

The Banking & Payments Show: Digital account-opening trends

Audio

On today's podcast, we are talking about digital account-opening trends, who's opening bank accounts digitally, and what they want or expect when going through that process. Here's a look at what we're talking about this week:

- In our "Headlines" segment, we discuss how in-flight deposits and Gen Z will drive account openings in 2023 and to what extent new account openings are the result of high deposit

rates and an incentive-laden environment.

- In “Story by Numbers,” we examine how being able to set up direct deposit when consumers open checking accounts is extremely important and the importance of deposits being protected.

- In “For Argument’s Sake,” we suppose there’s a new US banking regulation requiring all banking products to be applied for and opened online. We debate (nicely) how the industry dynamics would change if everything in banking were digitized and moved online.

Tune in to the conversation with host Rob Rubin, managing principal of financial services consulting at EPAM Systems Alex Jimenez, and our analyst Tiffani Montez.



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Episode Transcript:

Rob Rubin:

Adobe Research found that the number of financial services organizations hindered by poor data quality has nearly doubled since 2022. Check out Adobe's 2023 Digital Trends Financial Services in Focus report, to see how financial firms are tackling data quality, and other challenges around dynamic content, and streamline workflows, to deliver hyper personalized financial experiences customers crave.

Discover the survey results at www.adobe.com/go/dt23fsi. Don't worry, we put the link in the show notes.

Tiffani Montez:

Most account opening today still happens, because there's an actual need. And when we think about need, outside of just trying to find a safe haven for your deposits, we'll be driven by Gen-Z, that are becoming of age, and we'll need to start finding a banking relationship.

Rob Rubin:

Hello everyone, and welcome to the Banking and Payment Show, a Behind the Numbers podcast from E-Marketer, sponsored by Adobe.

Today is August 8th. I'm Rob Rubin, GM of financial services, and your hosts today. If you enjoy this podcast, please give us a five star rating, and subscribe. The title of today's episode is Digital Account Opening Trends.

I've invited principal analyst, Tiffani Montez back, and Alex Jimenez, managing principal at EPAM, who's joining us for the first time to talk about who's opening bank accounts digitally, and what they want, and expect, when going through the process.

Hey guys, how are you doing?

Tiffani Montez:

Hey there.

Alex Jimenez:

Hey Rob, how are you?

Tiffani Montez:

And hi, Alex.

Alex Jimenez:

Hi. It's nice to be on.

Tiffani Montez:

Yeah, we're thrilled that you're here today, and I'm sure Rob is thrilled, since he's always stuck with me.

Rob Rubin:

Before we get into it, because you're a newbie, are you ready for some quickfire questions?

Alex Jimenez:

Sure. Yep.

Rob Rubin:

All right, easy. Where do you live?

Alex Jimenez:

Las Vegas, Nevada.

Rob Rubin:

What is your favorite outdoor activity?

Alex Jimenez:

I run a lot, which means that when it's 110 degrees, I run really early in the morning, so I'm still running in 100 degrees, but I still do it.

Rob Rubin:

Okay.

Tiffani Montez:

So you don't run faster to get out of the heat?

Alex Jimenez:

No, I definitely run slower.

Rob Rubin:

Will you bring water with you?

Alex Jimenez:

Yes. Yep. You have to. Even for a three-mile run, I have to bring water.

Rob Rubin:

Yeah, I would imagine. An oddball question, who's your favorite superhero?

Alex Jimenez:

That's tough. I don't know. After watching all the Marvel movies, there's so many to choose, it's really difficult. So I don't know. Growing up, Superman was my favorite hero.

Rob Rubin:

Me too.

Alex Jimenez:

But that has been replaced by the Marvel universe.

Rob Rubin:

Right, I agree.

Tiffani Montez:

You didn't want to ask him who he dressed up as, for Comic-Con?

Alex Jimenez:

I didn't.

Rob Rubin:

But you did. That's funny.

Alex Jimenez:

I did not dress up as anything, but my wife, one of her hobbies, is making clothes, generally 50's style. So I had a whole set of bowling type of shirts with superheroes, or some other pop

culture fabric.

Tiffani Montez:

Oh, that's awesome. I love it.

Alex Jimenez:

And she had crazy dresses with lots of pleats, and so on, so we were matching the whole time.

Rob Rubin:

That's great. Well, that was fun. We have a lot to cover, so let's get right to the headlines.

In the headlines. We chat about a top story as it relates to our episode, and today, I've chosen the top headline of our recent report on account opening, and the headline is in-Flight Deposits and Gen-Z will drive new account openings in 2023, and that's to the tune of about 5.2 million accounts per our forecasts.

I know there's a lot of hand wringing about bank stability with some of the bank failures in the spring, and it caused a lot of people to move their money, but is that still really a thing? Is it still a problem that people are scared about the safety of their money?

Tiffani Montez:

Yeah, absolutely. So according to the Fed, large banks dropped about 78 billion during the week ending July 12th.

Rob Rubin:

Wow.

Tiffani Montez:

And so, for context, that was right before the start of bank earning season.

Rob Rubin:

All right.

Tiffani Montez:

And customers are reacting to that general news, so one of the questions that we asked, or the features that we asked about in this year's account opening demand report, was based on 34 features. What were the most important features that consumers wanted? And viewing bank protections on deposits, was the third most in demand feature in this year's study.

So not only is it an issue, and consumers concerned about, and taking action on it, the good news is that banks can actually do something about that. And as customers are looking to move their deposits, making sure that they're creating some stickiness, by reassuring them that their money is safe.

Rob Rubin:

Talking about all these people in flight, some banks are now offering pretty high deposit rates, and other incentives to get you to switch over. To what extent are new account openings a result of a high rate environment, where you're stuck earning no money, and you can switch over, and start earning a little bit more?

Alex Jimenez:

Fees and rates are always the leading reasons why people switch, or open an account, so certainly that is driving some of it, but I don't see a lot of non-high rate shoppers looking for a higher rate.

Generally they're looking, because they need a new relationship, and not necessarily all of a sudden becoming high rate seekers.

Rob Rubin:

Right, focused on the rate.

Tiffani Montez:

And that might push them over the edge. So to Alex's point, if they're already looking for a banking relationship, an incentive, either a higher rate, or even some monetary incentive to move their accounts, might push them to select one provider over another, but I think you're right, most account opening today still happens, because there's an actual need.

And when we think about need outside of just trying to find a safe haven for your deposits, will be driven by Gen-Z that are becoming of age, and will need to start finding a banking relationship.

Rob Rubin:

It's great, because I've been giving incumbent banks a real hard time, because it takes so long to open a bank account online. And I think about Gen-Zers, and I'm wondering which account opening features appeal to Gen-Zers, because they really want to be able to open quickly.

Tiffani Montez:

It's interesting when you think about Gen-Zers. You would probably assume that they want access to the most innovative features, because they've grown up digitally, and they're digital native, but when you actually start thinking about what they need when they're forming their first financial relationship.

Things like be educated on the process, so understanding how long it takes to apply, and even being able to get push notifications on status updates, and understanding what it means to have multiple accounts, all of those things resonate with them.

So they are looking for basic functionality, like education on the process, and on products, and also, things like being able to save, and continue. They over-indexed on their support of that, I suspect, because they think that they may have questions, and they want to be able to save it, and go ask those questions, and come back.

But the only innovative feature that really surfaced to the top, that might be different than some of the other generations, was the ability to fund using alternative methods such as payment apps.

So their need on being able to use alternative payment methods like payment apps, which they use in their everyday life, is more important to that generation.

Alex Jimenez:

And that makes sense. We did a survey at EPAM of consumers across eight different countries, and Gen-Zers said that they needed more handholding. And it makes sense.

As a country, and perhaps, maybe in western society we're not really great at teaching people financial literacy. And so, that handholding is needed. And I can just think back when I was a kid, if I had relied on my parents for financial literacy, I would be in big, big trouble.

So I imagine that that's probably the case in many of these instances. Gen-Zs are looking for that, and they're looking for some support.

Rob Rubin:

And I think even talking to a humans a popular feature.

Alex Jimenez:

Yeah, absolutely.

Rob Rubin:

In the app, is being able to talk to someone.

Alex Jimenez:

Agreed.

Rob Rubin:

Well, I think we're going to continue to talk about some of the things that are driving Gen-Z in particular, but I was thinking that before we started this conversation that maybe some of the demand by people who were concerned about their bank failing was of the past, because it wasn't in the news. And I think that I'm probably wrong there, that it is still an issue, and banks really do need to message around that.

I want to move to Story by Numbers.

In Story by Numbers, we pick a number, or two that helps us dig deeper into the episode's topic.

Today, for Story by Numbers, the first number is 40%, and that's the percentage of our survey of consumers who recently opened a new checking account, that indicated being able to set up direct deposit when they open the account is extremely important.

So your opening account, you're setting it up, and then, you set your direct deposit up at the same time. That seems like a really helpful feature. This is for either of you. Do you know what percentage of banks enable people to set up direct deposit, when they're opening their account online?

Tiffani Montez:

Negative 30.

Alex Jimenez:

Agreed. Yes. I've never seen a bank that does that, and I've opened quite a few accounts in the past few years. From a banker standpoint, that's great news, right? That's something that you want your customers to do right away when they open an account, because having a direct deposit, it's the stickiest of all activities, right?

Rob Rubin:

I can't believe, it doesn't feel like it should be a novel idea.

Tiffani Montez:

No, I think in the application it seems to be novel. So Alex is right, when you think about banks, and incumbent banks, we did a study last year to look at this feature, and there weren't any banks that supported it.

I will say though, that two Neobanks supported it. So it's current, and aspiration have it in the actual application experience. I'll even take that a little bit further. Even outside of applying in the actual mobile banking application, once you become a customer, there's even limited support for automated direct deposit.

So something all around, whether it's in the app, or in the mobile banking application, once you become a customer, there's very limited support for direct deposit.

Alex Jimenez:

I think you're being generous by saying it's limited support. It's like no support.

Tiffani Montez:

Very, very true.

Rob Rubin:

Is it a plumbing problem that the online application is in one pipe, and setting up direct deposit is done somewhere else?

Tiffani Montez:

No, I don't think it is. I mean, just given my background with designing account opening experiences at large financial institutions, and even for technology providers, I think the

school of thought is that you don't want to ask customers any more questions in the application that you need to.

So how do you balance asking enough questions that you're mitigating risk, but not asking too many questions that you're basically discouraging, or irritating someone, so they don't want to apply, right, because you're bombarding them?

But when you start thinking about new technology that's come into play, it's a lot easier to be able to integrate that step of setting up direct deposit in the application than it was before.

And so, I think while that may have been the goal in the past, I think it's certainly worth re-exploring, especially when your consumers are demanding support for that type of feature, and it benefits you, as to Alex says you create stickiness, spike, getting that direct deposit upfront.

Alex Jimenez:

As long as it's an option, I don't see why that would impact the experience.

Tiffani Montez:

Yeah, absolutely.

Alex Jimenez:

If you want it, you can choose it. You can go through that process. If you don't, then you can skip it, and go to the next thing.

Tiffani Montez:

Exactly.

Rob Rubin:

For all the product people at banks who are listening to this, hello, this is the most in demand feature from people who just opened an account, and not one bank is offering it except for two neobanks, so I think there's a real opportunity here to get in front, and really delight your new customers.

Alex Jimenez:

The funding question one is an interesting one as well. Banks are always concerned about fraud, and where the funding is coming from, et cetera. So I've seen a lot of organizations pretty much say, "Okay, we're only going to allow funding from ACH period."

Rob Rubin:

Right.

Alex Jimenez:

And if the clients that are coming to you are looking to be able to Venmo funds in, they're going to be put off by this ACH thing, which depending on how it's deployed, it could be a big thing

Rob Rubin:

For sure. It's also hard for Gen-Z consumers, who don't have a banking relationship, potentially, to provide a checking account number to transfer money to fund an account.

The second number I've chosen is 38%, and it's from the same survey, and it's the percentage that said information about how their deposits are protected is extremely important. So by bringing it up again, because I was surprised it was 38%, and the reason I was surprised is, because we fielded the survey in April, and I thought, well, as I mentioned before, it was in the news, so maybe that's why everybody was so important.

But do you guys want to spend a couple more minutes just chatting a little bit about some of the different features, and capabilities, or things that banks can do to make customers feel more comfortable about protecting their data? Where do they message? Do they message in the application, or is it really something that has to happen before someone even presses the Apply Now button?

Alex Jimenez:

Do they even message at all? I mean, coming out of the SVB situation, I didn't see a lot of banks messaging their existing customers about how they're safe. I have accounts with too many banks, and I can only say two of them. One was a mega bank, and the other one was a community bank that actually reached out. Everybody else didn't say anything, and that included Capital One, and Wells Fargo, and B of A.

Rob Rubin:

Doesn't it feel like if you say something, it's like...

Alex Jimenez:

It's a double-edged sword, I'm sure.

Rob Rubin:

If you say something, maybe you have a problem.

Tiffani Montez:

Well, I did get a message from one other bank, or Neobank, I got a message from Varo that said, "Don't worry, your money's safe."

Rob Rubin:

Me too.

Tiffani Montez:

So I think that was one example. So Alex, I'm glad that you had a couple of more, because I was looking for them. The other thing I'd say is I think that there's a way for you to communicate that your money is safe without raising red flags.

And I think it's as simple as putting in your messaging when you talk about the product. I think you could put it there somewhere, and even when I went, and looked before I wrote the account opening demand report, there were very few examples where anyone talked about FDIC insurance.

So it is simple as just saying that somewhere, whether it is in the footer, or at the bottom of a page, or somewhere, I think it's definitely worth saying it.

I will also say that, although some of the bank failures, there was one that happened on July 24th, I believe, where Heartland Tri-State Bank in Kansas, which had approximately 139 million in total assets, and about 130 million in total deposits, that bank went under.

Rob Rubin:

Right.

Tiffani Montez:

And so, it is still happening, maybe not to the degree as Silicon Valley Bank, or even some of the others, but definitely still an issue, and we could begin to see an uptick in mergers, and acquisitions, and other things that will probably make customers feel uneasy.

And so, it's important to get ahead of the messaging now.

Alex Jimenez:

The outlier on communications is Jill Castilla at Citizens Bank of Edmond in Oklahoma, generally, she's very upfront, very transparent to the point that she actually publishes her phone number, her personal cell phone. She said, "If you have any questions about the safety of your accounts, give me a call." And she was fielding calls.

Rob Rubin:

How many customers do they have?

Alex Jimenez:

They're mostly a commercial bank.

Rob Rubin:

Right.

Alex Jimenez:

But the fact that she does that, I mean, even just the she is out there talking about it-

Rob Rubin:

No, I know.

Alex Jimenez:

... To me, would give me a sense of, "Okay, I'm okay with my bank."

Rob Rubin:

And I've seen some messaging from community banks in particular, where they've talked about their place in the community, how they invest, how they loan money, who their customers are, and they're a local bank that manages their money in a conservative way. And

I've seen that, especially if you were a small bank, it's one of those, as you pointed out earlier, a double-edged sword.

So I think this was a really interesting conversation. I really loved talking about a feature that nobody offers, and I hope that bankers are listening to that, and also, listening to some sage advice on doing some messaging around how you protect the safety, and security of customers' money.

In our final segment today, for argument's sake, we discuss a topic nicely, where there might be some different perspectives, and for today, we're going to have some fun, and make an assumption that's never going to happen.

There's a new banking regulation in the US that requires all banking products must be applied for, and opened online only. So you can only open an account online, you can't go into a branch, you can't call someone on the phone.

So for this discussion also, let's just assume everyone has access to a digital device to open an account.

So just for fun, would industry dynamics change at all if account openings were online?

Alex Jimenez:

The reason why many bankers say that banks don't need it is, so customers can come in and open accounts, which is also one of the reasons why a lot of banks don't invest as much as they should in digital account opening, because they do want people to be at the branch, so they can cross-sell, et cetera, because their technology so terrible.

It's a chicken or the egg situation. So without branches, or without the need for account opening, what would the branches do beyond transact for those customers that refuse to do it online?

Rob Rubin:

So you think bank branches would just close?

Alex Jimenez:

I think a large number of them would. Yeah, the majority would.

Tiffani Montez:

I think the bigger problem with account opening, so if we take your situation, that's never going to happen, which are always my favorite situations to talk about, and make an assumption that everything has to be opened mobilely, if that happened all today, the challenge would be that consumers still need help when they're applying, even if it's through a mobile application.

So according to our survey for the study that we have been referencing, 67% of respondents used a branch to request account opening assistance, so still a large percentage, even though they are applying online that are using a branch to be able to get assistance. So we take that branch away. You've got to be able to have some way for a consumer to actually reach out.

You asked Alex a second ago about what would happen to bank branches, and I agree that a lot of the physical distribution points would close, but I also think that it opens up an opportunity to create a virtual branch.

And so, if you start thinking about all the technology that you need to be able to connect with someone virtually we have it all. We've got video conferencing, we have messaging, we have collaboration, being able to share screens.

All of that exists today, and if you stitch all of those capabilities together, and you create the right messaging, you could stand up a virtual branch. And a virtual branch could be as easy as connecting over video, or it could be something like the Metaverse.

Rob Rubin:

We have virtual branches though. They're physical, virtual, right? Interactive teller machines.

Alex Jimenez:

Yes. There's actually a growing number of them, right? So the idea of being able to connect through a video screen, and have those sessions, and then, do that kind of thing, so you can do through an ITM, right?

Rob Rubin:

It's a good idea.

Alex Jimenez:

So I think it's a technology that could easily be used, and transported to mobile, for example.

Rob Rubin:

To your phone.

Alex Jimenez:

We haven't done a great job of doing that, industry-wide, but there are examples out there. Coastal Bank, Credit Union in the Carolinas does a really great job with their ITM team, but they're an outlier. They were an early adopter of the technology.

Rob Rubin:

One of the funny things is, I think that it's probably still the case that the people in the branches get paid a commission when they open an account, a real account.

Tiffani Montez:

Versus a fake one?

Rob Rubin:

Versus a fake account.

They get commission for all of them, but we're just talking about the real ones. So let's say I start this application online, and I find it a little frustrating, and I say, "You know what? I'm just going to walk into the branch tomorrow."

So I walk into the branch, and I wait, and I talk to that person, and I say, "Hey, can you help me finish this online application? I'm having a little trouble." I guarantee you they're going to say, "Oh, no, no, no. Let me help you right here." And they will start that application from scratch.

Alex Jimenez:

Yes.

Rob Rubin:

They get paid for it that way.

Alex Jimenez:

And generally it's a plumbing problem. Generally, they wouldn't have access to the technology that does it.

Rob Rubin:

It's a totally different system for what they use, versus the online application.

Alex Jimenez:

Years ago, I tried to deploy an account opening that I had on the digital channel to try to deploy it on the call center, and the branch, and not only did I have a fight with the rest of the bank, because they didn't want to do that, but our compliance people said no, because that technology was built specifically for digital, and therefore they didn't want to allow me to do it.

Rob Rubin:

So even if you could?

What about the cafes, like the Capital One cafes, how they open accounts? I'm pretty sure they're using iPads, and the consumer's just opening the account with an assist.

Tiffani Montez:

Yeah, and there are some financial institutions that do have one account opening platform. There are very few, but they do have a multi, or an omnichannel account opening solution, where maybe the actual UI looks a little different, and the flow of the application might be different in one channel, versus another, but it's technically the same platform.

And if you have a consumer that saves an application in the mobile application environment, you can have a banker pick up that application, or a call center agent, pick up that application, and complete it with a customer either over the phone, or in a branch.

Rob Rubin:

That makes a lot of sense.

Tiffani Montez:

So very few examples of that that actually occur, which is shocking, because that's the direction that we need to be going in. But there are some banks that do support that.

Alex Jimenez:

I love the situations where you go to a branch, and say, "I want to apply for a mortgage."

And they say, "Sure, hold on." And then, 20 minutes later, they put you in a room, and then, you are speaking to someone through video, a mortgage originator that's sitting somewhere else, and then, you finish the application through a video.

So you're in a physical space, you're doing it virtually, it makes no sense.

Tiffani Montez:

Well, at least it's not the banker taking the application, and then, calling someone in the mortgage, and then, asking questions, and then, hanging up, and then, going, and getting stuck again, and then, calling back.

Alex Jimenez:

That happens too.

Rob Rubin:

It's all about how they get paid. I always look at that when you're talking to the employees, like Tiffani, in the example that you were giving, where they hand off, they have to have had an alignment of who gets paid for opening that account, and which department gets the credit, because that ultimately becomes part of the problem. It's the technology, or the plumbing, but the plumbing was built around departmental structures.

Tiffani Montez:

Well, this is a fake scenario, so in this environment, everyone gets commissioned.

Alex Jimenez:

Right.

Tiffani Montez:

Everyone's approved, everyone sets up direct deposit.

Rob Rubin:

Absolutely.

Tiffani Montez:

And no one moves their accounts.

Rob Rubin:

We almost got through the whole episode, and I didn't mention Apple.

Alex Jimenez:

You just did.

Rob Rubin:

You can open an account with Apple in about 30 seconds.

Tiffani Montez:

But if you want to take that money out later?

Rob Rubin:

It's harder.

Tiffani Montez:

Good luck.

Rob Rubin:

Is that right? Why is that?

Tiffani Montez:

I don't remember the exact scenario. I'm trying to go off memory. I feel like there was a situation where people were trying to actually withdraw their money, and it was taking a very long time for them to do that.

Alex Jimenez:

Yeah.

Tiffani Montez:

Does that sound right, Alex?

Alex Jimenez:

Yes. Yeah. It was some glitch, or so they said. It wasn't a standard procedure, but for a few days that was the issue.

Rob Rubin:

That's why running a bank is hard.

Alex Jimenez:

And that's why Goldman doesn't want to have a partnership with Apple anymore, because they were not scaled to handle the volume.

Rob Rubin:

The volume of that, right?

Alex Jimenez:

Chase makes more sense than a Goldman.

Rob Rubin:

As a part for something like Apple, yeah.

This was a really great, For Argument's Sake, I learned a lot. I don't think we argued so much as had a fun time talking about this crazy scenario, and using it as a way of looking at how banks might change, and adjust some of their online account opening procedures, and capabilities, and even, how they incent across the organization to make it work right for customers.

That is all the time we have today. I want to thank both Tiffani, and Alex for today. That was so much fun. Guys. Thanks so much.

Alex Jimenez:

Thank you.

Tiffani Montez:

It was fun. Thank you,

Rob Rubin:

Alex. We're going to have to have you back. I really appreciate you coming.

Alex Jimenez:

I would love to. Yeah.

Rob Rubin:

Yeah, I want to thank everyone for listening to the Banking and Payment show, an e-Marketer podcast, sponsored by Adobe.

I also want to thank our editor, Todd. In today's episode, we referenced our 2023 US account opening feature demand report, and we put a link to that in the show notes as well.

Our next episode is on August 22nd, and you'll not want to miss it. See you then.

Bye everyone.

Alex Jimenez:

Bye

Tiffani Montez:

Bye.