attacks and pretexting.

This year, a fresh crop of scams came hard on the heels of a record-breaking 2021 that witnessed [\\$547](#)



[million in losses due to romance scams](#), an 80% increase from 2020. However, [only 5% of scam victims report losses](#), meaning actual losses are higher than indicated.

- » **Insider recruitment:** Large-scale criminal networks, [such as LAPSUS\\$](#), have extended recruitment efforts to the workforces of legitimate businesses in all industries. Employees are compensated for providing an opening for scammers to infiltrate the target organization and gain control over cloud assets and authentication systems.
- » **Social media scams:** Fraud losses initiated on social media hit [\\$1.1 billion](#) in the 15 months leading up to March 2022. Fake-merchandise scams, charity scams, fake-job scams, romance scams and investment scams typically start on social media. These scams result in authorized push payment (APP) fraud, account takeover, money mule activity, identity theft and credit card fraud.
- » **Fake invoice scams:** A derivative of business email compromise, invoice fraud typically involves spoofing the email address of a supplier, attorney, vendor or other business partner. These scams are also linked to APP fraud and other forms of digital payment fraud.



» **Google voice scams:** Over [a third of the scam reports](#) received by the Identity Theft Resource Center in the first half of 2022 were about Google Voice scams. A Google Voice account isn't even necessary for a scammer to perpetrate account takeover or identity theft.

DEVELOPING FRAUD TRENDS

- » **Fake bank alerts:** “How to send a fake bank alert” has over 13.5 million views on TikTok alone. Fraudsters impersonate FIs via [automated SMS messages](#) alerting victims of unusual account activity. Once the victim responds, the bad actor spoofs the bank's 1-800 number when calling the victim back and pretends to work in the bank's fraud department.
- » **Social media cloning:** Fraudulent social media profiles are being leveraged to spread misinformation and illicit links, sell products, or solicit personal and banking information. The profile impersonators [take advantage of limited reporting mechanisms](#) on social media platforms to indiscriminately target individuals and businesses, resulting in reputational harm and monetary losses.
- » **Check fraud and mail theft:** An uptick in mail theft is marked by fraudsters [boasting of and attempting to sell](#) stolen checks and mailbox keys on platforms such as Telegram and on the dark web. Check fraud schemes are also enhanced with [fake job offers that lead to APP fraud](#), ATO, synthetic identity fraud and wire fraud.

Mid-market financial institutions face unique challenges and risks in preventing fraud. Credit unions, for

example, face the risk of [potential fraud attacks](#) that can range from around \$200,000 for smaller credit unions to more than \$1 million for larger credit unions.

[Advanced AI and machine learning-powered solutions](#) can help mid-market institutions orchestrate a holistic approach to fraud management. Simultaneously, these solutions can support the growing technological and operational convergence of fraud and AML to improve efficiency, reduce costs and enhance analytics insights:

- » **Machine learning and behavioral biometrics:** FIs can detect attacks at early stages and automatically discover unusual patterns across channels.
- » **Smart AML investigations:** AML teams can access machine learning risk scoring, integrated customer risk ratings and continuous due diligence to stay ahead of fraud threats.
- » **Fast, efficient investigations:** Relationships and linkages are automatically discovered to streamline alert and case investigation, and investigation teams benefit from real-time Know Your Customer and customer due diligence analysis.

High-quality data, automation, a contextual view of risk and the ability to continuously adapt to new fraud threats are no longer “nice-to-have” extras but essential components in any modern fraud prevention program. To protect their organizations and assets, midmarket FIs must set the bar higher with iron-clad fraud prevention that doesn't alienate legitimate customers. ➤

Eric Tran-Le is head of Actimize Premier at [NICE Actimize](#).

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